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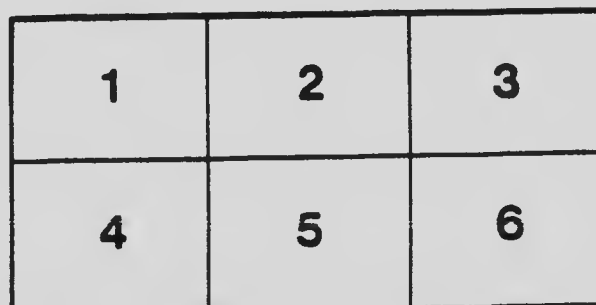
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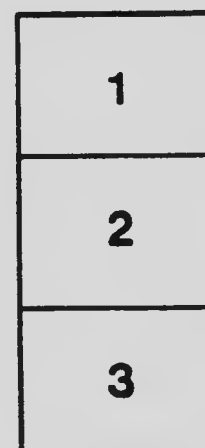
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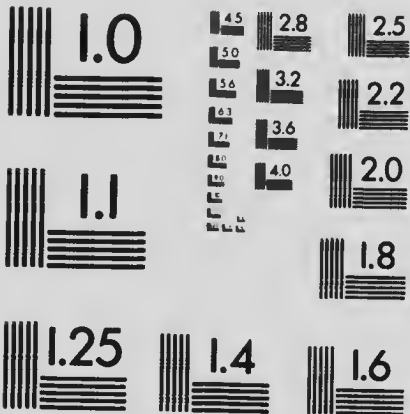
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# FREE TRADE IN BEING

BY

RUSSELL REA, M.P.

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## PREFACE

IN this volume I have collected a few of the occasional articles, letters, and lectures I have written and delivered at various times during the last five years on the subject of Free Trade and Protection.

As the arguments are in small part based on the current statistics of foreign trade, they do not get out of date with the issue of the next year's figures. An exception, however, must be made of one section of the lecture on Shipping, to which I have therefore added a note giving the latest figures, which in this instance add proof on proof to the case.

I have confined these reprints to productions which have been thought worthy of reproduction and circulation by the Cobden Club, the Free Trade Union, and other organisations, with two exceptions. These are, first, my correspondence with Professor Pigou on the

subject of the incidence of a protective and preferential tax on imported wheat; and second, a reprint of an article I wrote on "Mr. Balfour as Economist and Reformer" for the *Contemporary Review* four years ago. The former I include because of the intrinsic importance of a branch of the Fiscal question which has hitherto been the subject of little careful scientific analysis. This it received from Professor Pigou, in his careful study of *Protective and Preferential Import Duties* published in 1906. I only venture to differ from his conclusions when he leaves his safe and perfect deductive argument, and enters upon a purely commercial speculation which he himself describes as "guess-work." But whether his estimate or mine be accepted, his argument proves beyond question by competent persons the fallacy of the belief that it is possible to place any considerable portion of an import tax on food on to the shoulders of the foreigner. My contention is that in the case of wheat, it is impossible so to place any of it.

The article from the *Contemporary Review* on Mr. Balfour, I regarded when I wrote it

## PREFACE

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four years ago as a snap-shot of a politician, taken when he was for a moment balancing in a position of unstable equilibrium. I republish it because, although the grouping has changed, the landscape itself has dissolved, the principal subject remains, and still in the same pose. My article on Mr. Balfour is as appropriate to-day as on the day it was written. I do not give this as an example of my skill as a prophet, but of his skill as—well, as just Mr. Balfour.

RUSSELL REA.





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An appreciation by an opponent. Reprinted  
from the *Contemporary Review*, Nov. 1904.



I

A REVIEW OF BRITISH FREE TRADE<sup>1</sup>

THE Free Trade theory has been consistently applied to the international commerce of the United Kingdom for the last sixty years, but it would be incorrect to say it ever obtained a complete universal acceptance even in this country. We have always had a Protectionist faction. The agriculturists, landlords, and farmers have always looked back with regret to the days when the importation of corn was taxed, and when the undeveloped condition of transport by land and sea restricted our importations of other articles of food almost entirely to the produce of other climates; and during the past thirty years this faction has been reinforced and strengthened by a section of our manufacturers who have desired

<sup>1</sup> Address delivered August 5, 1905, to the International Free Trade Congress.

and agitated for the imposition of protective duties on imported manufactured goods, a few because in their special trades they have met with some effective competition in the home market from foreign manufacturers of similar goods, and many more because they have found their export trades checked and hampered by the imposition or raising of the duties on their goods in foreign countries, and they perhaps naturally desired to find some means of striking back, and giving a blow for a blow, without realising the broad economic consequences of such a policy on our international trade as a whole.

But throughout the whole of this period the great mass of our labouring populations have been steady supporters of a Free Trade policy, and not least so the agricultural labourers and workers in rural industries, whose condition has been so greatly ameliorated by the low prices of foods and the general advance in the wages of labour. The degree of the general acceptance and support of our Free Trade policy in Great Britain has been shown by the fact that, in spite of all the changes of governments due to our party

system, no attempt has been made by any Government to revive Protection in any form. When, in 1852, for the first time after our Free Trade revolution, a Government was formed consisting of men who had been the foremost defenders of Protection in the former period, not only was no such attempt made, but any desire to do so was emphatically repudiated. "Whether Protection be right or wrong," said Mr. Disraeli, "it is dead and damned." And from that time the producers and traders in this country have had the advantage not only of a consistent trade policy, but the absence of any disturbing element of doubt as to the persistence of that policy. For more than fifty years, until the last General Election of 1906, the voice of the Protectionist, though not unheard, was a *quantité négligeable* in our elections, and without influence on national policy.

British Free Trade is a singular phenomenon in the world, and appears to me to be worthy of study and analysis, apart from the soundness of its theoretic economic basis, for great populations are not governed by economic principles, sound or unsound.



Further, the theory of Free Trade, we must acknowledge, does not appeal to the natural uninstructed person; its benefits are diffused and general, its inconveniences are personal and visible; the theory of Protection, on the other hand, as popularly presented, appeals to every unregenerate sentiment—its benefits are personal and particular, its inconveniences diffused and invisible to the vulgar, and it gives infinite play to the passions of private greed and public revenge. How, then, came about the adoption of Free Trade by the English people, and what has caused their faithful adherence to the practice ever since? It is easy to understand this fidelity during the first twenty years, when the principle of free international exchange of commodities was apparently winning an increasing measure of acceptance throughout the world, and it was in harmony with what appeared to be the universal sentiment and the general stream of tendency. But after this period came the American and Franco-German wars, when the tide turned, and nation after nation, not only the great powers of Europe and the United States, urged on by military and revenue

needs, but the smaller countries, such as our own colonies, impelled by no such necessity, deliberately adopted a nationalistic protective policy, and from time to time added to the severity of their protective tariffs. Nevertheless, we see that during this second period this country not only persevered in the faith and practice of Free Trade, but until the last General Election in 1906 a Free Trade policy was accepted practically without question by the people.

It is common for the Protectionist in Protectionist countries to represent Great Britain as an experienced and astute old campaigner in the field of international commerce, which they regard as a field of economic warfare. They describe this country as pursuing a steady and selfish policy with Machiavellian craft and absence of scruples. In the light of this preconception they read our commercial history. England, they say, was the most savage of Protectionists until she had built up an invincible manufacturing supremacy, and then she turned Free Trader, and blandly invited all the industrially less developed nations to enter the arena and try

conclusions with her. England, they say, was remorseless in striking at the maritime supremacy of Holland by Cromwell's celebrated Navigation Act of 1651, but her conduct was no less selfish, both in intention and effect, when she threw open her ports and colonial trade, and abolished the Navigation Laws in 1849. Her motive was as little changed as that of a military commander who takes refuge behind the defences of a fortress when he is weak, but takes the offensive in the open field as soon as he is strong. The policy of England is represented as constant and consistent, selfish and unscrupulous, astute, and (the word has been heard) perfidious. Even our little economic club, the Cobden Club, has not escaped this microscope of suspicion. A myth has gained currency, and I am told there are actually people who believe it, of the existence of Cobden Club gold and secret funds used to corrupt the virtue of the more simple and feeble foreign Protectionists. Our foreign members and friends may be amused in their turn to learn that on the very highest authority among our neo-Protectionists in this country, they have been held up to the

popular fears as powerful and maleficent beings, poisoning by the unscrupulous use of foreign gold the spring of our patriotic protective renaissance.

Economics, we see, like history and theology, has its mythology. The image of an England preternaturally astute and preternaturally selfish is not even a caricature of the truth. Our foreign friends who are students of economic history know that in this as in other things we are a stupid rather than a brilliant race, and have been lucky rather than wise. Pure economic science has never yet ruled the policy of politicians and of states, and Adam Smith was a voice crying in the wilderness for eighty years, until a fortunate combination of national misfortunes paralysed opposition, and enabled the classes, which clearly saw that they, as classes, would gain by Free Trade, to triumph over the classes which imagined that they as classes would suffer. It was these partly blind and mostly selfish forces as much as or more than any clear economic vision produced by the preaching of Cobden, which lifted us in one decade, from 1842 to 1852, almost without our

## 8 FREE TRADE IN BEING

realising how, out of a morass and jungle of protective duties, colonial preferences, and navigation restrictions, far more entangling and paralysing than the present systems of France, Germany, or America, and placed us on the bed-rock of Free Trade, with a clear sky above us, and the world before us. We may be said to have fallen into Free Trade, as an eminent historian of our own has told us we blundered into Empire, "in a fit of absence of mind."

"Non nobis Domine" should be the sentiment of the British Free Trader when he meets face to face his Free Trade brothers from other lands, who are still fighting the battle with varying fortunes, and under harder conditions than he or his father had to face.

Protection was and is associated in the minds of the English people with the taxation of corn. Free Trade meant for them free imports of food. In other countries Protection, at any rate in its earlier stages, has meant the taxation, not of the primary necessities of life, but of the luxuries, the secondary comforts of life, and of machinery and other articles not for direct consumption at all. The promoters

of the Free Trade movement in England appealed direct to the elemental motive of the visible self-interest of the majority, and in this they were more fortunate than their foreign co-workers. It must be admitted the arguments it was then necessary to put before our countrymen were simpler in character, and of more direct and visible force, than those which it is necessary to use in other countries. And, as it was not the cold light of abstract economic truth which guided our fathers into the path of Free Trade, so it has not been by any conscious intellectual process that their sons have been kept from wandering from it. It has been the constantly recurring demonstration of the years as they have rolled by that Free Trade has "paid" in the past, that it "pays" here and now in the circumstances of the moment, and that it furnishes the best equipment for facing the future. The average Englishman accepts the reproach of the world that he is illogical, not only without resentment, but even with some degree of self-satisfaction. He says, if he is not logical it is because he is "practical." He is not governed by dogma, he loves compromise, and his steadfast

adherence to Free Trade is an unusual example of consistent and logical conduct on his part. It has been justified to him not so much by witness of his brain as by that of his eyes and his stomach, by the food he eats, the wages he draws for his work, and the quantity of things he can buy with them.

For the first part of our Free Trade period, for twenty-five or thirty years, all are agreed—our new Protectionists equally with Free Traders—that the policy associated with the name of Richard Cobden was entirely successful; our manufactures and our exports expanded uninterruptedly, following freely their own laws of development. Subject, of course, to the temporary fluctuations caused by the alternation of periods of general world-wide activity and expansion with periods of comparative depression and contraction, our foreign trade constantly expanded, and the expansion of each trade was visibly the natural result of its particular advantage for production, and the energy and intelligence with which it was conducted. Success was then clearly according to merit, and success was pretty widely diffused and shared by all classes.

Even the agricultural classes, landowners and farmers, then, as now, Protectionists at heart, were silenced. The ruin which they had feared and prophesied failed to descend upon them. The production increased, agricultural prices, on the whole, advanced, and the rents of agricultural land went up. During this period Free Trade appeared to have demonstrated to the whole people of this country its universal advantage.

But a new period was about to dawn. English Free Trade was to be put to a harder proof; it had to demonstrate its advantage not only in the form of a free exchange, or virtually a free exchange of commodities, but in the form of what our Protectionists call "one-sided Free Trade"—a system of free imports from countries which were one by one endeavouring by duties of constantly increasing severity to keep out our goods. Germany—at least, so far as Prussia is concerned—had begun the last century as almost a Free Trade country, so much so that William Huskisson, our earliest Parliamentary Free Trader, in 1825, expressed a hope in the House of Commons that "the time would



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come when England would follow Prussia's example." But in 1879 Bismarck definitely committed Germany to a Protectionist policy, with the support of the agrarian party, which appears to have abandoned Free Trade with the first appearance of American imported grain a few years earlier. With a brief interlude during the Chancellorship of Count von Caprivi, we have seen this policy pursued with consistent determination, and Protection intensified by the tariffs of 1902 and 1906.

In France, from the time of the failure in 1880 to renew the Cobden Treaty of 1860, we have seen, and particular trades in this country have suffered from, repeated changes in the tariff, in particular those embodied in the tariff of 1892, all in the direction of restricting the imports from England. In America the tariff imposed during the war was recognised as generally necessary for revenue purposes, but it was speedily strengthened for purely Protectionist purposes, and the McKinley Tariff of 1890 and the Dingley Tariff of 1897 were expressions of a fixed and purely nationalistic Protectionist policy in its most extreme form.

In all our own self-governing colonies wide customs tariffs necessary for revenue in new countries have been strengthened into protective tariffs, carefully devised on strictly national lines, and directed chiefly against the Mother country.

This great and almost world-wide revival of Protection has been witnessed and in many cases severely felt by certain classes of our manufacturers of export goods during the later half of our Free Trade period.

Thus the force of the example of other manifestly prosperous communities, and the force of the resentment of particular classes who had been directly injured, have combined to produce a certain and partial reaction against our former complacent acceptance of a Free Trade policy, which had become traditional, and to promote a revival of Protectionist sentiment among our urban classes.

Coincident with this world-wide revival of Protection, a period of severe and prolonged agricultural depression followed one of long-continued prosperity. The unforeseen, unimagined development of means of

transit by sea and land, had brought to our shores the food products of the most distant parts of the earth, at prices, which our agriculturists without further organisations and development of their industry, were not prepared to meet, and not unnaturally the renewal of a protection not yet forgotten became their first political aspiration.

It is easy to understand therefore, and it is impossible not to sympathise with, both the British exporting manufacturer and the British agriculturist thus injured, who cries to his Government to do something to counteract the action of the foreign Governments. It is too much to expect them to follow the secondary and remoter consequences of these foreign tariffs upon British trade as a whole, and it would be still less reasonable to expect them to follow the secondary and remoter consequences of any system of Retaliation or Protection it would be possible to an English Government to establish. It may be admitted without surprise that the existence of the present world-wide system of Protection, directed as it was primarily against this country, makes the existence of

a Protectionist party in this country natural, perhaps inevitable.

The British Protectionist fixes his eyes upon one phenomenon. He sees the passing away of England's monopoly; he sees the relative decline of his country's foreign trade. It may not be declining at all absolutely, it may be increasing. It may even be increasing at a greater pace than that of any other single country, as has been the case during the last three years. The Englishman may be doing all the work he is capable of doing, and selling all he has got to sell, but he feels he is no longer alone in the world, others have entered the field, they are marching by his side, they are almost keeping pace. He looks round upon these newcomers whom he calls rivals, and finds they are actually "Protectionists." And then an awful doubt of the universal efficiency of the Free Trade faith in which he has been brought up assails him. We have kept a monopoly of Free Trade, he reflects, and yet in spite of our fidelity we have not kept our old monopoly of trade in the export of certain manufacturers. Our new

rivals have not only checked and sometimes annihilated our exports to their own countries by severe tariffs, but under the shadow and protection of these tariffs, or notwithstanding the disadvantages of these tariffs, which ever it may be, they have built up an export trade in their manufactured goods, and effectively compete with us in markets which are foreign to both them and us. Thus, our neo-Protectionist argues, Free Trade has failed first to convince the world of the truth of its general deductions, and to convert it to its practice as its English apostles prophesied it would do; and second, its rejection has not hindered the industrial development of other nations, and that, not only within the sphere of their own protected markets, but in the wider area of international commerce. And statistical illustrations are not wanting to show that Protectionist powers have increased both their national manufacturing product and their export of manufactured goods in greater proportion and in certain years to a greater amount than we have done. In particular—and this is the English Protectionist's

favourite example—it is pointed out that the production of pig-iron in Great Britain twenty-five years ago was greater than that of the United States and Germany combined, while at the present time it is considerably less than that of Germany, and less than half that of the United States. And yet it is precisely during this period that these countries have been consolidating their protective systems, while we have been content to follow blindly our Free Trade policy, simply because it has become a tradition and a superstition to our people.

To our foreign guests it must seem ludicrous that people exist in this country who point to the fact that, in the infinite expansion of production and international exchange in the modern world, England has not kept the practical monopoly which her accidental lead in the cotton and iron trades once gave her, as proof of the breakdown of the Free Trade system; and still more ludicrous that these persons imagine and teach that this monopoly might have been kept or be recovered if import duties were imposed on goods we do not import, or only import in

small quantities. But humiliating as it may be to Englishmen who value the reputation of their country for intelligence, we are compelled to make the admission that our new Protectionists regard the rise of the iron-making industry in Protectionist Germany and Protectionist America, for example, as a proof that our fiscal policy of Free Trade has been a failure. Their ideal is that Great Britain should produce fifty millions of tons of iron and steel, and be the black country and ash heap of the world. The claim is sufficiently ridiculous when carried to its ultimate consequences, and baldly stated, to be left to the judgment even of the least instructed, but when such arguments are insidiously addressed to each separate trade in turn which has ever suffered from a foreign Protectionist tariff by an organised propaganda, pervading the country, and anonymously subsidised, the phenomenon of a British Protectionist party ceases to be a mere psychological curiosity, and becomes a political factor of importance.

This new situation lays upon us Free Traders a renewed necessity to keep burn-

ing the torch of economic truth in this land, and to prove that the policy adopted by our fathers has justified itself by the experience of the last thirty years of our Free Trade régime as much as by the experience of the previous thirty years. Abstract deductive arguments will no longer suffice. We have to show that the British system of Free Trade adds to the present efficiency of the national industrial organism, and, in comparison with any possible system of State regulation of foreign trade by protective tariffs and preferences, gives a greater national product, secures a better distribution, more and more regular employment, a higher scale of consumption, better conditions of labour, and generally a more civilised life for the labouring population. Above all we have to show that a system of free imports gives greater efficiency for competition and enables us to retain a position in international trade in comparison with other countries far beyond that to which we should be entitled by our population, or internal resources, our intelligence, or our enterprise. And yet to one who surveys our trades as a whole, it is not



difficult to show that in the wise words of Sir Robert Peel, the best way to meet foreign protective tariffs is by a policy of "free imports," that this policy, then untried, and adopted by him as the result of abstract deductive reasoning, has justified itself even by the experience of the last generation in which certain of our export trades have suffered blow after blow by the imposition and strengthening of foreign tariffs designed to injure them.

The first portion of our Free Trade period, during which the wisdom of that policy from the British point of view was and is still admitted by all, may be said roughly to have extended from 1849, when the law abolishing the corn taxes came into full operation and the navigation laws were repealed, to 1879, when Germany definitely adopted a systematic scheme of Protection, and the Cobden Treaty with France expired.

A comparison of our export trade during that period with the twenty-eight years which have succeeded shows that, although impositions of Protectionist duties directed against our exports have crippled and destroyed

particular export trades; and, although our export trade to certain countries has been in certain cases seriously curtailed at one blow, yet our total export trade has not only expanded as a whole, but it has expanded to a greater extent during the second period than it did during the first. From 1849 to 1879, in thirty years, our exports of British merchandise increased from 64 millions in value to 192 millions, but in the succeeding twenty-eight years they expanded to a still greater extent and reached last year (1907) the unparalleled figure of 426 millions. This growth is not entirely or chiefly by the substitution of new countries and neutral markets for our old customers. It is with our old customers in our old markets to an equal extent. This apparent failure of foreign adverse tariffs to injure our trade as a whole leads us to an examination of the secondary effects of foreign Protection on British trade, and this examination discloses economic reactions of Protection undreamed of by its authors, and compensations to this country which have led many Free Traders among us even to doubt whether

the lot of a single Free Trade nation in a Protectionist world is not one of actual advantage. Protection injures the nation which imposes it, doubtless it is injurious to the world as a whole, but whether it injures more than it benefits Free Trade England is a question more difficult to answer.

We admit that in consequence of the action of foreign states our industries, as they exist to-day, are not of the kind they would have been under a system of universal Free Trade. They are not what they would have been if we had never abandoned or had returned to a Protectionist system. They are something which differs from both. They are the product of "one-sided" Free Trade — free imports from countries which impose heavy duties on nearly all the goods we have to sell to them, and they show a different distribution of capital and labour from that which would have been the case either in a Free Trade world or under a system of Protection in this country.

The extent to which they differ in the broader categories of industries from what they would have been under a system of free

exchange is, however, much exaggerated by Protectionists and by Free Traders too. The more advanced nations economically and industrially are inevitably coming more and more into line. The aggregation of the people in towns, the rise of new manufacturing populations, the decline in the relative importance of agriculture, are phenomena common to them all. These great and general movements are much less affected by tariffs than Protectionists are apt to suppose. They are the effects of modern forces far more powerful than any national fiscal policy. In the later part of the period we are considering England has witnessed other nations passing through the same phase of economic development she had experienced a generation earlier, and one by one coming into line with herself as manufacturing powers, producing similar articles, and competing with her in the same markets. This revolution in its broader lines of progression would have been inevitable under any fiscal system. The rise of manufacturing industries in other nations than England on something like their present scale was clearly on their destined line of economic development.

The protective tariffs of other countries, which were intended to stimulate this movement, are now producing the bad effects on certain trades in this country, for which they were doubtless designed, and are failing, as they always fail in countries whose industrial development is reaching an advanced stage, to produce the effects which their authors appear to consider good. They have the smallest effect, probably no appreciable effect, in determining the distribution of the population of an advanced country, such as France or Germany, between manufactures of some kind and agriculture, between towns and country, but they do determine the particular manufactures in which a portion of the capital and labour of a country shall be employed. The nationalistic Protectionist politician decrees that a portion of the capital and labour of his country shall be diverted to particular industries. These industries come into existence. The articles invariably selected for a protective taxation are the particular articles which we English are supplying in the greatest quantities, and apparently with the greatest profit to our-

selves. Thus one British manufacturer after another has seen many of his markets restricted and some lost entirely. He has seen that foreign Protectionist Governments, by the imposition of Protectionist tariffs, not only determine the distribution of capital and the employment of labour in their own country, as I have said, but in our country too. In their own country they do this in a manner which their fellow-countrymen approve, as apparently for their advantage, but as regards our country they do it in a manner which is certainly an immediate, and sometimes a permanent, injury to individuals and individual trades, and their express and avowed object is to injure. The particular classes injured, doubtless, see nothing but their injuries, but we have to look further and trace the secondary consequences, and estimate the final results.

Unrestricted international trade, universal Free Trade, would naturally lead to the greater differentiation of employments as between nations, each nation tending more and more to confine its activities to the production of the particular articles for which it

is best suited, to the great increase of the total wealth of the world. The nationalistic protective system adopted by nearly all countries is deliberately designed to defeat this national differentiation. Its aim is to produce everything which is used in a country in that country. So far as it succeeds, it checks the specialising of countries as the producers of one or two things. It is intended to give, and it does give, at some economic sacrifice, a greater range of employment, and a greater variety in the character and the lives of the people of the country adopting that system. It must also be admitted that the Protectionist policy of other countries has had a similar effect on this country. It has prevented the concentration of our activities into half-a-dozen "staple" industries, the produce of which would, under universal Free Trade, have been freely absorbed by nations engaged in specialising themselves in other directions, and has forced us also into a greater range and variety of employments. The direction of our activities has, therefore, been in considerable part determined by the action of others, and that the deliberately hostile action

of Protectionist states. And thus, after this disturbing experience of the last thirty or forty years, we are in a position to judge of the effects of the "one-sided" Free Trade.

It might plausibly be argued on *a priori* grounds that the country constituting a severe protective system would select and seek to introduce, and to encourage by Protection the most desirable industries; that therefore the particular industries in this country which would be most injured by their protection would be our most desirable industries, and, as a consequence, that capital and labour forced out of these most desirable industries in this country, or perhaps rather, capital and labour which would naturally have been absorbed in the expansion of these industries, would be forced into other and less desirable industries.

However apparently logical this *a priori* deductive argument may be, the facts disprove it, or rather show that other and stronger forces counteract and balance the efforts of foreign Protectionist countries to deprive us of our best trades. This great fact is clear to an impartial observer. We stand to-day,



after foreign countries have done their worst to check their imports from us, with an industrial organisation engaged in the production of articles of higher and not a lower class, on the average, than those of our old staple trades. We stand with an industrial organisation equal to the employment of our whole population in good times. In times of good trade our labouring population is insufficient to meet the demand for "hands." Such unemployment as then exists is due entirely to loss by "economic friction," to defective industrial and social arrangements, and even if it were of a kind which could be utilised in those industries which are rapidly expanding, it would not suffice to supply the demands of employers who at such times are seeking workers. When bad times come and unemployment increases, it appears, so far as the imperfect statistics of employment available warrant a conclusion, to be a visitation of less severity here than in the manufacturing districts of countries with a protective system, and in particular less severe than in the protected industries in those countries.

But not only is our national industrial organism equal to the employment of our

whole population in some fashion at some wages, our workers are paid higher nominal wages, and much higher real wages than those of any other European country. And this, surely, is the best test of our manufacturing position as a nation, and of its stability. Within the circle of my personal acquaintance I can name manufacturers who tell me they could at any time double their production and export it all if they could engage labour at Continental rates.

What, then, is the secret which has enabled this country so successfully to adapt itself to a changing and hostile environment? The whole secret is our policy of "free imports." Free imports, by giving us every form of raw material, every semi-manufactured article, every finished article, every foreign tool and machine, has enabled us to do four things.

First, it has enabled us to a great extent to surmount the wall of foreign tariffs, and still to export our goods in competition in his own country, with the protected manufacturer, who in many cases is as much handicapped by the weight of the protective duties he has to pay on the elements of his production, as he is

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benefited by the protection of his finished product.

Second, it has enabled us to maintain our supremacy in the neutral markets of the world.

Third, it has made this country the cheapest area for the establishment of those new industries which the progress of science and civilisation is constantly creating.

Fourth, it has thrown into our hands great international trades, which, from their nature, are incapable of being effectively protected, such as the shipping trade of the world, and those numerous commercial and financial international services, which we do not perform for nothing.

To an audience of convinced and well-instructed Free Traders such as this, whose opinions are founded on knowledge both of the principles and facts of international trade, it is not necessary to labour to prove these four points in detail. Any careful analysis of the official statistics of our foreign trade for the last sixty years will convince the student that they are founded on abundant evidence.

As illustrations of the first, that our cheaper production, with the advantage of free imports, enables us to surmount the barrier of foreign traffic, I will give two examples which have come under my own observation during the last few weeks. A leading spinner of fine yarns in former times did a large business in France and Switzerland. Successive additions to the tariffs of those countries destroyed his business, and he closed his agencies. Under the stimulus of more intense competition, and with the advantage of free imports and the best machinery bought at the lowest price, he has so cheapened and improved his product that the manufacturers of the finer goods in those countries have again sought him out, and, without the intervention of the agencies he formerly employed, his trade with France and Switzerland now exceeds that of the period of low duties. The other illustration is that of a friend and neighbour of my own, a maker of a class of machinery in which he has no monopoly or other advantage than the cheapness and excellence of his goods. He has given me particulars of his exports to France, Belgium, Germany, and Austria,

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showing an extensive trade increasing year by year in spite of duties ranging from 10 per cent upwards.

The proof of my second point, that we maintain our supremacy in the neutral markets of the world, is found in the general trade statistics of those countries. The countries of the continent of Europe import largely from China, India, Australia, and the Argentine, but they cannot pay for these imports by the direct exportation of the goods these countries want in competition with English goods. In great part, as the tables of imports show, we pay by our exports to these neutral markets for the continental imports, and they pay us, to our double profit.

My third contention, that, notwithstanding our higher wages, this country furnishes the most advantageous area for the establishment of new industries, is an obvious deduction from one of the most conspicuous phenomena in our industrial life during the last few years. On all hands we see the establishment in this country of new works by foreign firms, and these generally firms of the highest class and most extended trades. For their own country,

under the shadow of their protective tariff their original works suffice, but when they aspire to produce for the world, and have to surmount the tariff walls of other countries, then they find they must produce under English conditions, and they come here to do it.

But the greatest advantage of the country of free imports is that I mention, fourth, that into its hands fall the great international trades which, from their nature, are incapable of being effectively protected. These trades consist rather in the performance of international services than in the export of material goods.

This country is the free market for all goods of all nations, and this has made it the international clearing-house for the international balances of trade of all the world. An enormous preponderance in the organisation and conduct of international trade has thus fallen into our hands, such as the finance, the insurance, the commissions and brokerages, and the merchants' profits; above all, the building, the owning and the operation of the merchant fleet. In merchant shipping and shipbuilding we had no conspicuous lead

among the nations sixty years ago. To-day it is not with that of any other country we can compare our merchant marine, but with that of all other countries together; and in this comparison we find that, although the rest of the world put together can show a slight excess of tonnage, yet in quality, in efficiency, and total money value the balance is greatly in favour of this country. Our total foreign trade is not one-sixth that of the whole world, but we carry in our ships, not one-sixth, but one-half of the trade of the world. We do more trade between foreign port and foreign port, trade which never touches this country at all, than we do to and from our own ports. This shipping is our largest as it is our best trade, it distributes a far greater sum in the form of wages than any other industry, and these for the most part to the most highly skilled and best-paid portion of the industrial population. It would be absurd to attribute this supreme position to the superior skill, energy, or aptitude for the life of the sea possessed by the Englishman over the foreigner. Under the régime of Protection, such measure of these

qualities as he possesses failed to produce this fruit. The shipping supremacy of England is the creation of her Free Trade period, and the direct result of her Free Trade policy, assisted greatly by the Protectionist policy of other nations, which have one by one seen the growth of their tariff accompanied by the decline of their shipping register. The apparent exception of Germany is in reality a striking confirmation of this fact; for in Germany the building and working of ships are conducted on a Free Trade basis.

Under all circumstances, and in all environments, sympathetic and hostile alike, whether those of free international exchange or those of "one-sided" Free Trade, we have found our Free Trade policy justified. Those who believe in the truth of the Free Trade theory look forward to the universal triumph of economic truth in some day which is to come. But we in this country who have practised it even in a Protectionist world, have found that Free Trade, like godliness, is profitable to us "in this life, which now is" as much as in that life of real Free Trade which we believe is to come.



The writers of these papers for the International Congress have been requested by the Committee of the Cobden Club to give some account of the position and progress of the Free Trade movement in the countries for which they speak.

In alluding to England I must reverse the process. There is no Free Trade movement in this country. Free Trade is fixed, settled, established, and, I believe, immovable. In Great Britain there is a Protectionist movement, and it is to this I must refer for a few moments.

The history of this movement is an interesting study in political pathology. The agrarian party in England, unlike the agrarian party in Germany, has always been a Protectionist party. They advocated pure Protection, naked and unashamed, Protection simply for British agriculture. They represented in its most intense form the spirit of Conservatism, social, political, commercial. To them the interests of agriculture represented the interests and the right of the rightful ruling class, and they looked back to the years of war at the beginning of the last century when the people

starved, and corn rose to 126 shillings a quarter, as to a golden age.

Twenty-five years ago, with the revival of Protection abroad, a small party of Protectionists, under the name of Fair Traders, arose among our manufacturing classes. Their impelling motive was resentment, and their object rather retaliation than a perfect system of national Protection. These two factions in the public estimation were rather two groups of eccentric persons than a serious political party, and their arguments as popularly presented were for the most part mutually destructive.

The sudden adhesion of a statesman of the unique authority and seductive eloquence of Mr. Joseph Chamberlain in one day changed the political situation. By his revival of colonial preference—an essential and most mischievous part of our old fiscal system, but one which had passed out of the minds of the people—as part of his programme of Fiscal Reform, he covered the repulsively selfish features of naked Protection with a veil which was attractive to thoughtless, patriotic, and Imperial sentiment.

The old controversy which we thought dead, revived, and for five years has raged again through the length of this land.

Three principal events have marked its stages :

First. The General Election of 1906, fought almost entirely on this issue, which proved the overwhelming force of the attachment of the democracy of this country to Free Trade.

Second. The action of the Colonies, which killed any newly awakened enthusiasm for Colonial preference. The Colonies have given us clearly to understand, as it is entirely within their right to do, that preference or no preference they mean to continue to develop Protectionist tariffs on the narrowest nationalistic — that is, Colonial lines. They have showed us that they regard a system of Imperial preference, not as giving them an opportunity to make an advance in the direction of Free Trade within the Empire, but as presenting an occasion for increasing their duties on the goods of other foreign countries.

Third. We have seen the revival of Pro-

tection established as the principal item in the political programme of the Conservative party.

It is this last event which gives many Free Traders some grounds for doubt and apprehension of the future. They say that sooner or later it is certain that in the changes and chances of our political life the Conservatives will return to power, and with them will come the end of our Free Trade period in England. Personally I regard these apprehensions with complete composure. Doubtless the Conservatives may return to power, but if they do, it is extremely uncertain whether it will be with a mandate to destroy the integrity of our fiscal system. But should such a Parliament with such a mandate be returned, my composure would still remain unshaken. The most sanguine of our Protectionist agitators recognise the fact that the real difficulties of their task would then begin.

In 1877, when Bismarck contemplated the increase of duties and general development of the protective system of Germany which he carried out two years later, he spoke of

the task as a "Herculean labour." Prince Bismarck was a Hercules, and did not shrink from tasks to which only he was equal. But the construction of the tariff of 1879 was easy compared with the task of destroying the Free Trade basis upon which British commerce and industry are built.

In 1880 German foreign commerce was considerably less than a third of what our foreign trade reached last year. At that time Germany was practically a self-feeding state, and her industries were for the most part infant industries. She was in the stage of development Friederich List defined as that proper for Protection. The imposition of the tariff of 1879 added considerably to the burdens of the consuming population, but it did not upset the whole fabric of an immense and complicated industrial and commercial organisation. Yet Bismarck considered it a Herculean task.

The difficulty of any extensive rearrangement of a tariff is great, but the difficulty of any rearrangement which involves a reversal of a national fiscal policy is almost insuperable, and can only be accomplished in response to

a great national movement. Thus it is that the rulers of nations once committed to Protection can with comparative ease add gradually to the severity of their duties, but find themselves unable, in the face of the interests built up by Protection, to reverse the process.

The whole of the splendid fabric of British industries and commerce rests on a Free Trade basis. To overturn and reconstruct this stupendous edifice upon another foundation is a task compared with which the Herculean labour of Prince Bismarck was the pastime of an infant.

No partial Protection would be tolerated by Protectionists—Protection for agriculture without Protection for manufactures, or *vice versa*. There could be no favoured categories of industries at the expense of others. I believe, and have no doubt, the British trades, in their infinite multitude and variety, with freedom of purchase from all the world, would thoroughly awaken for the first time when they saw a general tariff take visible form before their eyes. It would be to them a new thing. Even the manufacturers who

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vaguely clamour for Protection for themselves would fall away when they saw the cost of it definitely tabulated and presented to them for payment. And above all, the great consuming public who could get nothing directly out of Protection for themselves, a majority in this as in every nation, would certainly refuse the sacrifice when the actual demand came.

There is no other country in the world in which popular opinion is so quickly effective in controlling Government action as it is in this country, and in such a situation as I have described I believe a Protectionist Government majority would dissolve like the untimely snow of summer.

## II

### PRACTICAL CONSIDERATIONS<sup>1</sup>

#### I. AN ANALYSIS OF DUMPING

IN a letter of 22nd May Mr. Chamberlain said: "The prosperity of our commerce at home depends upon our waking up to the new conditions that have been created by the accumulation of capital in the great Protected countries." This appears to him to be one of the most alarming and threatening factors in the present economic situation. The accumulation of capital in America, and its employment, is certainly a most interesting phenomenon, and it is having some very unforeseen results which have contributed strongly to confirm my Free Trade faith. Forty years ago, when America began her Protectionist

<sup>1</sup> Three letters to the *Westminster Gazette*, 1903.



career, after the close of the Civil War, she was short of capital, and interest there was high. For years her Protectionist tariff had this result, among others : it made it profitable for English firms to transfer bodily their capital, their works, machinery, and even workmen to American soil. Now American manufactures have grown to such an extent that the United States is a great *exporter* of manufactured goods. But at this point her Protection is ruining her chance, and her capitalists are not slow to see it. Protection, which, perhaps, did assist her infant manufactures, is so admittedly injuring her matured and gigantic manufactures for export that the tide has altogether turned, and, instead of English houses being transferred to American soil, the new American capitalist, whom the Colonial Secretary fears, is in many cases transferring his works for his most finished products for his foreign markets bodily to this Free Trade country.<sup>1</sup>

I had a conversation a short time ago in America with an American of great com-

<sup>1</sup> I treat this subject in greater detail later, see "Insular Free Trade"—The British Free Trade Case: (ii.) Dynamic (c), page 184.

mercial distinction—I may say of genius. He foretold that the Americans would be able to deliver steel plates, rails, and other of the heavier iron products at any port in this country at lower prices than actual cost of production on the Clyde or the Tees. I did not and do not now share his sanguine expectation, but this does not affect his argument. He added: “But I expect you will get far the best of the change in conditions. It will revive to an extraordinary extent the prosperity of your old engineering and machine-making works in other parts of England. It will make England the most favourable place in the world for us, as well as you, to carry on the higher branches of the metal trades. We shall have the black countries, and you the garden cities with the highly skilled and well-paid engineers and fitters.” I asked him upon what he based this opinion. He replied: “Upon two things; first, you in England have undoubtedly the most skilled and intelligent, as well as most numerous operative engineering population in the world; and, second, your Free Trade policy has put you in a position to produce better

work for a given price than any other nation."

These things are facts appreciated and being acted upon by the keenest minds of those who have "accumulated capital in the great Protected countries."

But it will be replied that figures, particularly recent figures, do not bear out this view. It will be shown that during the last five years—and I admit the last few years are the most significant of the new tendencies in commerce—the German exports have increased at a greater ratio, although not at a much greater ratio, than our own. And the American exports of manufactured goods have increased at a prodigiously greater ratio, although they largely decreased last year. But the figures do not tell the whole story. The amateur statistician in his library, who takes his figures out of Blue-books, gets the dry bones of the subject only; he may know something of the anatomy of commerce, but he knows nothing of what I may call its physiology—its circulating system and its digestive system. The fact is, as is well known to commercial men who have their fingers on the pulse of

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commerce, that during the years of the late boom in trade<sup>1</sup>, our prosperity has only been limited by our capacity to accept and assimilate prosperity. Every mill, every colliery, every ship, and every man capable of doing work has been employed to its and his utmost capacity, and a not considerable part of the exports of neighbouring nations has consisted of the overflow of our prosperity which we were not able to accept at the time. I know personally of orders for locomotives sent abroad, not because the directors of railway companies here wished to send them abroad, or found any advantage in doing so, but simply because they could not get delivery guaranteed by English makers under a year and nine months. These engines swelled the list of foreign exports, but I may add the purchasers now wish they had waited. Again, the prodigious quantity of war material and supplies exported by the Government to the seat of war in South Africa does not appear in the Board of Trade returns, but their production employed our people, and diverted

<sup>1</sup> NOTE.—This paper was written in 1903, and the boom to which I allude was that of 1899-1900, not the partial boom of 1906-7, which was confined to our foreign trade.

them from other productions which would have appeared in these returns.

I am unable to take the gloomy view of those who believe in the actual or prospective decline of British prosperity under our present Free Trade system. On the contrary, I believe that with a little more attention to the technical education of our population, and a resolute adherence to our Free Trade policy, we shall see in the next generation a great progress both in the value and the quality of our exported products<sup>1</sup>, and that whether Protective tariffs are kept up by foreign nations or not. I go so far as this. I believe these tariffs are bad things for the nations who keep them up; I believe they are bad for the world at large, but I am not so sure they are a bad thing for us in particular. At any rate, I am by no means anxious, from the English point of view, to see America adopt Free Trade.

The supporters of the Colonial Secretary avow their expectation that, if not at the next General Election, then at the next

<sup>1</sup> The Board of Trade returns of the four years following the date at which this was written give striking confirmation of this forecast.

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General Election but one, the country will have been taught by a period of bad trade, and will give a triumphant majority in support of his policy. The Free Traders and Tariff Reformers of America—that is, the whole Democratic Party and a section of the Republican Party—avow a similar belief in the triumph of their cause, not at their next election, but at the next election but one. If, unfortunately, both of these forecasts should prove true and the two events, the moderating of the severity of the present Protective system in America and the adoption of Protection in this country, should synchronise, then I should indeed look forward to England becoming commercially, in the language of the Colonial Secretary, "one of the dying Empires of the world."

## II. CEMENTING THE EMPIRE: CEMENT OR DYNAMITE?

In his speech of 26th June Mr. Chamberlain made it more clear than ever that the central feature in his new fiscal scheme is to be a tax on corn of foreign growth, imposed as a means of strengthening the ties that bind

the Empire together, irrespective of the objects to which the proceeds of the tax may be devoted. He made it clear also that he contemplated a tax that might cost the working family "threepence a week additional on the cost of their bread." This figure indicates a duty of half-a-crown a quarter to start with.

A few minutes' examination of this proposal will show the extent and the limits of the operation of this new tie which is to bind in an economic unity the scattered dominions of Great Britain with the mother-country, and for the sake of which we are to submit to the taxation of food.

In this controversy India has small part and may be excluded. Of our white Colonies, Australia sends us a certain—or rather, owing to her liability to drought, a very uncertain—quantity of grain, and little else in the shape of food. Australia's chief exports are wool, the precious metals and ores, and her foreign trade is largely with other countries than England. South Africa cannot feed itself yet, therefore how can it feed us? It is only to Canada we look for any *really large* Colonial supply of food. It is of Canada

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we are thinking when we speak of a self-sufficing Empire in the matter of food supply. Now of the provinces which form the Dominion of Canada the maritime provinces do not send us any corn ; the great French province of Quebec, with its two millions of inhabitants, sends us no corn ; the great English province of Ontario, with nearly two millions of inhabitants, consumes just about as much corn as it produces. It is to Manitoba only that Mr. Chamberlain's eyes must turn for England's supply of grain. We, as Englishmen, are naturally proud of the rapid rise and prosperity of Manitoba. But let us not be blind to the fact that our corn-producing Empire under examination has shrunk to the province of Manitoba.

Now Manitoba contains at present about a quarter of a million inhabitants, but its population is rapidly increasing, chiefly by immigration from the United States. Only five years ago, in 1898, the English immigrants exceeded in number those from the United States. In 1901, only three years later, the number of settlers from the United States had risen to double the number of those from



England, and this process is continuing. These men are doubtless excellent farmers and citizens, but we can scarcely expect them to prove excellent Imperialists. Submitted to analysis, therefore, this great imperial project of cementing the Empire by taxing our people's bread is seen to result in one thing only, and that one thing the acceleration of the process of Americanising the Western provinces of the Dominion of Canada.

Further, I should like to know how this policy of preferential tariff can possibly be worked in the case of Canada. We import at present so much foodstuffs from Canada set down in our tables of imports as Canadian; but it is not purely Canadian, it is in a large part the produce of the United States. Again, our tables of imports show so much food from the United States; but it is not all from the United States, it is, in part, Canadian produce. In summer, Montreal is engaged in shipping to the utmost extent of its capacity not only Canadian grain, but all the American corn and other things Chicago and Duluth can send down the Lakes, for Montreal is their cheapest shipping port—cheaper than Boston

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or New York. Again, in winter, when the St. Lawrence is frozen up and Montreal is idle, the Grand Trunk Railway of Canada brings the Canadian produce through three States of the Union to its terminus at Portland, in the State of Maine, for shipment to Europe. At present goods pass through "in bond," and are exempt from the American duty of one shilling per quarter on imported grain; but this is surely a matter of courtesy on the part of the United States. It is not likely this privilege would be continued. It appears to me that the United States would be bound by their system of retaliation and reciprocity to refuse free passage to grain shipped to compete with their own heavily taxed grain. They would probably simply collect our tax and put it into their own pockets. I notice this question has already been raised by an influential paper in New York, which remarks that it would be for the United States to decide whether a considerable quantity of the Canadian free food should be permitted to be shipped at all. We should also have to go back to the old system of "certificates of origin," but I cannot conceive

any system of certificates of origin which could be devised to meet this case. We demanded certificates of origin of cargo in the old days of the Navigation Laws, and it was proved before a Royal Commission, which investigated this question in 1847-8, that they were even then entirely worthless. The captains of ships used to give these certificates as a matter of course, whether they knew or did not know the origins of their cargoes. Now, if it was an impossible system when a little ship took weeks to load, and every parcel was stowed away under the eye of the captain or his mate, how much more impossible would such a system be when a steamer takes a cargo twenty times as large as those of sixty years ago, and it is poured into half-a-dozen hatches at once by steam and hydraulic power, working day and night, in a few hours. Imagine what questions would arise, what international complications and dangerous differences with the United States. I do not for a moment mean to suggest, nor do I think, that differences such as these could lead to actual hostilities with the United States; but I hold this opinion

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chiefly because the United States has much better cards to play than that. They could, first, make our preferential arrangement unworkable, and, second, they can at any time overbid us with Canada. Nothing we can do can prevent the United States from being much more to Canada economically than we can ever hope to become; for she buys, even on the present unfavourable treaty conditions, much more than twice as much from them as she does from us. A generous reciprocity treaty, leading to an ultimate Customs Union, would be a long step in the wrong direction in the opinion of us who value the Empire—a step half-way to separation. This was a question very much alive a few years ago. It had gone to sleep of late. We hoped it was dead, but I fear it is now clear the Colonial Secretary has brought it back to life. He has brought it into the range not merely of practical politics, but into the category of "burning questions" in the United States of America.

Mr. Chamberlain's aim is to "cement the Empire." That is also our aim. We love the Empire but we distrust the cement. We

have examined his cement and find it is not cement at all, and we strongly suspect it to be dynamite.

### III. AN OUNCE OF APPLIED THEORY

Mr. Chamberlain said on 28th June last: "Surely it is a mathematical truth that if imports come into this country of manufactured goods, which we can make as well as any other nation, they must displace labour."

When an unscrupulous controversialist makes a doubtful statement he is apt to endeavour to make it pass by such a preface as "it must be admitted" or "every one knows." And when he is about to utter, what may, in the classical language of Lord Cross, be termed a "thumper," he will be likely to say it is a "mathematical truth." Some economic truths may be expressed and illustrated by mathematical formulæ, but they cannot be proved or disproved by mathematics. But this particular "mathematical truth" is a foolish old economic fallacy, which can be proved false, not, indeed, by mathematics, but by logic, statistics, and practice.

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The economic truth is that “if imports of manufactured goods come into this country” they do not displace labour, but they employ labour to make something with which to pay for them. The statistical proof is the fact that imports and exports rightly calculated do, and must, balance.

I can best illustrate the way this inevitable equation, proved first by deductive reasoning and next by statistics, works out in practice by an example from my own experience.

Some years ago, when a period of bad trade was coming upon us—exports and employment were declining, but imports were still increasing—I remarked to a friend, a large importer of provisions, that, unless things improved, imports would be checked. Being a practical man only, he ridiculed the idea, and said that he could always buy cheeses in Canada and sell them in Liverpool, whether I could export steel rails or earn freights or not. A few days later the financial machine which holds the balance of international commerce began to work. Excessive payments being due to America, my friend found the exchange going against him ;

the sovereign for which he sold his cheese would not buy so many dollars and cents to pay for it—his profits began to be cut. Then the machine turned another screw—the exchange reached the point at which it was profitable to send out gold—for if we really overrun the constable Mr. Seddon's gold sovereigns begin to go. Then, of course, the Bank acted, the reserve had to be protected; up went the rate from 3 to 4, 5, and 6 per cent. My importing friend's profits had now almost gone. Then dear money forced weak holders to sell, and down went the price of cheese in Liverpool. My friend reduced his shipments as much as possible, but lost much money. Thus the great machine works and keeps the international balance true. Therefore, "if imports come into this country," even imports of manufactured goods, they employ and do not displace labour.

It is no answer to this argument to point out that Mr. Chamberlain carefully restricts his imports to those "*manufactured goods which we can make as well as any other nation,*" and if we were to do so, would

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preserve both sides of the exchange in our own country. First, we do not import articles we can and do produce as well and cheaply ourselves. There is always some reason for importing. Second, if he means articles we can and *ought* to produce as well and cheaply as the foreigner but do not, then the importation is justified to stimulate our manufacturers to produce what they can and ought to produce; but in general it will be found that our productive forces are better employed in producing the articles taken in payment for the imports than in producing the actual manufactures we import.



### III

## IMPORTS AND EXPORTS<sup>1</sup>

THAT imports are paid for by exports every intelligent man feels must be true; that our imports are actually so paid for the Board of Trade Blue-Book proves to those who have taken the trouble to read it. The ordinary man of business, however, will admit it as a general proposition, and implicitly deny it in all his arguments, if he is a follower of Mr. Chamberlain. The economic truth has taken no hold of him, because he does not see how the thing is done.

I will endeavour not to argue the question but to describe the process of international exchange in the ordinary terms of commerce, avoiding abstract economic technicalities.

Suppose you are an importer of American

<sup>1</sup> From the *Westminster Gazette*, January 15, 1904; by permission.

corn, all you care about is your imports, and you will go on importing so long as you can see any profit in it, and you do not see why you should cease to import the corn our people want because your neighbour cannot export his iron which the Americans do not want.

But you have to pay for your imports. The American who has shipped your corn to your order draws a bill upon you for the price at, say, three months' date, payable in London, and takes his bill in duplicate or triplicate copies, with his bill of lading, to his banker in Chicago or New York, who pays him his cash, and, unless you fail to meet the bill, your American exporting correspondent hears no more about it. He disappears from the drama. In due course the first copy of the bill of exchange is presented to you in London by this American banker's London correspondent, a London banker, and upon your accepting the same, *i.e.* acknowledging your obligation to pay the price, you receive the bill of lading and the produce it represents. This first copy of the bill of exchange the London banker will hold until the date it becomes due, and when you have met it, *i.e.* paid the price, you disappear from

the scene. But the drama is only half played out. You have got your corn, the American seller has got his cash, but your American correspondent has received his cash not from you, but from an American banker; and you have paid your cash not to him, but to an English banker. How is the international adjustment of the account made? That is the question. And when you have solved that question you become a Free Trader. It is a banker's question, and bankers are almost unanimously against Mr. Chamberlain.

The bankers take up the business just where you left it. You and the American exporter have brought corn to England; they must get cash to America to pay for it. As we have seen, the American banker begins by advancing the cash himself and paying the exporter for your corn. But on the day he does so, and sends to England the first copy of the bill of exchange drawn on you for your acceptance, he also puts into circulation the second copy of your bill of exchange, with his own endorsement, to which his guarantee through his London agent, "in case of need"—that is, if you fail to meet the bill yourself—is added.

It is now an approved bill on London, the most convenient, the most sought after, the safest medium of remittance in the world.

Mr. Felix Schuster, the Chairman of the Union Bank, addressing his shareholders at their last meeting, said: "Go where you will, in all quarters of the globe, in every civilised country, one might almost say in every uncivilised country, a bill of exchange on London is the one medium of exchange which always has a ready market. Shipments of produce from one country to another are, in most cases, settled by bills on London."

Sure as the rising of the sun, that second copy of your bill of exchange with the first, containing your acceptance, pinned to it will turn up for you to meet on the due date. How did that second copy get to London? An examination of the numerous endorsements will show. Probably it did not come direct from America, for America does not take our goods in sufficient quantities to pay directly for her exports to us. It has left America to pay for French wines or silks, or for China tea, or Java coffee, or West Indian sugar. It turns up in London as a remittance in payment for

Manchester goods sent to India, or Cardiff coal sent to Port Said, or, perhaps to meet the payments of the dividend warrants to English shareholders in an Argentine railway, or the freight of a British ship. But it has always, in every case, without any single exception, been sent to London to pay some debt due by a foreigner to an Englishman. No one buys a bill of exchange on London, approaching maturity, and sends it to London for any other purpose. Even if, instead of being sent by one individual debtor to pay one individual debt, it is sent by a foreign banker who has purchased it, in a parcel with other similar bills, to his London agent, as is often the case, the object is the same. The foreign banker only remits it in order to maintain in London a sufficient balance to meet the demands in London of the British creditors of his clients for British goods, freights, or dividends.

Thus America, which sells to us without buying back directly in goods sufficient to repay herself, is forced, by the operation of a law that cannot be evaded, to find in every case a substitute in some part of the world who has incurred a debt to Great Britain.

But the question is not yet answered, How is this balance maintained? Suppose there are no such debtors to be found, or not a sufficient number of them. Well, this adjustment is a delicate matter, and it is the business of international bankers to make and keep the balance true.

If, at any moment, they find that the claims of this country upon the world are equalled to the claims of the world on the country, they put down the rate of exchange on London, which is the same thing as the price at which bills on London. The foreign holder of these bills must accept fewer dollars and cents, or francs, for every pound sterling in the bills from the banker who remits them for collection. This is an immediate bonus to the English exporter, it is an immediate fine to the importer, it checks imports, it encourages exports. But if the excessive supply of importers' bills on London continues, the rate continues to fall, until it becomes more profitable to send the bills to London and demand and obtain the actual gold sovereigns and ship them abroad than to accept the dollars or francs which represent the current market rate abroad for

bills of exchange on London. This is the gold point, below which the price of bills cannot continue—for the movement of gold from our shores in any considerable quantity quickly and infallibly ends excessive importation. The Bank of England takes alarm, and puts up its rate of discount to protect its gold reserves, perhaps from 2 to 3, 4, or 8 per cent. Then dear money causes all prices to fall in England, prices of stocks, of produce for export, of imported produce, all fall together, and weak holders on small margins are forced to sell. This fall immediately checks all import trades—the buying of goods from the foreigner, which can no longer be sold here for a profit at our reduced level of prices. The importer ceases his importing. It encourages the export trades, the selling of British goods, which can now be bought here at a lower price, to the foreigner for cash, which is what the Bank wants. The exporter again makes money and resumes his exporting. This law is not one that operates slowly—it is instant. Like land, every trade is cultivated to the point which those engaged in it consider the “economic margin.” At such a time as I have described the margin of the

importing trades suddenly recedes : that of the exporting trades is suddenly expanded. Every great exporting house, with numerous foreign correspondents, has always on its books numerous orders which it has not been able to execute at the limits of price fixed by the foreign buyers. These orders are now rapidly carried out—in short, so soon as we feel the pinch of indebtedness we unconsciously begin to “dump” until we restore the balance. Thus the great financial machine keeps the international balance true, it stops our buying more than we are paying for, and, if we ever overrun the constable, we are at once pulled up.



## IV

### SHIPPING AND FREE TRADE<sup>1</sup>

ONE of the most firmly held articles of the British faith is the dogma that the sea is the heritage of the British race; for 150 years we have sung that "Britannia rules," not only that considerable portion of the surface of the earth painted red upon our maps, but that very much more considerable portion painted blue.

This admirable faith has greater justification in fact to-day than ever it had at any period in the past, and we owe it to our glorious naval history and traditions—to Drake, to Blake, and to Nelson. We do not owe it to any similar lengthened period of the triumph of our mercantile marine, for we have enjoyed no such lengthened period

<sup>1</sup> Cobden Club Lecture, Feb. 6, 1905, with supplemental note, 1908.

of the supremacy of our merchant shipping. We have achieved our present commercial superiority entirely since our fathers adopted the principles and practice of Free Trade in general, and in particular since we renounced the monopolies and privileges, and freed ourselves from the shackles, of the old Navigation Laws in 1849.

Yet it is a fact that, great as is our superiority over any other nation, or any two, or any three foreign nations, in naval strength, the relative superiority of our mercantile fleet to-day is much greater still. It is not with this or that Power that it can be compared. It is no two- or three-Power standard that we maintain. The only comparison which is not ludicrously disproportionate is that between the British Empire and all the rest of the world put together. It is with the abstract foreigner, whom he characteristically calls "our bitterest and severest competitor and rival," that Mr. Chamberlain compared us in his speech in Liverpool. And even in this comparison the mercantile navy of Great Britain alone, excluding the Colonies, shows a considerable preponderance over that of the

rest of the world, if not in total tonnage, yet in value and in effective carrying power, as I will attempt to prove later.

In this paper I propose to show :—

1. That this predominance did not exist before we adopted Free Trade and repealed the Navigation Laws.

2. That it exists now.

3. That this superiority is the result of our Free Trade policy, applied both to our import trades and to shipping; and

4. I will point out some of the dangers to which British shipping is exposed, and the disadvantages under which it labours, and indicate what I consider the true national policy to adopt towards it.

First—That this predominance did not exist before we adopted Free Trade. “It may be assumed,” says Mr. Cunningham, an authority on economic history, “that in the Middle Ages the shipping of the Italian Republics and the Hanse League excelled that of England.” The chance of England did not come, in fact, until the discoveries of Columbus and Vasco di Gama opened the Western and Eastern oceans to commerce, which, until

that time, had been confined principally to the Mediterranean and other inland seas. At this period we had an enterprising sovereign, Henry VII., himself a merchant shipowner. His sentiments on the subject of foreign commerce were most admirable. In instructions to commissioners appointed to negotiate treaties of commerce, he said : " The earth being the common mother of all mankind, what can be more pleasant and more human than to communicate a portion of all her productions to all her children ? " These sentiments were worthy of Richard Cobden ; but Henry's policy was not so enlightened, and he followed the earlier examples of Richard II. and Edward IV. in enacting and endeavouring to enforce the strictest navigation laws, restricting English merchants to English shipping. Whatever the reason may have been, we find that Spain and Portugal and afterwards Holland took the lead in the new ocean traffic—so much so that 100 years later, in 1603, Sir Walter Raleigh wrote : " The merchant ships of England are not to be compared with those of the Dutch. The Dutch give free customs inwards and outwards

for the better maintenance and encouragement of navigation, and the encouragement of the people in that business." Consequently the Dutch were the great carriers. He continues: "We send into the East kingdoms yearly 100 ships, while the shipowners of the Low country send thither 3000 ships," and he adds in words strangely familiar: "Our Russian trade is going."

Our position, however, was improving, and in 1666 Sir Henry Petty estimated that the

Dutch shipping tonnage amounted to	900,000 tons
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French           "           "           "	100,000 "
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Sweden . . . . .	250,000 "
Spain, Portugal, and Italy . . . . .	250,000 "
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At this time English shipping was subject to the celebrated Navigation Act of Oliver Cromwell (1651), an Act which was called the great Charter of English shipping, the principles of which remained in force until the Navigation Acts were finally repealed in 1849. This Act enacted that "no goods or commodities whatever, the growth, production,

or manufacture of Asia, Africa, or America, should be imported either into England or Ireland, or any of the plantations of Great Britain, except in British built ships, owned by British subjects, and of which the master and three-fourths of the crew belonged to that country." And from Europe nothing was to be imported "except in British ships, owned and navigated by British subjects, or in such ships as were the real property of the people of the country or place in which the goods were produced, or from which they could only be, or most usually were, imported."

Under the protection and fetters of this law, modified and relaxed in various details and in various parts of the world by special treaties, our commerce was carried on for two hundred years with varying fortunes. The Navigation Laws which expressed the wisdom of our ancestors were fair copies of those of other nations. Our laws prohibited a Spanish ship bringing a cargo to England from the Spanish South American colonies; but had we permitted it the Spanish law would have forbidden it, for Spain enforced a monopoly of the trade with her colonies. In the inter-

national race all competitors were pretty equally handicapped.

In the light of the present, the most remarkable thing about this long period appears to me to be that during the whole of it we can discover no indications of our ever attaining our present superb supremacy. At the end of it, when we finally surrendered Protection both of our trade and our shipping, we were making no progress in comparison with other nations, and in some respects were declining. For example, although after the great war in 1815 the shipping tonnage of the United States was not half that of the United Kingdom, in 1850 the American mercantile marine was very nearly equal to our own in total tonnage, and greatly exceeded it in efficiency. The Americans beat us both in the number of their steamers and in the speed, efficiency, and beauty of their sailing ships. The celebrated "Baltimore Clippers" and "American Liners" almost monopolised the carrying trade between Great Britain and the United States, and no improvement was made in the building of ships in the United Kingdom until after the repeal of the Navigation

Laws in 1849. The best historian of this period says: "So long as British shipping was protected they had so much reserved to them they relied on Protection, and did not exert themselves to compete with the United States for the Atlantic trade on equal terms."

The primacy among maritime nations at the period of the abolition of the Navigation Laws can only be doubtfully awarded to this country. The United States, then a weaker Power with a smaller population than our own, had grown to be a dangerous rival, and was rapidly improving her relative position. It is true our total tonnage of shipping was some four millions of tons to her three and a quarter millions of tons, but in quality she surpassed us greatly. Not only was her steam tonnage more than double that of Great Britain and her Colonies, but, as I have said, her sailing ships were the finest and fastest in the world. We were worthy and well matched rivals in the race. But we had arrived at the parting of the ways. We took the Free Trade path to the right, which has led us to a real sovereignty of the



scas. America, a few years later, definitely took the path of Protection to the left, which has led her to a decline almost to the point of the extinction of her foreign shipping trade.

The Repeal of the Corn Laws in 1846 was immediately followed by the movement of 1847 and 1848 for Free Trade in shipping, which resulted in the abolition of the Navigation Laws in 1849 by the Government of Lord John Russell. With the conservatism they have invariably shown, the shipowners clung to their protection. In 1848 the Shipowners' Society of London issued a manifesto in which they said: "If the Navigation Laws are repealed, 'Rule Britannia' would be forever expunged from our national songs, the glories of Duncannon and Nelson would wither like an aspen leaf, and fade like the Tyrian die, and none but Yankees, Swedes, Danes, and Norwegian sailors would be found in our ports." The movement for freedom of shipping was led, not by Cobden, but by Mr. Ricardo, a brother of the great economist and banker, David Ricardo, who was then a Member of the House of Commons. The

Cobden Club reveres the memory of Richard Cobden, but it would be the last body of men to forget to do honour to those who worked at the same time for similar objects on lines parallel with his. In the work of the emancipation of British shipping, the name most to be honoured is that of Ricardo, and after his name that of Lord John Russell. In 1847 Mr. Ricardo carried the appointment of a Select Committee to consider the Navigation Laws, and the evidence brought before this Committee and Mr. Ricardo's report sealed the doom of those Laws. In 1849 they were repealed after severe resistance in the House of Commons and by a section of the ship-owners in the country, by the Government of Lord John Russell.

The debate on the Second Reading of the Bill in the House of Commons was a notable and historic debate. In it Mr. Disraeli declared that: "If Canada had not a Protective duty on corn restored to it as demanded by the Legislative Assembly, Canada would be lost to the British Crown." "Woe to the statesmen and to that policy which plucked this jewel from the Crown of Eng-



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land!" I give this as an example of the prophecies of Protectionist statesmen in those days. Mr. Cobden was not the only prophet. As if to disprove in anticipation Mr. Chamberlain's reckless statement that Free Trade was adopted by this country only in the belief that her example would speedily be universally followed, Mr. Gladstone, in this very debate, stated that he had no such expectation as to the United States. "America," he said, in this debate of 1849, "is not a lover of Free Trade in the abstract. The Protectionist principle is very strong in America, although it is not so strong with reference to shipping as to manufactures."

Doubtless the great expansion of the trade of the world in the first half of the nineteenth century was due to other causes than Free Trade or Protection. This expansion had rendered it generally impossible to maintain the mediæval system of the ancient Navigation Laws, with their chartered monopolies and exclusions. The whole system had become riddled with exceptions and exemptions and suspensions, due sometimes to necessity, sometimes to reciprocal treaties. Earlier in the

century, in 1813, the trade monopoly of the East India Company was abolished. The emancipation of the Spanish Colonies had thrown open South America. The complications and difficulties of the various Navigation Laws were so extreme that it became one of the most profitable occupations of the ship-owner to study these laws for the purpose of evading them.

Great Britain emancipated herself from these fetters at a stroke, and other nations have found it impossible to maintain them. The relics of the ancient system survive in the present day chiefly in the form of the reservation of their coasting trades by many, though not by all, the civilised nations of the world, certain restrictions on their colonial trades, and in addition to this, in the case of the United States, the restriction of the privileges of the American register, with its exclusive right to the coasting trade, to ships built in America of American materials. The mediæval system in its old barbarous form has universally passed away, and for more than half a century Great Britain has carried on her overseas trade in the atmosphere of the

freest competition. In all the previous centuries, we have seen, she possessed no superiority as a shipowning and sea-faring community, and at the time of the Free Trade revolution she might only with some doubt be placed first among mercantile maritime powers.

Second—That British predominance in shipping exists now. Mr. Chamberlain numbers British shipping among the trades that are “going.” In Liverpool, addressing an audience in the greatest ship-owning port of the world, he described it as a “house standing but with rot at the foundations.” He told the Liverpool shipowners that “it is not progressing as fast as foreign shipping,” and that “you have galloping up, at a greater rate than anything you can command, your bitterest and severest competitors and rivals.” And he asked in tragic tones, “How long shall we keep it? How much shall we keep of it?”

In political rhetoric Mr. Chamberlain is a great artist, and I will not attempt to meet rhetoric with rhetoric. The plain, dry figures from the official tables are more eloquent than all the elegiac poetry of all the “tariff reformers.”

The latest returns available for both British and foreign shipping are those of 1902. For that year we are able to compare the tonnage of Great Britain and her Colonies with that of all the principal maritime powers, except Russia, for which country the figure is not yet published, but it may be placed at something slightly under a million tons. The countries we class as "the rest of the world," include Norway, Sweden, Denmark, Germany, Holland, Belgium, France, Spain, Italy, Austria-Hungary, Greece, the United States (foreign trade), China, and Japan. We find that, while the total tonnage of the British Empire in 1902 amounted to 11,566,000 tons, and that for the United Kingdom alone to 10,154,000 tons, the total tonnage of all the countries I have named amounted to 10,891,000 tons; that is to say, the tonnage of the British Empire exceeded that of the rest of the principal maritime nations of the world, excluding Russia, while that of the United Kingdom alone very nearly equalled it.

But Mr. Chamberlain tells us it is not positive statistics we must consider, but comparative statistics. It is not the condition,



but the growth of our trade; not where we are, but whither we are going, that matters. He detects "rot" at the foundations, and says we have behind us "galloping up, at a greater rate than anything we can command, our bitterest and severest competitors and rivals." It required considerable ingenuity to discover a basis upon which to build a theory of the decline of British shipping. It was discovered by Mr. Chamberlain in the figures giving the comparative growth of tonnage of the British Empire and of the rest of the world between the years 1890 and 1901—the increase for the Empire working out at 1,400,000, and that for the "bitter rivals" at 2,200,000 tons. This figure, and another fact to which I will refer later, formed the sole foundation of the theory of decay; but examination showed there was "rot at the foundation" of the theory. The whole Empire seems to have been selected on this single occasion in order that the real advance of the United Kingdom might be concealed by the debit of Canada's loss of 300,000 tons of her old sailing ships. The real advance of Great Britain alone was 1,629,000 tons. Again, the "bitter rivals"

figure at this period had been swollen by a new item by the creation of a new mercantile fleet by Japan, not out of the profits of her legitimate commerce, but out of her national resources, just as her navy had been created. Exclude Canada on the one hand, and Japan on the other, and we get a fair comparison between this country and her "bitter rivals." We find our own increase to have been over 1,600,000 tons, while that of all the other countries together, excluding Japan, was 1,200,000. In the year succeeding Mr. Chamberlain's picked period we added 450,000 tons to our register, and all the "bitter rivals" I have mentioned together, including Japan, added not quite 400,000 tons to theirs. This is the last year for which comparative figures are available.

But great as is our preponderance in the tonnage we own, and satisfactory as is our advance in the quantity of the shipping we control, we should make a great omission in our survey were we not to take account of quality as well as of quantity. A ton of shipping is not a thing of uniform value like a ton of lead or pig iron. In cost, in efficiency,

in functions, ships vary as much as buildings vary. Many of the ancient sailing ships of Norway would be highly valued at £2 per ton—the new Cunarders will cost something approaching £100 per ton. In efficiency the best authorities calculate three tons of sail as being equal to one ton of steam, the latter at the low speed of ten knots per hour. A mail and passenger steamer of twenty knots differs not only in degree, but in kind and in function, from a ten-knot cargo boat. Again, the efficient and profitable life of a modern steamer is not long, and the comparative average age of the merchant navies of the world is another element to be taken into account.

How do we stand in comparison with other nations in respect of the value, efficiency, and age of our mercantile marine? First, let us compare the proportion of our steam and sailing ships. We find that out of a total tonnage of the British Empire in 1902 of 11,566,745 tons

Our steam tonnage amounts to 8,691,257

„ sailing „ „ „ 2,875,488.

But even these figures are not fair to the United Kingdom, for of this tonnage of

2,875,000 tons of sailing ships, 925,000 belong to the Colonies, almost two-thirds of their tonnage being of sail, while, in the ships of the United Kingdom alone, four-fifths of the tonnage is that of steamers.

Against these imposing figures let us range the steam and sailing fleets of the other principal maritime nations of the world.

In 1902 all the nations I have named together possessed, as I have stated, 10,891,000 tons of shipping. Of this total 6,625,000 tons was that of steamers, and 4,266,000 of sailers—almost in the proportion of three of steam to two of sail, against four of steam to one of sail in the case of this country.

Further, steam tonnage itself varies greatly, both in value and efficiency, and my second point in estimating the quality of our shipping is to compare the character and speed of our steamers with those of foreign nations. For this purpose I divide steam shipping into two classes: those with a lower speed than twelve knots and those with a greater speed. In the higher class I find that, while the United Kingdom possessed more than four and a quarter millions of tons of high-class steamers

of more than twelve knots an hour speed, all the countries I have named together possessed little more than two and a quarter millions of tons of the same character. Taking the lower grade of steamers, those of less speed than twelve knots, a high shipping authority, the editor of the *Shipping World*, after long and careful research and compilation, last year made and published an estimate which I believe to be unchallenged—that the average speed of British steamers of less than twelve knots is ten knots, and of foreign steamers in the same category the average speed is eight and a half knots, a prodigious difference in calculating the value and utility of these lower grade cargo boats. The same authority made as careful an estimate as it is possible to make of the comparative efficiency of the British and foreign mercantile steam fleets. Taking a ten-knot steamer as the unit, and adding or deducting from tonnage in proportion to the departure from this standard of speed, to obtain the potential carrying power of British commercial shipping in comparison with that of the rest of the world, he finds that our potential carrying power is represented by the

figure 16,445,000 against 13,061,000 for that of all other countries combined; while if steam tonnage alone is taken the figures for this country and all other countries taken together are 15,834,000 and 11,555,000 respectively—for potential efficiency.

My last point, and a most important point, in estimating the quality of our shipping in comparison with that of other countries is the comparative age of the vessels of which they are composed. To take out from the registers of shipping the ages of all the British and foreign steamers and calculate the average, would be a labour too great to be undertaken, but we are not without the means of coming to a clear judgment as to the general superiority of British shipping in this particular also. We know that it is the custom of the British ship-owner to sell his old and inferior boats to the foreigner and build new ones for himself. I find that no less than 300,000 tons of British shipping was transferred to foreign registers in 1903, and of this no less than 34 per cent was built before 1880, 59 per cent before 1885, and 71 per cent before 1890. This in a single year. In that and the nine preceding years

3,633,000 tons have been so transferred, including 700,000 tons of sail, so that the yearly average of vessels transferred is 360,000 tons, mostly old. In the age and up-to-date character of our ships, as well as in speed, have we the advantage.

Our review therefore shows that in the quality as well as in the extent of our mercantile marine, we enjoy a very considerable superiority, the extent of which, however, it is difficult accurately to estimate.

With a position of such splendid isolation as we enjoy, one asks, Where can be the weak spot, how can the most skilful archer discover the "joints in our harness?" Was Mr. Chamberlain deeper in the realms of visions and dreams than usual when he spoke of our "bitterest rivals galloping up at a greater rate than anything we can command?" The airy fabric of his vision is almost, but not entirely, a figment of his brain: it had a very slender real base. He or the industrious arm-chair statisticians of the Tariff Reform League examined the columns of official figures until they discovered not only the one I have quoted and, I trust, demolished, relating to

the tonnage we own, but another that appeared to tell against this country. They discovered that the tonnage of foreign shipping which entered and cleared from our ports during the years 1890 to 1900 had increased not only at a greater rate, but actually to a greater extent than the British tonnage, and that this phenomenon was observable at foreign ports also. Between 1890 and 1900 the foreign tonnage using our ports had increased from 20 millions of tons to 35 millions, while the British tonnage had only increased from 54 millions to 62 millions. Clearly our trade is departing. Here is the "rot at the foundations."

It is a curious thing that the Tariff Reformers no sooner discover a phenomenon which appears to tell to the disadvantage of their country, whether it concerns shipping, imports and exports of manufactured goods, or proportion of foreign and colonial trade, than this phenomenon at once ceases to operate. They had no sooner called attention to this menacing encroachment of the foreigner than it ceased. From 1900 to 1903 we find the process entirely reversed, and the tonnage of British shipping entered and cleared from



our ports increased by  $6\frac{1}{2}$  millions of tons, while that of foreign shipping increased by just over half-a-million tons. But even before these later figures were available, the use made of the striking figure of the increase of foreign tonnage using our ports from 1890 to 1900 is a proof that Mr. Chamberlain and his Tariff Reform advisers are, what I have called them, "armchair statisticians," and unacquainted with the vital forces and facts which their figures represent. Had they been practically acquainted with the trade they criticise, they would have known that a considerable portion of the foreign increase in our ports is due to two items,—first, the calls of the great German Atlantic steamers at Southampton, Plymouth, and Dover, at which ports they remain half an hour to embark or land a few passengers, and in no way touch the export and import trade of the country; and second, to the existence of a small number of new Channel passenger steamers, owned by the continental railway companies, which enter our ports daily all the year round, and are counted scores of times in the course of the year. Making allowance for these items, however, we do find

that the foreign tonnage using our ports increased during a considerable period to a disproportionate extent. What inference would a practical commercial man draw from this phenomenon? He would see the extent and growth of our shipping, and that it is no less well employed than foreign shipping. He would suspect that entrances and clearances from ports are not the true test of shipping activities. He would suspect that these foreign ships were being employed in the more local trades, that the inferior ships were, in fact, engaged in the inferior trades, and that the great long-distance ocean trades were chiefly in British hands. Examination would show that this is the case, and that the figures which disquiet Mr. Chamberlain have little ominous significance. I guard myself here and say little ominous significance, not absolutely none, for there is a slight residuum of reason in his argument and meaning in his figures which point to a weak spot in our policy—not our commercial policy, but in our national legal system, to which I will allude later when I come to consider the true national policy to adopt towards our shipping.

Third—That this superiority is the result of our Free Trade policy. I have now passed in rapid review our shipping trade, first in the pre-Free Trade ages, when it was small and gave no indication of attaining its present position and supremacy; and, second, I have described it as it is to-day—the most splendid trade ever built up by human enterprise. We have next to consider to what this unparalleled success is due. It is easy and flattering to our vanity to say it is due to our superior national courage and aptitude for the life of the sea, to our superior inventiveness, energy, and enterprise. While I should be the last to deny the possession of these qualities to my fellow countrymen, I think no one will maintain that we are as superior to our fellow creatures generally in our courage, energy, and enterprise as we are in the tonnage and character of our merchant shipping. We may rightly be proud of Raleigh and Drake, of Cabot and Captain Cooke, but we cannot pretend they are superior as sailors and discoverers to Columbus, Vasco di Gama, or Tasman. In the art and the science of ship-building the French have always been well to

the front. In the great war, Nelson's best ships were those he had captured, of French build. In our own time the French have more than once given us a lead in naval construction: the first armoured ship was French; it was the French who introduced the water-tube boilers, and constructed the first submarines. The coasts of Normandy and Brittany have always furnished hardy and courageous sailors and fishermen, and yet to-day France stands low in the scale of mercantile maritime powers, notwithstanding the extravagant subsidies she pays to her shipbuilders and shipowners.

America contests with us the honour of first successfully applying steam to navigation. Fulton's experimental boat in 1798 was four years earlier than Symington's *Clermont* on the Forth and Clyde canal. The *Savannah* in 1819 was the first vessel with auxiliary steam to cross the Atlantic. Both in the construction of sailing ships and in the improvement of the early marine engine, America led. As I have shown, at the time we adopted Free Trade and abolished the Navigation Laws, she was rapidly advancing

to the first position. And now her merchant shipping for foreign trade has declined almost to the point of extinction.

What, then, is the reason of our supremacy in this trade—the most national, the most imperial, the most desirable, the most envied of all the trades that any nation can possess? The reply, beyond all question or possibility of contradiction, must be our Free Trade policy, coupled as it has been with the Protectionist policy adopted, unfortunately for themselves, by other countries. To the first we owe our own prosperity, to the second our lonely pre-eminence on the sea. With the adoption of Free Trade we at once took the lead in the race; with the adoption of Protection, with every increase of Protection and, in proportion to the severity of their Protective tariffs have other nations fallen behind. I have prepared a table, which proves my case in a very striking manner (see Appendix A). I confess the result of this little calculation was startling even to myself, showing, as it does, with something of the inevitability of a law of nature, that as the import tariff of a nation goes up so does its register of shipping go down.

In their new Blue Book the Board of Trade give a list of the principal countries of the world, ranged in the order of demerit according to the severity of their import tariff, headed by Russia with a tariff of 131 per cent, and America with 73 per cent, downwards through Austria, France, Germany, to Norway, and to Holland at the bottom of the list with its tariff of 3 per cent. I have made up a table showing the amount of foreign mercantile steam shipping tonnage per inhabitant of the principal maritime nations, and it is curious and significant to see how the order in which the nations appear is very nearly exactly the inverse order to that of the amount of their tariff. At the head of foreign nations stands Norway with one ton of shipping to every four inhabitants, then Denmark, Greece, and Holland. We descend through Germany, with one ton of shipping to every 34 inhabitants, France with 1 to 71, Austria with 1 to 110, until we reach the United States with 1 to 166, and finally Russia with 1 ton of shipping to every 330 inhabitants.

I do not wish to carry my inference from these figures further than is reasonable.

Doubtless it is natural that maritime Norway should take to the sea to a greater extent than inland Austria. But it is clear that, among those nations to whom the commerce of the ocean is conveniently open, those who, in the words of Sir Walter Raleigh I have quoted, "give free customs inwards and outwards for the better maintenance and encouragement of navigation" are the nations which secure the trade.

In America, the greatest sinner in her Protective policy and the greatest sufferers—in her shipping, the connection between cause and effect seems to be universally admitted. Witness after witness before the Commission on the Mercantile Marine lately sitting in the United States testified to this effect. "Other things being equal," said one important witness, "it is not possible to compete with Free Trade in building and operating ships. I think that has been shown." Another very important witness stated that "the present condition of the American merchant marine has been caused by the high Protective tariff upon all other products." These are examples of the universal testimony. Cause and effect

being admitted, differences of opinion arise when they come to consider the cure. The condition of trade in a protected country is never satisfactory to the country itself, and America is dissatisfied, and is faced with the two eternal alternatives claiming to be remedies, perpetually presented to Protectionist communities—Free Trade on the one hand and more Protection on the other. The majority of this Commission have reported in favour of a small additional dose of Protection, the minority in favour of a still smaller dose; but whether these reports will ever take form in law remains very uncertain. We, as British shipowners, can afford to regard either decision, both on this question and the larger one of a general reform of their tariff, with equanimity. Should President Roosevelt succeed in reforming their tariff the total volume of trade would doubtless increase, and their shipping, if emancipated, might share it. Should they add Protection to Protection we tighten our grip of a trade which they cannot altogether prevent expanding slowly from year to year.

It is impossible to resist coming to these



two conclusions : (1) that the magnitude and prosperity of our mercantile marine is built upon the foundation of our Free Trade policy, and (2) that our extraordinary supremacy, our monopoly, is the direct and inevitable consequence of the Protective policy of our neighbours. The laws which govern international trade, the great automatic mechanism of exchange, forces us to pay for our imports, and forces the sellers to receive our payments. To the best of their ability they exclude our cotton goods and our iron, and compel our payments to take the form of our shipping services. Professor Ashley, while fully admitting the accuracy of the theory of foreign exchange and the absolute inevitability of the commercial equilibrium, endeavours to show that although the foreigners cannot altogether refuse our goods in payment for their own they can force us to send them our inferior articles, the products of our cheapest and lowest labour. How insignificant do his examples appear when set against not only our rapidly increasing exports of highly complicated and highly finished machinery, but still more when set against this invisible

export, which is nevertheless our greatest and our best export—our shipping services.

Mr. Chamberlain places in contrast our historic, healthy exports of what he calls our "staple" industries, the products of British labour, and those insidious, spurious, invisible exports, which he seems to regard as some trick played upon the simple foreigner by millionaire importers to escape the honest payment for their imports by the honest produce of honest British labour. At Preston he said, "In order to prove that there is one pound of exports for one of imports Mr. Asquith has to go to invisible exports." And he goes on to say: "He," the British working man, "is being more and more paid with invisible exports. What does he get out of them—out of the freights? He gets very little. The wages in the shipping trade, I am sorry to say, are a small and diminishing quantity." What does the reader think of that as an example of economic analysis! Notice the confusion of thought in the statement that the British working man is being "paid," not "paying," with invisible exports—the ingrained incapacity of the Tariff

Reformer to distinguish between debit and credit. According to Mr. Chamberlain, it is "what goeth out of a man" that feeds him, and "what entereth in that defileth the man." If an export be good or bad according to the amount of British labour it contains, I would ask, Where shall we place this export which is all labour and therefore invisible? We export 70 millions' worth of cotton goods, but out of the 70 million the manufacturer has to pay 40 millions to the foreigner for the raw material; but our shipping service, our greatest export, is all British labour. It consists of ships built and engined in British yards by British hands, by British material, officered, engineered, and generally manned by British subjects, provisioned and repaired in British ports, insured in British offices, and coaled with British coal. Every penny of its gross earnings, except only the small sum inevitably paid for dues and labour in foreign ports, goes into British pockets; in good times a little remains in the pockets of the ship-owners, in bad times it is all paid out, and is spent in feeding, clothing, and housing innumerable thousands of British citizens.

This is the industry forming our great invisible export, out of which the British working men "get very little." The slightest examination shows that not only is the shipping industry our noblest industry, and our shipping services our greatest export, though "invisible" in the Board of Trade Returns, but of all our exports it is that which has provided the greatest amount of well-paid employment at home.

And this great shipping industry of ours is the child of our Free Trade policy, assisted into present position of lonely pre-eminence by the Protectionist follies of Protectionist neighbours.

4. Finally, I wish to add a few words of criticism. An English Free Trader cannot but be, in some degree, an optimist, but he need not be a blind optimist. I have already admitted there is a residuum of reason in Mr. Chamberlain's alarm at the growth of the entrances and clearances of foreign tonnage in our ports. But it is no "rot at the foundations" which is the matter with British shipping, nor any rot in any part of the superstructure. British shipping has been

"wounded in the house of her friends." Her worst enemy has been in the past the British Parliament, and is at present the British Government—I say the Government deliberately, for Parliament, even this Parliament, has made several efforts to repair its own acts of injustice to our shipping, but without the co-operation or against the opposition of the Government even a majority of the House of Commons is powerless on a question of this character. The case against the Government is so well put by one of the very highest authorities in England on shipping and shipping law, Mr. Norman Hill, that I cannot do better than quote his words. He says: "How have we promoted our oversea trade, and what encouragement have we given to our shipowners?"

"We have left them to work under obsolete rules and regulations made fifty years ago."

We have insisted, and properly insisted, on such a "standard of safety as has driven all but the best found ships from under our flag. But we have not insisted on the observance of this standard on foreign ships, even in the ports of the United Kingdom,

and vessels sold under our flag, because they could not be sailed to a profit in compliance with our standard, have been allowed freely to trade in and out of our ports, in competition with our own ships.

"We have made our shipowners liable to foreigners for losses arising in their business to an extent far in excess of that to which foreign shipowners are liable.

"We have driven away a portion of our transit trade, and we have hampered the working of the remainder by the Merchandise Marks Act.

"We have until lately extorted, at the expense of our shipowners, profits out of the lighthouses; we still leave them to bear the whole cost of lighting the coast.

"We have left the railways to be worked in the interests of the shareholders, whose object is naturally to secure the largest profits attainable from the carriage of our exports, without actually destroying any particular trade. We have not developed our canals. We have done, as a nation, nothing to develop our ports."

In his effort strictly to avoid showing a

party bias, Mr. Norman Hill says "Parliament," not Government; but the succeeding passage shows that the House of Commons, whatever may be its temporary party complexion, is willing to repair its own errors, and that its efforts have been thwarted by the Government.

Mr. Hill continues: "A Select Committee reported, in 1897, in favour of exempting the transit trade from the operation of the Merchant Marks Act, but nothing has been done.

"A Select Committee reported, in 1902, in favour of the Board of Trade regulations being enforced against foreign ships equally with British ships, but nothing has been done.

"No less than six select or departmental committees have between 1822 and 1902 reported in favour of the abolition of the light dues, but nothing has been done.

"Has not Parliament some arrears to dispose of before it takes up the business of endeavouring to develop and remodel our international trade with the assistance of tariffs?"

We are Free Traders, and we are prepared to meet any foreigners and all foreigners in free and open competition in our own ports. We Free Traders have a special right to require that our own Government should not undermine our maritime supremacy by giving Protection to foreigners as against ourselves. This is the particular kind of Protection we most of all abhor. That British shipowners should cease to be made to suffer from special disabilities in British ports imposed by British law is our first demand;<sup>1</sup> and our second is that Government and Parliament should adopt an intelligent policy in the general legislation affecting shipping and our foreign trade; that it should cease to tax our ports by the imposition of light dues, abandoned by other civilised countries; that, on the contrary, it should do all properly in its province and in its power to promote the improvement of our ports and the inland waterways, upon which the prosperity not only of our shipping but the whole of our foreign trade so largely depends.

<sup>1</sup> This particular kind of protection was remedied by the Merchant Shipping Act 1906.



I have attempted in this paper to show, in the most impressive manner possible—that is by the use of plain figures, more eloquent than any Protectionist rhetoric,—the stately figure of the British Mercantile Fleet, the visible incarnation of the Britannia that to-day, and more than ever to-day, is the ruler of the waves. And in contrast we have contemplated the pigmy, and in some cases decaying, squadrons of the Protectionist nations, once our rivals and superiors.

We have seen that this Empire was not inherited by us from past ages, but that it is in fact the last great conquest of the British flag, and that we have had to win it ourselves, upon the open ocean, in free competition with all other maritime nations. We have seen that we had no conspicuous superiority for the struggle to start with, either in our geographical situation, or our national characteristics. We have seen that one factor in its two aspects has dominated and decided the issue. Our Free Trade policy has given us our shipping prosperity, and the Protectionist policy of our rivals—rivals no longer—has converted the prosperity into a

predominance amounting in many respects to monopoly. We have seen that the only wounds that have seriously hurt us have been self-inflicted, and that with fair treatment (and we ask no more) from our rulers, we may reasonably hope for British shipping a future that will equal and even surpass its past.

NOTE.—The statistics of the tonnage of the mercantile marine of Great Britain and foreign countries given in this lecture were those of 1902. The four years which have since passed have seen the supremacy of Great Britain, not only confirmed, but her lead increased. In four years, from 1903-6 inclusive, 1,112,502 tons of shipping have been added to the British Register, while all the countries of Europe combined, with the addition of the United States of America (foreign going tonnage), have increased their ownership by almost exactly half that amount, 556,454 tons. In fairness it should be added that, while our increase in *steam* tonnage has been 1,507,918 tons, that of these foreign countries has been 1,381,221 tons, showing that the substitution of steam for sail tonnage has, naturally, progressed more rapidly in the foreign countries than in the United Kingdom. Nevertheless, our relative position is on the whole stronger than it was in 1902.

## APPENDIX A

AVERAGE *AD VALOREM* EQUIVALENT OF THE IMPORT DUTIES  
LEVIED BY THE UNDERMENTIONED COUNTRIES

Russia . . . . .	131 per cent
United States . . . . .	73 "
Austria-Hungary . . . . .	35 "
France . . . . .	34 "
Italy . . . . .	27 "
Germany . . . . .	25 "
Sweden . . . . .	23 "
Greece . . . . .	19 "
Denmark . . . . .	18 "
Norway . . . . .	12 "
Holland . . . . .	3 "
United Kingdom—No Protectionist Tariff.	

AMOUNT OF STEAM SHIPPING TONNAGE PER INHABITANT  
OF THE UNDERMENTIONED COUNTRIES

Russia . . . . .	1 ton to every 330 inhabitants
U.S. . . . .	166 "
Austria . . . . .	110 "
Italy . . . . .	72 "
France . . . . .	71 "
Germany . . . . .	34 "
Sweden . . . . .	24 "
Holland . . . . .	15 "
Greece . . . . .	12 "
Denmark . . . . .	9 "
Norway . . . . .	4 "
United Kingdom . . . . .	4.6 "

## V

### IS IT POSSIBLE TO TAX THE FOREIGNER?

ON this point Free Traders generally accept and teach the dogma fairly expressed by Mr. Winston Churchill in the recent debate on Colonial Preference in the House of Commons, that, "as a broad general rule, it would be found true to say that there was no power in a Government to impose taxation outside the limits of its territorial sovereignty."

The ordinary Tariff Reformer, on the other hand, preaches, and doubtless believes, that to put a tax on the importation of foreign goods is to put a tax upon the shoulders of the foreigner.

To confute an ordinary Tariff Reformer of this description, a mere comparison of the contemporary market prices of imported articles in a country in which they are taxed with

those of the same articles in countries in which they are free, will in general suffice for practical purposes to dispose of his argument.

But among Tariff Reformers there is a minute minority of honest and intelligent persons, not only claiming to be economists, but even posing as the exponents of the most modern and scientific developments of the old theory, who maintain that the exporting foreigner may, and often does, bear a variable share of an import duty imposed by a purchasing nation upon the goods he produces and exports; and in this view, it is not to be denied, they have the support of later economists, who show by deductive argument and hypothetical examples how this may be brought about.

It can, of course, only take the form of the foreigner making a reduction in his price, following, and in consequence of, the tax his customer in this country has to pay; and there is no way known either to economic science or to commerce of persuading or compelling the foreigner to accept a lower price, but the common market method of withholding or curtailing your purchases at the old price.

The supply remaining the same, you must cut off or reduce the demand.

Therefore, if a tax in this country deprives, or threatens to deprive, a foreign producer of a valued or necessary market, he may, to some extent, reduce his price to maintain his sales; and should he do so, that reduction is the measure of the foreigner's contribution to the tax. Granting the deductive argument, which means granting the theoretic possibility of the foreigner paying a portion of an import duty, it is only by careful induction from the actual statistics of a definite trade, combined with a practical knowledge of the conditions under which the article under investigation is produced in the producing countries and sold in the importing and taxing country, that a practical conclusion can be reached by the political student in any given case.

Whether the price of a particular article is raised by the whole amount of the import duty may be admitted to be not a simple but a complex question, and depends upon the varied reactions of the tax, first upon the demand and second upon the supply. If the

demand of the importing State for the imported and taxed product remains practically the same, notwithstanding the tax, the exporter will have no reason to notice or even be aware of the tax ; it will have had no effect on either supply or demand, and consequently no effect on the price of the article in bond, and the consumer will have to add the tax to that price and pay the whole of it. If, on the contrary, the tax reduces the demand of the importing State for the imported article, either by stimulating home production or curtailing consumption, then the foreigner either may or may not pay a portion of the tax in order to keep up his sales, according to varying circumstances. But the only circumstance which can influence the foreigner to reduce his price is for the importer to withhold or curtail his demand.

The cases in which the element of monopoly enters—that is, cases in which the producer is able to exact what may be called an economic rent in addition to the ordinary profits on the skill and capital employed—are cases in which it may sometimes be found possible to tax that rent, with a result similar to a tax on the rent

of land, which economists admit has no effect on the price of the product of the land. Take as a conspicuous example of this the import of petroleum. I am not aware how far the trade in this article may be called a monopoly, but, for the purpose of this illustration, I will assume that the Standard Oil Trust, by amalgamation or agreement with one or more similar organisations, has established a complete monopoly, and is in a position to control or to disregard the comparatively and necessarily minute production of the native shale-oil makers. Further, I will assume the economic rent charged is a rack-rent; that is to say, it has no relation to cost, but that the sellers have fixed the price of oil at what they have found to be the most remunerative point. To go higher, although it could not bring direct competition in petroleum to bear, would bring into extensive operation the "Law of Substitution," and gas and electricity would cut into the trade in illuminating oils, and animal and vegetable oils into that in lubricating oils, and motors be driven by alcohol. In this case, what would be the effect of an import duty of  $\frac{1}{2}$ d. per gallon put on to



petroleum? If it be said the sellers would simply add the  $\frac{1}{2}$ d. to the price, it may be asked, in reply, Why do they not add the  $\frac{1}{2}$ d. now and put it into their pockets? But by the hypothesis, they are now charging a rack-rent, and cannot increase it without damaging their trade, by the introduction of other untaxed substitutes. Assume their profits are now 3d. per gallon, and that they have no unconquered market upon which to turn any oil refused by this country. It will then be more profitable to pay the whole tax and accept  $2\frac{1}{2}$ d. per gallon profit than to lose more than one-sixth of their trade. To discover what would happen in this case is a purely statistical inquiry which I recommend to the Chancellor of the Exchequer. To tax a foreign import such as petroleum for revenue purposes, if an equivalent Excise duty were put upon native shale-oil, would be a measure quite consistent with Free Trade principles, and it would be a tax which would probably be paid, at any rate in considerable part, by the foreigner.

When we come to the taxation of an import such as wheat, which may be taken as the best example of an article produced and sold under

ordinary competitive conditions over the widest area, the case is entirely different. The production of wheat extends over both the temperate zones, the consumption extends over the civilised human races, the price is a world price. There is no grower of wheat but can obtain this price if he sends his wheat to market, there is no wholesale purchaser who can be compelled to pay more.

The question here is, If we put on an import duty, can we so modify our demand for wheat as to coerce the sellers, who are a large part of the world, to reduce their price to us, and at the same time necessarily to the whole world? It is, in effect, the same question as that put in the case of petroleum, but the conditions which govern the answer are different. There is no monopoly; there is no economic rent to be taxed beyond the rent of the land upon which wheat is grown; there is no organisation which can differentiate and make a preferential price; dumping is excluded, the commodity is an article of prime necessity, and there is no substitute.

The Tariff Reformer's argument to prove that the foreigner will reduce the world price

in consequence of an import tax being placed on corn imported into this country ignores all these conditions, and runs thus: "The wheat-producing countries must produce and sell their wheat; they can only sell it here; therefore they will reduce their price rather than lose the great British market." This argument involves two assumptions, one as regards supply, that it is fixed and inevitable; the other as regards demand, that it is voluntary and can be withheld.

The first assumption is contrary to experience; there is no article the supply of which can be modified more easily than that of corn. Botanically, wheat is an annual. Land does not inevitably produce corn as a coal mine produces coal, or a petroleum well produces petroleum, or even as a vineyard produces grapes. True, much land can grow wheat to greater profit, even at low prices, than other crops. But wheat is cultivated in all wheat-growing countries, down to the economic margin of wheat cultivation. The marginal land will turn from wheat with the slightest relaxation of the demand; the marginal producer of wheat will change his product with

the slightest motive. The assumption that he will continue to grow wheat at a lower price than that which was barely sufficient to induce him to cultivate it at all cannot be sustained, the production of wheat is not fixed and inevitable.

The second assumption, as regards demand, that the British market is so necessary to the wheat-producing world that it will reduce the world price to all the world, by the whole amount of a duty imposed upon British imports, in order to retain that market, appears to involve a curious lack of a sense of the proportion of cause to effect. This country, I admit, is the greatest importer of wheat, though by no means the greatest consumer. Her imports exceed those of all other importing countries taken together, but they amount in all to only about one-fifteenth of the world's production. It is a great assumption to make to argue that rather than lose a market for one-fifteenth of a product the seller will unnecessarily reduce his price for the other fourteen-fifteenths, including all his home market.

What applies to the wheat-producing world in general applies to each exporting country in

particular, even to the Argentine, which in some years exports the greater part of its wheat harvest to this country; for the Argentine, like other sellers, can obtain the world price.

But to argue as if Great Britain were able to withhold her demand is to assume a palpable absurdity. She can neither withhold nor even postpone her demand. When the foreigner does for any cause raise his price now, no examination of the statistics of imports will enable the investigator to discover that we have been able in the most infinitesimal degree to bring him to book in the only possible way by doing without him. Nevertheless, although the effect is imperceptible to the statistician, logic forbids us to deny that a wheat-tax which raises prices will at the same time tend to reduce consumption, that some underfed people will be still more underfed, and that a reduction of consumption reacts and tends to lower prices again, and the extent to which it does this is the measure of the foreigner's contribution to an import duty.

Having made this admission to which I am driven by deductive reasoning, it remains to

measure it. It is so minute the statistician has no instrument fine enough to detect it. We cannot reduce our imports, and never have been able to do so, when prices go against us, to any discoverable extent, and thus bring to bear upon the seller the only form of coercion known to economics or commerce to reduce his price. This imperceptible abstention from a few bushels of wheat is our sole weapon to coerce the growers and sellers of 3000 millions of bushels of wheat to reduce their price. I can only compare it to a scientific correction of an observation which it was necessary for Sir Isaac Newton to make after his discovery and formulation of the law of gravitation. Before that discovery he saw an apple fall from a tree, perhaps 15 ft. or 20 ft., and doubtless thought that was the whole of the phenomenon he was considering. After his great discovery he knew that scientific accuracy demanded that he should also note the fact that not only had the apple fallen 15 ft. to the earth, but that the earth had also moved some infinitesimal portion of a billionth-billionth part of an inch to meet the apple. In the same manner and in something like the same degree modern

economic theory demands that we should admit that the world price of wheat has fallen to meet the rise in British price caused by the imposition of a corn-tax, and some consequent reduction of purchase, and that to this extent and no more the foreigner pays the duty.

Hitherto I have considered a corn-tax, such as the late duty, imposed on all imports, foreign and colonial alike. The introduction of free colonial corn does not impair the validity of the argument, and cannot do so, until the day arrives, which not the most sanguine will place in the lifetime of ourselves or of our children, when the Empire will be able to produce more than all the wheat needed in this country, and resumes an export to other European States. When this time arrives Preference will cease to operate to the advantage of the colonists and of the British Exchequer and to the disadvantage of the Englishman; it will cease to have any economic or political value whatever either to this country or the Colonies.

But, until this time arrives, the tax will remain with its full weight on the home consumer, but the produce will grow gradually

more and more into the colonists' pocket, and less and less into the British Exchequer. Concurrently with this process the infinitely minute and totally invisible contribution to the tax which theory demands we should assign to the foreigner will gradually diminish, until at the end it also ceases to exist.

*September 3rd, 1908.*<sup>1</sup>

DEAR MR. PIGOU—You may remember that I ventured to criticise an article you contributed to the *Westminster Gazette* some months ago, on "Wheat Prices in England and France," and that, in your not unfriendly rejoinder, you called my attention to your book on "Protective and Preferential Import Duties."

The first occupation of my leisure in the Parliamentary recess has been to read your book with some care.

In the latter part of this book you make a definite quantitative estimate of the probable effect of the imposition of a 2s. per quarter duty on foreign wheat, with free admission of Colonial wheat, on British prices;

<sup>1</sup> A correspondence with Professor Pigou, reprinted from the *Westminster Gazette*.



and you conclude that British prices would probably rise by about 1s. 8d. per quarter, and foreign prices would fall 4d. per quarter in consequence of our tax, leaving, of course, a difference of exactly 2s. per quarter between the market price of wheat in bond and wheat duty paid. Having read and assented to your analysis of the factors which determine the result, and accepted the formula, in note on page 94, in which you state them, I come to quite a different conclusion.

I am a mere commercial person, and my commercial instinct tells me that what you think would happen would not happen. It tells me that the English price would rise to a figure within some infinitesimal and quite imperceptible degree less than the full amount of the duty, and further that this enhancement of price would continue until the time should arrive when the Empire produces the whole quantity consumed within its area, and seeks to export. Then the duty will at once cease to operate for the benefit either of the Exchequer, or the British or Colonial producer.

I think it is just as possible to make my forecast harmonise with your formula as your

own. All depends upon the value you put upon the various "elasticities"<sup>1</sup> concerned.

In the text of your book, page 94, you state these various elasticities thus :

The price will rise more nearly to the full extent of the tax

(1) the more urgent is the British demand for the taxed commodity ;

(2) the smaller is the increase (per centage) in the quantity of the commodity offered in our market, from home and colonial sources, in consequence of a given price change ;

(3) the greater is the decrease (per centage) in the quantity offered from the taxed source ;

(4) the greater is the quantity supplied from the taxed relatively to the untaxed source.

You apply these conditions to the problem of the probable rise in the price of wheat in England under a 2s. preferential tax, and I think I am stating your argument fairly, and for the most part in your own words, in putting it thus :

1. That because the total foreign production of wheat is six times that of the total production of colonial wheat, "a change of price capable of adding one million quarters

<sup>1</sup> Elasticity is measured by the proportion in which a given proportionate change in price alters the quantity supplied or demanded (Marshall).

to the colonial growth might be expected to add six millions to the foreign growth." This appears to be likely and may be conceded. But you proceed to draw the following inference :—

2. "Therefore, if we are to obtain from the world at large the same amount of wheat after the preference as before it, we must expect the price of colonial wheat to rise about six times as much as the price of foreign wheat falls." And, applying this rule, with a correction due to the addition of the home supply, you arrive at a probable rise of price in England, due to a 2s. per quarter tax, of 1s. 8d. per quarter.

This conclusion appears to me to be based entirely on only one of your four factors which you have stated must combine to the result, viz. on No. 4—the relative dimensions of the two sources of supply. It assumes an absence of elasticity in No. 1, the British demand, and absolutely equal and compensating elasticities in (2) and (3), *i.e.*, that a change of price sufficient to *add* one million quarters to our colonial supplies must be just five times greater than the change in price, in the opposite direction, required to *check* our

imports from the foreigner by the same quantity of one million quarters, and thus "to give us from the world at large the same amount of wheat after the preference as before it."

To me it appears probable that the two latter elasticities will not act in opposite directions in the manner you assume.

Elasticity (No. 2), viz. that of the colonist and home producers striving to increase their supplies, will be difficult, costly, and slow to operate.

Elasticity (No. 3), viz. that discouraging the efforts of the foreigner, on the contrary, would operate cheaply, easily, and instantly.

I can illustrate this from my own business. When the demand for tonnage and the rate of freights decline to a rate excluding all margin of profit, I lay up my least profitable ship at once. My elasticity in this case is instant. On the other hand, when demand for tonnage is good and freights are high, it costs me both time and money to meet the demand by building a new ship, my elasticity in this case is slow and costly.

In the case of land this difference in

elasticities is even greater, for a large quantity of the land on the economic margin of wheat cultivation could, almost if not quite as profitably, be put to other uses than growing wheat, and, at the worst, land does not deteriorate by lying fallow as my ship does.

But the actual case does not create any necessity to assume a reduction in foreign production at all. The increasing imports of wheat by Germany and other continental states, and the increasing consumption of American wheat by American people, would far more than make up the slow and gradual loss of the British demand.

I should like to suggest to you that elasticity (No. 1), that of the British demand ( $\eta$  of your formula), might possibly be found to be a positive and not a negative quantity, for I think a rise in the price of wheat would increase rather than decrease the consumption in this country. To all but the poorest class it would make no difference; if they had to spend more on bread they would spend less on theatres or holidays. The poor, who have a fixed small sum to spend on food, would be obliged to choose between less food and worse

food. They would certainly choose the latter, save on their small comforts—meat, eggs, butter, etc.,—and actually use more of the dearer bread, for in England there is no lower grade substitute for wheat bread in common use. But this is a small point.

I take, therefore, elasticity No. 1, that of the British demand, as a positive, and not a negative, quantity, though a small one.

I take elasticity No. 2, that of the colonial and home supply, towards an increase of supply, as difficult, costly, and slow to bring into operation—a generation or two must pass, according to the estimate of the most sanguine, before the Colonies could fully respond to the stimulus.

I take elasticity No. 3, that of the foreign taxed source of supply, as being easy, cheap, and instant to bring into operation—a culture now carried on to the economic margin of production; one in which there is neither difficulty nor cost in turning a portion of the capital and labour employed into other and similar industries, presents the condition, to use a term of physics as a metaphor, of a “perfectly elastic fluid.”

Taking these values for these several kinds of elasticities, I arrive at the following conclusions, that under the tax—

(1) The British will not use less but rather more wheat.

(2) That the Colonies will not be able to supply the whole Empire and enter the open market as competitors for a generation or two to come; that during this period they will maintain their monopoly price to the full extent of the monopoly, *i.e.*, 2s per quarter.

(3) That the foreigner will produce wheat, as he does now, down to the economic margin of the profitable cultivation of wheat, and will decline to produce at a loss—that he is under no economic compulsion to do so—that the marginal producer would at once turn to something else if his margin disappeared, but that this would probably be unnecessary, for the increasing demands of the continent of Europe, and of America would absorb his product.

In short, that if the British taxpayer chooses to put a 2s. tax on imported wheat, he puts that tax on himself and on no other, to the full extent of that 2s., if the increase in the imports of wheat by the continent of Europe, and the increase in the consumption by the United States should be equal to the reduction in the British demand, or in the unlikely event of this not proving to be the case, less some inconceivably small and imperceptible proportion, a proportion which

must be so small as to be imperceptible, for it tends to disappear, and actually would disappear the moment it was perceived.

Having written thus far, I would venture to suggest that there is one result of a preferential import duty on wheat which you will agree with me in considering certain, which might with advantage be pointed out in a treatise on the subject. It is this, that whether the advance in price in this country be 2s. or 1s. 8d. per quarter, this advance will rule through the whole of the producing colonies as well as here, that all the inhabitants of the maritime provinces of the Dominion of Canada, which do not produce sufficient wheat for their own consumption, that all the inhabitants of the great provinces of Montreal and Ontario, which do not produce wheat for export, will have to pay the same tribute as ourselves to their farmers, and chiefly to those of the province of Manitoba, Alberta, etc., which contain a small population, who form even now, under Free Trade conditions, the most prosperous community in the Empire.



DUNROD, GOATHLAND, YORKS.,

Sept. 3rd, 1908.

DEAR MR. RUSSELL REA — Thank you very much for your letter about preferential wheat duties. I gather that you agree with my formula, and that the real question at issue is as to the actual facts of elasticity. I quite agree that, on certain assumptions as to elasticities, your conclusion would follow, just as mine follows from the assumptions that I make. The point, therefore, is which assumption is the more reasonable. Your result requires the elasticity of supply from foreign countries to be much larger than from the Colonies; mine requires the elasticity to be the same from both. Of course it is impossible to *prove* either assumption to be right. But, as against what you say in favour of yours, I would put the following considerations:—

1. You make the important point that elasticity is likely to be much smaller in respect of *increasing* supplies than in respect of *decreasing* supplies from any source; i.e., for rises of price than for falls of price. Indeed, it is upon this point that your whole argument seems to rest.

(a) Here I would draw a distinction between immediate and ultimate effects. It is possible that an increase of *production* in agriculture would not be brought about quite as quickly by a change of price as a decrease would be. Yet I doubt whether the difference would in the present instance be very great; and, in any event, my argument has to do with ultimate effects only, that is to say, with the effects that follow after Preference has been in vogue several years, and things have settled down.

(b) Your remark as to the increasing needs of the world for wheat surely tells against your argument; for it suggests that in respect of *both* elasticities we may have to do with increasing supplies; not in the one case with increasing, in the other with decreasing, supplies.

2. I agree that it is possible that the elasticity of the English demand for wheat may be positive. This certainly *used* to be the case; but I doubt if it is appreciably the case now. So far as it is, this circumstance would, of course, as you say, enhance the effect of Preference in raising prices.

On the whole—I am afraid this is very hurried—I quite agree that the issue turns on

the *facts* as to elasticities, and that these facts can only be guessed. My 1s. 8d. was only meant for an estimate based on very imperfect data.—Yours very truly,

H. C. PIGOU.

*September 8th, 1908.*

DEAR MR. PIGOU—I thank you for your kind reply to my long letter. The importance of the question to those who, like myself, seek to reach correct and not to establish foregone conclusions, and the weight which attaches to your judgment must be my excuse for troubling you with a much shorter letter than my last.

I cannot altogether accept your view that my remark on the increasing needs of the world tells against my argument. I think you are wrong in saying it suggests that “both elasticities have to do with increasing *supplies*.” It does suggest an increasing *supply* within the area of the operation of the preference, and an increasing *demand* outside that area; the latter might or might not be accompanied by an increasing supply, and in my opinion the outside supply would not increase, but would decrease, if the producer were compelled to face

a diminished price for his wheat—in short, that the marginal producer would disappear with the disappearance of his margin. But the main and the important content of your letter is the admission which I expected you would make that “the whole question turns on the *facts* as to elasticities, and that these facts can only be guessed.” Therefore from my estimates of these elasticities my conclusion as to the probable course of prices is a logical conclusion, as is your conclusion from your estimates.

The forecasting of the operation of these elasticities appears to be a problem for the commercial man rather than for the economist. Given the condition of affairs we are assuming, it will be the business of the importing merchant to weigh these probabilities, and his profit will depend upon his weighing them accurately. If he speculates on that fourpence reduction in the price of wheat in bond, in my opinion he will lose his fourpence. But I don't think he will. When, if ever, the situation arrives, my commercial mind tells me he will estimate the probabilities as I have done.

## VI

# INSULAR FREE TRADE: THEORY AND EXPERIENCE<sup>1</sup>

## SECTION I

### THE TWO THEORIES

#### THE FUNCTIONS AND LIMITS OF FOREIGN TRADE

BEFORE entering into the consideration of a theory of foreign trade, either the Free Trade theory or any Protectionist theory, it is necessary to have a clear idea of the functions and limits of foreign trade in a nation.

In the great economic controversy in which the people of this country have been engaged

<sup>1</sup> This pamphlet is a reprint of a lecture I delivered in Birmingham in 1905, considerably extended, with the few figures I made use of brought up to date. I have retained the original form so far as the use of the first person in matters relating to personal experience.

I assume on the part of my readers a knowledge of the published records of international trade, and of the statistical case for

during the last five years, it has been an error, committed sometimes by Free Traders, and almost always by Tariff Reformers, to speak of our foreign trade as our "trade." Tariff Reformers have even published statements of our exports and imports, and called them our "National Balance Sheet." Nothing could be more misleading. To one nation a foreign trade may be a matter of small importance, and a very minute proportion of the national industrial energy be directed to the production of goods for export; to another it may be of the greatest importance; but, taken alone, its foreign trade is no measure of a nation's activities, its income, its prosperity. The truth is, the income of every nation is the produce of its own industry, made either in its own home by its own citizens, or its own capital and the enterprise of its own domiciled citizens abroad

Free Trade and Tariff Reform as presented to the country by their respective advocates.

My object has been to bring into opposition the two theories of foreign trade—that of List and his followers and that of Adam Smith and Free Traders, with the fruits of their policies as practised by foreign nations and by ourselves respectively; and to add inductive proof or disproof from the experience of two generations, to abstract deductive argument.

—that and nothing more. The portion of this produce it may suit one nation to exchange for the produce of other countries is no indication at all of the quantity remaining which it does not suit such nation to exchange. The amount of foreign trade of a nation, therefore, is no sufficient indication of its activities or prosperity, and to speak of a table of exports and imports as a national balance sheet is absurd.

During the course of the fiscal controversy, Free Traders have pointed to the total sum of our exports and imports, and the amount by which these exceed, both in gross and per head, those of foreign nations, as in themselves a proof of our superior efficiency and wealth; Tariff Reformers have pointed to the more rapid growth of the exports of certain foreign countries in certain years as in itself a proof of our relative decadence in efficiency and prosperity. Neither of these arguments is economically sound. The foreign trade of the United States, for example, does not amount to one-third per head of that of the United Kingdom, but the average income of the American is now at least as great as that of the English-

man. It is, however, scarcely a real necessity to him to import anything at all. His imports of food are practically confined to sugar, tea, coffee, wine and spirits, and fruits; his imports of raw materials chiefly to silk, hides, indiarubber; and those of manufactured goods to special goods and articles of luxury, diamonds being an item of importance, not to staple manufactures for general consumption; while the great American exports of raw cotton and food stuffs are only rendered necessary as payment for the prodigious expenditure of American citizens in Europe.<sup>1</sup>

To different nations in varying degrees is a foreign commerce valuable, and to some necessary. To ourselves, who have to import most of our raw material, and half our food, a great export trade is not only valuable, but vital.

<sup>1</sup> The late Edward Atkinson, a few weeks before his lamented death, stated to the writer his reasons for believing that this import of the United States cannot be less than 60 millions, and may reach 80 millions sterling per annum. This is, of course, as genuine an American import as any which passes through an American Custom House. It is imported direct into the stomachs and on to the backs of American citizens, and in the supply of their various personal wants, and is paid for by the drafts which Brown, Shipley and Co., Baring Bros., etc., meet out of the proceeds of the sale of cotton in Liverpool, or corn at Mark Lane.



And the question forced upon us to-day is, How shall we best preserve our great export trade by which we pay for our imports? Shall we continue our present policy of Free Trade, whatever course may be pursued by foreign nations, or shall we regulate our exchange by tariffs and preferences?

THE FUNDAMENTAL AXIOM ADMITTED AS THE  
BASIS OF BOTH THEORIES

I will not insult the intelligence of my readers by stopping to prove that foreign trade is really exchange and nothing else, that imports are paid for by exported goods and services and by nothing else. There is no living or dead economist, English or foreign, Protectionist or Free Trader, who doubts it. The Protectionist Professor Ashley calls the notion that imports are paid for by money which might otherwise "be spent at home," "the crudest of popular fallacies, which ought no longer to need refutation." That very able Tariff Reform champion, Mr. J. L. Garvin, says, "It is true that every import must develop a corresponding export." Every

international banker and bill broker conducts his business on this fundamental assumption, and proves its truth in practice every day. Yet, while every man with one grain of capacity to understand a perfect deductive argument, or any practical experience in international commerce, knows, and will explicitly admit, that exports pay for imports, nine-tenths of the arguments of the Tariff Reformers are implicit denials of this fact. All the arguments of various kinds of British manufacturers, who truly enough point out that foreign goods are imported into this country in successful competition with their goods, and that these goods might be made here, and British labour employed to make them, are arguments of this nature, they are implicit denials of the axiom that these imports are now being paid for, and must be paid for, by the produce of British labour, though perhaps not of the labour employed by the manufacturer advancing the argument.

It is necessary to be always on the watch for some implicit denial of this fundamental principle. For my own part, I always remember that when a man asks that the

German iron or American window frames should be excluded from this country for his benefit, he is asking, unconsciously, that my ship which is earning the money to pay for these articles shall be put out of commission and laid up.

#### THE PARTING OF THE TWO THEORIES

The fact being accepted by the common consent of all instructed persons, that exports and imports do and must balance, we are prepared to consider the rival economic theories and policies—that of the regulation of imports by Protection, and that of Free Trade. Mr. J. L. Garvin says, as I have quoted already, "It is true that every import must develop an export," but he goes on to say, "The vital question is, What do you exchange for what?" This is a perfectly accurate and fair statement of the point at which dispute arises between instructed Tariff Reformers and Free Traders. By instructed Tariff Reformers, I mean, of course, persons who have some knowledge of the theory and practice of the international exchange—first of products, then of Bills of Exchange,

and then of bullion and the precious metals. Among the advocates of Protection in and for England, these men are a minute minority. They are to be distinguished from the vulgar intriguing manufacturer, who seeks to establish a corner at home. They are to be distinguished from those working men, fortunately few in number, who can see that they and their particular trade would profit at the moment if all the rest of the people would consent to be taxed for their benefit, and cannot see a step beyond. These men are the brain of the Tariff Reform party, and they profess, not only to be economists, but to be the most advanced and the most scientific of theoretical economists. They tell us that the old faith delivered to us as an everlasting gospel by Adam Smith and Cobden was no such thing, but was an excellent temporary system which it suited England to adopt sixty years ago; but to maintain that it is a policy fitted for every nation, at every stage of its economical development, is to write yourself down an ancient fossil—a petrified survivor of a former period of economic thought. The gospel of

the modern "historical" and "scientific" school, put forward in Germany sixty years ago by Friedrich List, and preached by his disciples and successors ever since, has, they say, entirely superseded the ancient doctrine, which they nickname "Smithsianismus" and "cosmopolitan Free Trade."

In considering the rival theories, that of Free Trade as expounded by Adam Smith, preached by Richard Cobden, and adopted by England, and the Protectionist theory as promulgated by Friedrich List and his followers, and put into practice by almost all other countries, including our own Colonies, I shall not enter on the academic argument that Free Trade is the best system for all nations, in all possible circumstances, in all periods of their growth, that it is demonstrably right for all time and all space, as a general economic proposition. Still less shall I attempt to prove that no other national considerations than those purely economic should influence a national policy of foreign trade. I shall confine this argument to an examination of contemporary commercial phenomena, the growth and the

present lines of development of international trade, considered specially in relation to this country at the present time, and attempt to show that, whether one holds fast to the theory of Adam Smith, or adopts the Protectionist theory of List, Free Trade is not only the best, but the only possible fiscal system for this country.

#### THE PROTECTIONIST THEORY

And first, what is this new learning, and what is the light we can gain from it? We find on examination that Friedrich List and his followers declare themselves to be the only worshippers at the shrine of true Free Trade, and that Richard Cobden's clumsy foot had desecrated her temple, his sacrilegious hand had torn down her veil, and his profane tongue had uttered her mysteries to nations which had for long ages to live and labour before they could be ready for initiation.

Of Free Trade itself, the abstract "Free Trade," written in capital letters, and uttered in whispers, List, writing about the time of the institution of the German Zollverein, says: "In the Union of the three Kingdoms of Great

Britain and Ireland, the world witnesses a great and irrefragable example of the immeasurable efficiency of Free Trade between united nations. Let us only suppose all other nations of the earth to be united in a similar manner, and the most vivid imagination will not be able to picture to itself the sum of prosperity and good fortune which the whole human race would thereby gain." And he piously adds: "Unquestionably, the idea of a universal confederation, and a perpetual peace, is commended both by common sense and religion." Having thus given us a glimpse of a vision brighter than "the most vivid imagination can picture to itself," he straightway slams the door of the temple, and says, "It is not for us or our children's children"; the way to go is long and hard, and for each nation it has three great stages, long as geological periods, to be passed, not by one, but by all nations, before universal Free Trade can come. In the first, a nation will "adopt Free Trade with more advanced nations as a means of raising itself from a state of barbarism, and of making advances in agriculture; in the second stage, promoting the growth of manufactures,

fisheries, navigation, and foreign trade by means of commercial restrictions; and in the last stage, after reaching the highest degree of wealth and power, by gradually reverting to the principle of Free Trade and of unrestricted competition in the home as well as in foreign markets, that so their agriculturists, manufacturers, and merchants may be preserved from indolence, and stimulated to retain the supremacy they have acquired." Note that this last stage must necessarily be a state of one-sided Free Trade for the more advanced nations, until all nations have achieved the same level of economic development. This, says List, is the natural economic order, which would, in due course, lead to a millennium of universal Free Trade, if nations were composed of fleshless and bloodless calculating economic units. But the units and the rulers of a nation are jealous, passionate, human beings, and a nation has other interests and other ideals than those purely material and economic.

It is certain that the nations of the world will not consent to pursue the even scientific path of their natural economic development. Therefore, however sound the theory may be,



the facts of life must be looked in the face, and even the sound economic theory must bend to a National Policy. Wars will happen, and a nation economically dependent upon other countries, either for food or manufactures, will be at a fatal disadvantage against a more self-contained people. Therefore, this natural economic order of progress, from an infancy of Free Trade, through an apprenticeship of Protection, on to a manhood of Free Trade, must be controlled and modified by considerations not economic but political and social. And thus arose the *National Economics* of List and his followers—the foundation principle being, in his own words, “Every great nation must seek, before all other things, the independent and uniform development of its own powers and resources. Agriculture, manufactures, commerce, and navigation must all be developed in a nation proportionately.”

It is now sixty years since List lived and wrote his greatest book, *The National System of Political Economy*. At that time manufactures of Germany were insignificant, and her exports chiefly agricultural produce. His immediate object was to persuade his country-

men to enter upon his second economic stage, that of protection of their manufactures, that they might thus develop their own powers to manufacture for themselves; and, to induce them to face a certain immediate loss and burden, he invented his celebrated dogma that immediate production and enjoyment are not the principal thing, but "Productive Power," and that, to build up a manufacturing productive power, it is worth while to tax an agricultural community.

Round this dogma the Free Trade and Protectionist argument in all countries of the world except our own, which had already reached List's third stage when his book appeared and to which, therefore, it had no application, has centred. It is on it the Protectionists have achieved such victories as they have up to the present won. It is the well-known plea for the protection of infant industries until they are strong enough to take care of themselves, but always in seeking to guide his countrymen through what he called the three great economic phases of development, through Free Trade to Protection, and then back from Protection to Free Trade, this

national idea was the dominant one ; and he taught that the trade of the country must be controlled and restricted by imposts on *either* manufactures or agricultural produce so as to produce as nearly as possible this internal economic equilibrium ; in short, that nothing should be imported that can reasonably be produced within the limits of the country itself.

Germany in late years has pursued the policy of its most celebrated Protectionist teacher, and, although, as we shall see later, a great expansion of German manufactures was inevitable under any fiscal system, yet this expansion has been stimulated by the protection accorded to her manufactures, until, according to the "National" theory, it is now excessive.

Professor Wagner, of Berlin, views with the greatest anxiety what he regards as the present excessive industrialisation of Germany, his views on this matter are shared by many others, and it cannot be doubted would be held to-day by List, were he alive. The tendency of the new German tariff is to redress the balance. While it adds slightly to the

duties for the protection of manufactures, it adds much more largely to the duties for the protection of agriculture. Therefore, while it may restrict our direct sales to Germany, it must still more restrict her power to compete in other markets with us. This is quite as it should be, according to the Nationalistic theory. It is better that they should sell less manufactures, if they also buy less food, and if, incidentally, they have to eat less and wear less, that is their proper sacrifice to a patriotic theory.

This is the theory, in as few words as I can put it, of the theoretical, "historical," and so-called "scientific" Protectionist economist.

To follow it is, from the point of view of the world at large, avowedly economically, a policy of the "second best." It is directed, not to extend international trade, but to contract it within the smallest possible limits. Nevertheless, we find it accepted and acted upon, for the present, alike by foreign nations and our self-governing Colonies.

The great question put to us to-day is not what is the best commercial policy for the world, but what is the best policy for Great

Britain, in a world of nations which have adopted more or less thoroughly a Protectionist policy? Is it possible for us to persevere in our solitary course of Free Trade and live; or shall we turn our backs on Adam Smith and Cobden, and put ourselves into line with other nations, and follow List and his school?

APPLICATION OF PROTECTIONIST THEORY  
TO THE UNITED KINGDOM

We have, therefore, now to consider List's theory of a self-contained nation, "with its agriculture, manufactures, commerce, and navigation developed in strict proportion," in its application to England. If this ideal be accepted, with this Kingdom for its unit, then it must be admitted our Free Trade has been wrong, our manufactures, our shipping, and most of our foreign trade are wrong. We have twenty millions of people in this country who have no business to have been born. And the most wrong of all are the Tariff Reform Commission, who are aiming at increasing still further this national disease, the excessive development of our manufacturing side. What we must do on this theory is to tax imported

food, so as to encourage its production at home, let in foreign manufactures free, so as to discourage our own overgrown industries. By this means, if severe enough, we should bring back some of our own surplus people to the land, and starve out or drive out others until the blessed equilibrium was established. The new German tariff is a deliberate attempt of this character, practised upon a nation which, as yet, imports a comparatively small portion of its food.

The application of German economic theory, and American economic practice, in this form, with this country for its self-supporting economic unit, we may surely rule out of the range of practical politics. But the English Tariff Reformer of the neo-German Nationalistic school does not take this Kingdom as his economic unit. His unit is the Empire. There is no lop-sided development of manufactures in the Empire taken as a whole. Here is his ideal economic national unit. But he here comes face to face with an obstacle completely insurmountable. The unit refuses to unify. The British Empire is a great fact, but, unfortunately, it is not an economic

unit in the sense required for a "National" economic policy. We have India practically a Free Trade country, with which we do as much trade as with Australia, Canada, and the South African Colonies put together, and we have these self-governing Colonies, each determined to work out its own national economic development in its own area, on the lines of strictly national—that is, Colonial—Protection. To speak quite frankly, I have at this moment more hope that Germany will find her new tariff insupportable, and relax it—I have far more hope, even an expectation, that the United States will extensively reform her tariff in the Free Trade direction than I have of a similar movement in any of our self-governing Colonies. We have to acknowledge the candour of our Colonial brothers. Throughout this controversy they have made it clear that, preference or no preference, their ideal is the self-contained nation—their national economic unit is the Colony, not the Empire; and the means they take, and mean to continue to take, to secure this end, is Protection, effective Protection, of their manufactures. Notwithstanding any small preference

they may give us over other foreign countries, foreigners we remain, and the national economic unity of List is accepted by the Colonies, each for itself, as the ideal at which it aims—the economic equilibrium which will enable it to do without any foreign trade at all, either with the Mother Country or with other foreign countries.

On the theory of List and his followers, which our Tariff Reformers accept, and are doing all they can by means of translations to make known and popular in this country, all these nations, and especially our own Colonies, are economically and politically right in being Protectionist in the present stage of their industrial development, with the exception of Germany and the United States, who have advanced far enough for the third or Free Trade stage. But even Germany and the United States, although not economically justified, may be politically right in retaining a Protectionist system. At any rate, at present they do retain it.

The practical problem before us, therefore, I repeat, is not the question whether, in the abstract, Free Trade is “the best policy for



England." On every purely economic theory it is. Adam Smith and Cobden teach that it was always right for England and for other nations, too; List and his school teach that for England it was not always right, but it is right now in her advanced stage of economic development. So far the English Protectionist would agree with us. The position is that most foreign nations, in matters of trade, have adopted the tactics of war, and we find ourselves solitary Free Traders, one-sided Free Traders, in a "world of Protectionists."

Surely, then, of all nations on earth we ought to be the most miserable. Every other nation is schooling itself, by painful tariffs, to do without us, and we are becoming more and more dependent upon others, and what will be the end of it?

#### CONSEQUENCES IF WE PERSIST IN FREE TRADE

The deductive economist of the Protectionist school proves to us by deductive reasoning what the end ought to be and what it must be; the whole catalogue of woes is set forth by Mr. Balfour in his "Economic Notes on Insular Free Trade." Our staple

manufactures, the exports in which we used to trust, will be shut out; we shall have to pay for our imports all the same. How are we to do so? We are even now being "engineered"—Mr. Balfour's word—by the foreigners' tariffs out of one trade into another to pay for them; "necessarily" they say all these changes are from superior to inferior trades; meanwhile our manufactures are becoming continuously less and less necessary to the foreigner, we are at a disadvantage in the exchange, we must "necessarily" not only sell our inferior goods, the produce of low-class and sweated labour, but we must also constantly reduce our price to get them taken at all. It will become, in the language of Mr. Balfour, first "difficult," then "impossible," to obtain and pay for our imports; then will follow suffering, starvation, and wholesale emigration, until little England is reduced to a little fifth-rate, self-feeding state. All these things will happen, says the deductive Protectionist economist—must happen—have begun to happen. Meanwhile the British capitalist manufacturer, excluded from his old markets, takes himself, his capital, enterprise,

and machinery to other countries, where he flourishes greatly under the shade of a tariff wall, when he has got to the right side of it.

These in short, and as fairly as I can put them, are the conclusions as applied to England the Protectionist deductive economist deduces from the theory I have already explained.

## SECTION II

### THE TWO THEORIES IN THEIR RELATION TO GREAT BRITAIN, TESTED BY THE EXPERI- ENCE OF SEVENTY YEARS

A theory however plausible, and deductions from it however apparently logical, must come to the test of the facts of life. Can the Protectionist confirm and prove his theory from the world of facts and figures which are available for the purpose? He maintains that he can.

#### 1. THE PROTECTIONIST CASE FROM EXPERIENCE

The one great fact upon which all English Protectionists base their whole case, which they force Free Traders to face and answer if they can, is the phenomenon of the rapid

rise and growth, not only of the total national product, but especially of the manufactures, and still more of the export of the manufactures of certain Protectionist countries (particularly the United States and Germany), under their systems of protective tariffs. The more advanced Protectionist countries have increased, not only their production of their manufactures, but their exports, in the last thirty years at a greater rate than England, a Free Trade country, has done. What more complete vindication of the tariff system under which this has been effected can be desired? they ask. All the arguments of Tariff Reformers are based upon this undeniable fact—are elaborations and illustrations of it.

What is the significance of this striking phenomenon? We Free Traders must face this question fairly, and show, if we can, that it is due to other causes than the protective tariffs, under which it has come into existence.

I decline to consider America, for any conclusion drawn from this fact in regard to America is useless for any economic purpose. With such a raw material as the best part of

the richest of continents, that of North America, not half developed, with its land, its rivers, its mineral wealth, its immigrant labour, it is beyond the power of human folly to arrest its growth. Germany is a fair parallel, and may be taken as the strongest case in point. The great cause of the rapid rise of the manufactures of Germany and other nations is not difficult to discover, for it is the most conspicuous phenomenon affecting the human race in recent centuries. It is what is known as the "Industrial Revolution." With the forces of nature placed by modern science and invention at the service of man, it is no longer necessary that nearly the whole population of a country should be employed on the land to raise mere food, and in the primitive rural industries, and a large proportion has transferred its labour from agriculture and village handicraft to manufactures, and removed from the country to towns.

Mr. E. Atkinson has calculated that under favourable conditions, such as obtain on a great wheat farm of Dakota or Manitoba, one man's work for one year of 300 days will

produce sufficient wheat to feed 1000 people for the year; that it can be carried through the flour mill and put into barrels, including the labour of making the barrel, at the equivalent of one other man's labour for one year; that it can be moved from the far West to a flour mill in Minnesota, and thence to the city of New York, and all the machinery of the farm, the mill, and the railroad can also be kept in repair at the equivalent of the labour of two more men; "so that the modern miracle is, that 1000 barrels of flour, the annual ration of 1000 people, can be placed in the city of New York, from a point 1700 to 2000 miles distant, with the exertion of the human labour equivalent to that of only four men, working one year in producing, milling, and moving the wheat."

This is an extreme example of a universal movement. As the agricultural population is liberated, and the mechanical arts grow, new occupations are necessary, new wants arise, new manufactures are born. In this stage of social and economic development, in this migration of the greater part of the population from occupations immediately connected

with the cultivation of the soil to manufacturing and other pursuits, which removed them from rural districts and collected them in towns, we were a generation ahead of Germany and other countries. Thirty years ago the revolution in this country was practically accomplished, while in Germany it had scarcely begun. At the beginning of the last century 80 per cent of the population of the countries which now form the German Empire were engaged in agriculture. In 1870 two-thirds of the population was agricultural, while in England and Wales at the same date the proportion employed on the soil was not 17 per cent. Since that date the proportion of the population of Germany engaged in agriculture has been reduced by one-half, the population inhabiting large towns of more than 100,000 inhabitants has increased sixfold, that inhabiting medium-sized towns of from 20,000 to 100,000 inhabitants has increased nearly threefold. Germany has been drafting into the cities a large half-employed, underfed, under-paid rural population to found her new industries. We had no longer this resource, it has been long practically dried up, our

agricultural counties are to-day underpeopled, and the land is crying out for labour.

The sufficiency of this explanation of the somewhat more rapid expansion of German manufactures and exports than those of the United Kingdom must be obvious to any one who considers the importance of the Industrial Revolution of the Nineteenth Century in its effect on the conditions of human life in Western countries. The movement to the towns in Germany has doubtless been accelerated by her past protective policy in favour of her manufactures, she will now probably check it by her new "agrarian" tariff. But the process itself is a natural and inevitable stage in the development of a modern nation in modern conditions. It was inevitable under any fiscal system, and was anticipated by every man of reasonable foresight. That during its progress the growth of German manufactures and exports should have been more rapid than our own is a consequence equally inevitable. It was the necessary result of modern forces far more powerful than tariffs. That the disparity was not greater during this period of the absorption of a great supply of cheap labour



is not only a signal proof of our national efficiency, but furnishes a strong presumption of the superiority of our fiscal policy.

It is likely that in Germany, as in this country, this movement of population has now almost spent its force; for, although the proportion of the population engaged in agricultural pursuits remains double that existing in the United Kingdom, it is no longer excessive. The fact that the natural increase of the population in Germany is double that of the United Kingdom, that the birth-rate is 25 per cent higher than our own, and nearly 30 per cent higher than that of the Colony of Victoria, will doubtless tend towards maintaining the growth of her industries, and of the exports necessary to pay for her increasing imports of food. On the other hand, the effects of the new and distinctly Nationalistic tariff on the condition of the manufacturing working classes must tend both to decrease the birth-rate and revive emigration. An analysis of the conditions which produced and accompanied the recent expansion of her manufactures and exports leads to the conclusion that the Protectionist policy of Germany has been rather a disturbing

than a governing factor in her industrial evolution. It doubtless accelerated its earlier stages, it has distorted its course of progress, and at present, under the new tariff, it retards the natural manufacturing and commercial expansion of the country in a manner approved by Professor Wagner and other Nationalistic economists, and doubtless intended by its "scientific" authors; and yet in the whole course of the fiscal controversy I have not met with one argument by induction from experience which was not based upon the erroneous assumption that the rise of manufactures in Foreign Protectionist countries was almost entirely due to their protective tariffs.

## 2. THE FREE TRADE CASE FROM EXPERIENCE

### *The nature of the proof required*

In the days of Adam Smith the argument for freedom of trade was necessarily a purely deductive argument—that efficiency would be an effect of freedom, that the division of labour, which in the village and the nation had so incalculably increased production, would have a like effect if brought into operation on an international scale—that international trade

is in truth simply an exchange of commodities, and that a "favourable" balance of trade to be paid in gold cannot be maintained permanently, and, if it could be, would be futile. These and other similar unanswerable propositions were the arguments of Adam Smith, and the logical deduction from them was Free Trade.

With two-thirds of a century of Free Trade practice behind them, British Free Traders have now so great an accumulation of experiences, which add historical proof to inherent probability, that their difficulty is how to focus it all so as to bring it within the range of vision of the ordinary human being.

The general arguments for British Free Trade have thus altered in character; the old deductive argument has been supplemented and almost superseded in the arena of controversy by inductive statistical reasoning. The argument from experience has been added to the argument from reason, and the whole general case is thus far stronger than it was in Richard Cobden's days.

But the present-day Free Trader has to meet another and more plausible, if not more

formidable, argument. It is that which I have endeavoured fairly to put forward, and it may be restated in a sentence thus : Cobden's forecast of a rapid universal victory for Free Trade principles has not been realised. The Nationalistic Theory has been adopted by almost every civilised country but this country. Whether it is a better theory or not than that of universal Free Trade is not the question ; as put to us now, the practical question for us is, Can we trade on Free Trade principles with nations who trade with us on Nationalistic Protective principles ? Can one-sided Free Trade go on for ever ? Peel and Cobden answered this question, which, it must be admitted, they believed would never become the practical question it is to-day, by abstract deductive reasoning in the affirmative. " Hostile tariffs are best met by free imports," they said. After sixty years of experience we have now to ask ourselves the question, Does this experience confirm their dogma ? Does the present position of British trade, do the indications of the future, do the lines of the development of contemporary international commerce enable us to supplement Peel's

dogmatic affirmation, by induction from the ample material available? This is the task the Free Trader must fairly face to-day.

I shall endeavour to state the case of the British Free Trader, first, in its Static aspect, by examining the position to which two generations of Free Trade practice has brought us—the absolute and relative position of the international trade of this country to-day; second, in its Dynamic aspect, by considering its relation to the contemporary movements and the lines of development of international trade; how far a policy which may have been wise and successful in the past is likely to continue to succeed in a world which I assume, for the purpose of this argument, to be definitely committed to a Nationalistic policy.

*The British Free Trade Case: (I.) Static*

Tariff Reformers assume as self-evident that this rise and growth of foreign manufactures has been at our expense, to our loss. Is it not a fact, they inquire, that sixty years ago England was the workshop of the world; we were not only first but alone in the production and export of the new manufactures? Now

other, and Protectionist, nations have approached, and in some respects passed us, and notably in the production of iron we have fallen back to the third place. Is not this in itself a sufficient proof of the error of our policy?

The dogma that as England was once the sole workshop of the world, she should have retained the trade of the world in its infinite expansion—in other words, that the world should cut its coat according to England's cloth—is a proposition too absurd to require serious refutation. Yet it is an argument constantly in the mouths of our Protectionists, notably in that of Mr. Deakin, who appears to combine a belief in it with a determination that the Commonwealth of Australia shall be an exception.

We could not, of course, keep the whole, and the only useful question is, What have we kept, and how does it compare to-day with the new manufactures of foreign countries and their exports, the conditions under which these goods are made, and the condition of the people who make them? Any competent examination of the general production of

the various manufacturing countries and their exports of manufactures will show three things :—

(a) We are keeping the first call on the trade of the world.

(b) We are keeping the best of the trade.

(c) We are keeping as much as we can do in good times.

And this position we maintain with a higher level of nominal wages, a still higher level of real wages, and shorter hours of labour than any of our Continental neighbours.

*(a) We are keeping the first call upon the trade of the world.*

That we are keeping the first call upon the trade of the world is a broad, and perhaps a bold, general proposition to state. It can only be tested by a broad survey of the courses of the main streams of international trade, the significance of which, persons who are unable to extend their vision beyond an import of window frames, or a contract for foreign horse-shoes, are incapable of estimating. Such a comparison of the main streams of the distribution of our exports,

with those of other and competing exporting countries, shows that the first call of the world is for British goods produced under Free Trade conditions; and that in foreign markets of all kinds we maintain our supremacy—

1. In the neutral markets of the world, *i.e.* in those countries in which the import duties do not aim at the protection of native industries, as in China, India, and Turkey. Countries of this class send their exports largely to the Protectionist countries; they receive payment for them principally in British manufactures. In consequence, our exports to these countries greatly exceed our imports from them, and the nations receiving the produce of these countries have to settle the international account with us. Thus, China exports goods to the continent of Europe to more than double the value of her exports to Great Britain, but she imports from Great Britain goods to more than double the value of her imports from the continent of Europe. The exports of India (by sea) to all foreign countries amount to almost double the value of her exports to Great Britain, but her



imports from Great Britain are of more than three times the value of her imports from all foreign countries.

2. In the markets of the newer countries in which a deliberately adopted protective policy has not yet worked out its full results—as in our Australian Colonies and such countries as the Argentine Republic. In these countries the position is very much the same as in the neutral markets—the imports of British goods into the ports of the Argentine exceed the exports of Argentine produce to Great Britain by more than 50 per cent, while their imports from all other countries than Great Britain do not amount to half the value of the exports of Argentine produce to these countries.

That the great export of Australian wool to the continent of Europe is paid for by the export (without any preference) of British manufactures, is shown by the fact that the total Australian exports to other countries than Great Britain exceed those to Great Britain by a very considerable amount (13 per cent), while the imports from those countries fall short of the imports from Great

Britain to a still more considerable extent (about 50 per cent).

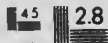
It appears fair to conclude that in the two classes of markets, the neutral and the imperfectly protected markets, the superiority of British organisation and enterprise, and the superiority of the British articles of export in quality and price, enable us to retain the first call upon the trade, and lead to an enormous increase (in the neutral markets I may say the doubling) of what our export trade with these countries would be were it confined to a direct interchange of commodities.

It remains to consider the fully protected markets, that is to say, the countries in which a complete system of protection has been in force for a sufficient number of years to enable it to produce all the effect in restraint of international trade which it is capable of producing; such nations are Germany, France, and the United States. Year by year these countries find themselves enormously in our debt; first, for our purchasing for them in the way I have shown a great part of their requirements from the outer world; secondly, for our shipping services (we carry more goods for the group



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of the ten protected countries than we do for ourselves—that is, to and from the ports of Great Britain); and thirdly, for the gold they require for the renewal and expansion of their circulation, and for the arts—that is, for gold considered as a commodity, annually produced, distributed, and, in part, consumed. This gold they procure in great part through Great Britain. To keep straight with the world, and especially with us, they must export; they, consequently, do export to us considerably more than they directly receive from us. But they cannot force us to take anything we do not want; and the conditions under which they produce their export goods—their longer hours of labour, their lower wages—are an indication, and in part a measure of the relatively greater effort necessary to bring their export goods into effective competition in the markets of this country and of the world. The practice of dumping, so far as it is practised, is itself an evidence of the shortage of a healthy and remunerative demand, and at the same time of the presence of economic forces of which the human agents are probably unconscious, and which demand exports to

balance international accounts. This very short analysis of the main courses of international trade, so far as they affect this country, I think is sufficient to show that we hold, under our present Free Trade conditions, the first call on the trade of the world.

(b) *We are keeping the best of the trade of the world.*

That we are keeping the best of the trade of the world is undeniable, if we are considered as what we are and must be, a manufacturing and commercial people. Whether it is a better or happier lot to produce and export agricultural and pastoral produce, I am not prepared to maintain; I can only express my surprise that so many nations of the world are so anxious to escape from this Arcadian state. But for us this is impossible, and we must compare like with like. The proposition that, as a manufacturing and commercial people, we are keeping the best of the trade of the world can be proved by a detailed comparative examination of that portion of our exports which passes through our Custom Houses, and is published monthly in the Board of Trade

returns, and annually in the Statistical Abstracts of this and foreign countries, which my readers can consult for themselves. They show that our exports are of the most desirable kind, in the main the produce of our most skilled and best-paid labour. But it is shown to a still greater extent in the character of what is called our "invisible" exports—that is our shipping and other services, which are of a still more desirable character than even our material exports, and are of a nature in which we maintain a lead in many cases amounting to a virtual monopoly. (The question of this section is more largely discussed in a later section, that under the heading, "Is Our Trade Degenerating in Kind?")

(c) *We are keeping as much as we can do of the trade of the world in good times.*

That we are keeping as much as we can do of the trade of the world in good times, which is my third statical proposition, will probably not be accepted by Protectionists so readily as the two former arguments, but the experience of the late seasons of prosperity and "booms"

in trade amply prove it—that in good times we are keeping as much as we can do. The Protectionist at this point asks, “Is not the German taking our trade and throwing our people out of employment? What about the unemployed millions in this country, robbed of their work by foreign competition?” The answer to this persistently reiterated query is simple and direct. There are no unemployed millions of workers; they simply do not exist. We have to-day no available reserve of unemployed for our ordinary industrial purposes. We are a fully employed nation, our existing industries are sufficient to absorb all available and willing workers *in good times*. Take the year 1899, or, to almost the same extent, the year 1906 and the greater part of 1907, as examples of good times. The comparative stagnation of the building trade in the latter years renders the former year the better for the purpose of illustration. It was a year of peace and booming trade; at that time our prosperity reached saturation point, we had as much as we could hold; we all know every mill, factory, mine, and ship, and every man had the choice of two jobs. Orders of all



kinds were refused by our manufacturers, as I know by my own experience, both in my own business and as a railway director—orders which overflowed to the foreigner because we could not take them. It was the year in which the official statistics of unemployment reached their lowest recorded level—2·2 per cent—of that part of the working population covered by the returns. It is frequently objected to the use of these figures of unemployment that they apply only to skilled workmen, members of the trade unions which make the returns. This is true, and it is doubtless also true, although we have no statistics to prove it, that, in times of depression, the proportion of the unemployment among the unskilled workers is greater than among the skilled. But in the good times of abounding trade the opposite is the case; again I speak from pretty extensive observation and in the absence of official statistics—and I think it cannot be denied that in 1899 every unskilled able and willing worker in the country had a choice of employments. That 2·2 per cent of the skilled men were out of employment is no indication that

the total supply of skilled labour exceeded the total demand by 2·2 per cent. These unemployed men belonged to trades which, for some special cause, such as changes in manufacturing methods or fashion, had been left out of the movement. They could have been absorbed over and over again by the trades in which operations were limited by deficiency of labour, had they been fit and willing to undertake the work which there were not men enough to do. And yet this is a period in which notably German and American exports expanded more than our own, and the Tariff Reformers tell us this was at our expense. If this were so, they are bound to tell us how we could have taken them on, what we could have done more than we did, or what we could have done better than we did.

"If a man were Ferdinando,  
He can do no more than he can do,  
And he who more than this expects,  
Is wanting in his intellects."

*Hudibras.*

It may be accepted as proved by the experience of good times that our industrial organisation is thus equal to the powers of our working population, and in such times to foster

and stimulate one industry by Protection could not add to the sum of employment, but would be at the expense of some other more deserving industries, and at the expense of the consuming community in addition.

### *The Phenomenon of Unemployment*

Whence, then, appears the phenomenon of unemployment of the fit and willing workers? It is necessary to distinguish this from the great general problem of poverty, that of the aged, and the widows and fatherless children, the sick and disabled, and the unemployable. The unemployment of the willing and fit is a much smaller question; it is doubtless in part due to the waste by industrial friction, to the supersession of one trade by another, and one class of workers by another, due to the introduction of machinery, changes of processes or to changes of fashion. It is thus the few *chronically* unemployed fit and willing workers are produced. But this class is very small, and the problem of dealing with it is one well within the power of organised effort, without having recourse to heroic remedies. This class of unemployment exists in all countries, Free

Trade and Protectionist alike, and no sensible Protectionist would seek to abolish it by Protection, for this would be to protect his country against the introduction of new industries and superior processes.

But bad times succeed good, and with bad times appears really extensive, but not chronic, unemployment in the best-employed State and in the best-regulated trades. In both Protectionist America and Protectionist Germany the swing of the industrial pendulum appears to be greater than in this country, and greatest in their most protected industries; and it is the backward swing which is the great cause of the unemployment of the fit and willing worker. The problem is almost entirely that of mitigating and tiding over bad times. It must be remembered that under these alternations every trade produces its own employment, and as a consequence its own unemployment in bad times, and it is quite obvious that as the substitution of fostered and protected industries for healthy and natural industries cannot add to the sum of employment in good times in a nation already fully employed, so it cannot diminish the sum of unemployment in the bad

times which follow. For, I repeat, it is a fact too often overlooked that every trade produces not only its own employment, but its own unemployment, and to import a trade by tariffs and taxes is not a measure that will absorb the unemployed in bad times; it is to import unemployment as well as employment. This the Americans found when, at an enormous cost to other unprotected industries, they violently imported a tin-plate manufacture. That I might read a full report of Mr. Chamberlain's speech in South Wales, in which he gave this as a striking example of pure profit to America and pure loss to us, I bought a Cardiff newspaper, and in the very same issue that recorded his speech I read these words in their market reports: "The condition of the American tin-plate industry is most unsatisfactory, over half the mills being closed down, and the American Tinplate Company has reduced its quotations for plates by 20 cents on the 100-lb. box. Little business is said to be coming in from canners. Independent sheet-mill-owners have secured a reduction of 20 per cent in wages." No such state of affairs at that time or since has existed in South Wales. America had

imported this unemployment, and her unemployment is always greatest in her protected industries. It is obvious the problem of the unemployed must be attacked by other methods than tariffs.

It is equally obvious that until some method is found of equalising employment and eliminating the lean years, the test of a nation's industrial employment can only be the degree to which it is employed in *good times*, and the amount the average of employment from year to year falls belows this maximum. The application of the first test shows that our existing industries absorb all our available labour in good times; that of the second, that they possess greater stability and show less fluctuations of employment than those of protected countries.

### *Summary of the Case (Static)*

From a survey of the present condition of the British manufacturing and export trades statically, that is to say, of the position in which our Free Trade policy has placed us to-day, we cannot avoid coming to the following conclusions :—

First, that in the infinite expansion of the consumption of the world it was a physical impossibility under any tariff system, or under a system of universal Free Trade, that England should remain the sole workshop of the world, and that the rise of other manufacturing nations was inevitable, and has been beneficial both to themselves and to the world.

Second, that this expansion of industry has not been at our expense, for, as a matter of fact, which can be observed and proved – (1) We are keeping the first call on the trade of the world ; (2) we are keeping the best of the trade ; (3) we are keeping as much as we can do in good times.

Third, that owing to the low price at which her policy of free imports enables her to buy what she requires for her work and life, and to the general efficiency of her working population, England is able to retain this position while paying higher nominal wages, and much higher real wages, with shorter working hours, than her Continental neighbours.

Fourth, that the problem of unemployment of fit and willing workers is common to all countries, and is a malady to be treated by

other means than tariffs; that the importation of new industries by protective duties means the importation of unemployment as well as of employment; and that our Free Trade policy has to some extent moderated the alternation of good and bad times, which is the main cause of unemployment, and mitigated the severity of the effects of bad times on our industrial population.

Thus we reach the conclusion by induction from the ample experience of sixty years, which Peel and Cobden had reached by abstract reasoning. We have found it true that the best way to meet hostile tariffs is by a policy of free imports.

*The British Free Trade Case: (II.) Dynamic*

There are Tariff Reformers who will admit the main part of the statical case. They will admit that Free Trade has up to the present, or rather almost up to the present, been our best policy. But they point out that conditions are changing and have changed. The nations of the world who have adopted nationalistic protective systems are one by one realising their national aims, they are becoming



independent of us and our goods. Accepting this as their general proposition, they deduce the following "logical conclusions" as the consequences which must "necessarily" befall, and are now befalling, solitary, undefended, Free Trade England :—

(a) That our markets are contracting, and we are trading at a constantly increasing disadvantage.

(b) That our trade, if not yet diminishing, is degenerating in kind.

(c) That British capital and British labour are flying to the protected countries, and will inevitably do so to an increasing extent.

These three conclusions, deduced as "necessary" and "inevitable" consequences of the general statement of the fact (quite undisputed) that almost all nations of the world except England have adopted the system of nationalistic protection, can also be examined inductively in the daylight of present-day facts.

*(a) That our markets are contracting, and we are trading at a constantly-growing disadvantage.*

In the light of the trade returns of the last

three years, the statements with which the Tariff Reformers began their propaganda, that the exports of our manufactures were actually stationary or decreasing, has become too ludicrous to be noticed, except as a curious example of the power of a theory to distort an investigation of facts. But the theory they still hold, and it was best stated by Mr. Balfour in his *Economic Notes*. It may fairly be put thus : As the area of national protection grows, so our accessible markets contract in number and area ; although our exports may not yet show signs of diminishing, they must "inevitably" do so in the near future. Our imports are "necessities" to us, and are becoming year by year more necessary ; our exports are not "necessities" to other countries, and are becoming year by year less necessary. Therefore, "necessarily," we can only induce other countries to accept our exports, which is our only way of paying for our imports, by constantly reducing our prices ; that, in consequence, our exports will become, first, "difficult," then "impossible," and our imports, first, "costly," then "unattainable."

These assumptions, if accurate, would by

this time be susceptible of historical proof. They have, on the contrary, received disproof, as I have shown in the previous section, in which British trade is considered statically.

That we are not reducing our prices ruinously in order to get our exports "accepted at all" is proved by the figures given by the President of the Board of Trade in answer to a question I put to him on 3rd February of this year (1908), showing that, although the prices of our exports and imports have greatly decreased since 1873—they have decreased almost to an equal extent—we have reduced the prices of our articles of exports by 44·3 per cent, while the foreigner has reduced his prices to us by 44·5 per cent. We are therefore getting rather more, and not less, foreign goods for our goods.

However clear it may be to the Protectionist theory that our markets *ought* to be contracting, and that our foreign exchange of products *ought* to be more and more disadvantageous, it is even more clear to the candid inquirer that what *ought* to happen and "must happen" does not "come off" according to the logical programme.

(b) *That our export trade, if not yet shrinking in quantity, is degenerating in kind.*

We are being "engineered" by foreign tariffs, to use Mr. Balfour's phrase, out of our good old "staple" export trades into other and "necessarily" inferior trades. The Tariff Reform Commission point out that whereas in former times we used to make iron for the world, now both America and Germany have passed us in the production of pig-iron, and that our exports of that article of one of our greatest staple trades is insignificant. Professor Ashley says, "England is turning apparently more and more to exports the products of cheap, low-grade, and docile labour. Let us see," he continues, "what are the comparatively new exports which are taking the place of the old? Coal and unmanufactured clay, apparel and slops, pickles, vinegar, and preserved fruits, oil and floor cloth, caoutchouc manufactures, soap, furniture, cabinet and upholstery wares, cordage and twine. Now, I believe that all these are cases in which the bulk of the labour employed is cheap and unskilled."

What is our reply to these criticisms? It

is that most satisfactory of all possible replies to a disagreeable proposition—a flat denial. Our exports are not inferior, the examples the Tariff Reformers give do not prove it, the examples they do not give prove the contrary. They complain that we no longer make pig-iron for the world as we did when our railways were the most extensive system in the world, and we were teaching other nations how to develop their own. This is their favourite example of our decline. To any one who has the most superficial knowledge of our slender resources, both of iron ores and furnace coking coals, in comparison with the United States, a country which has now a railway mileage ten times as great as our own, this complaint will appear the complaint of ignorance. Instead of supplying the world, as in the old days, America, Germany, and England, the three great iron-producing countries, each produced about the quantity of this raw material it is able to work up, and this seems to me to be a satisfactory arrangement of this particular trade. To make pig-iron for the world is not my ideal destiny for this country; that the Black country should

extend south from Birmingham as it extends north, until it fills the rich and happy garden valley of Evesham, now devoted to Professor Ashley's pickles and jams and preserved fruits, for example, would be to sacrifice the better for the inferior industry.

Of Professor Ashley's list of the inferior export trades into which he states we have been "engineered" by foreign tariffs, I have only three remarks to make. In the first place, they are very small, in the second place, they are not inferior to our old staple trades, and, in the third place, we are not being "engineered" into them. I exclude the export of coal, for with expert knowledge I differ with Professor Ashley on this point, and I regard this as one of our best exports. It forms the basis of our exchange in bulk for our bulky imports. More than half is sent abroad for navigation purposes, and more than half is for British consumption abroad. In his first two trades, apparel and slops, our exports have not increased at all, but largely decreased during the years of the fiscal controversy, since 1902; in his next five trades, pickles, vinegar, confec-

tionery, jams, and preserved fruits, there has certainly been considerable expansions, but surely these are healthy and desirable trades; in all the other trades he enumerates in the same four years the increase does not amount to two millions in the same period, or 28 per cent, while our total export trade in British goods has increased by more than 50 per cent. An examination into the figures of the exports of the trades selected by Professor Ashley as examples of inferior and undesirable trades to which "we are turning more and more," proves that we are, in fact, turning to them less and less. I apologise for troubling my readers with these petty figures; I do so to show to what shifts our deductive Protectionist economists are put when they leave their general conclusions, that such things must "necessarily" be, to examine the facts as they are.

All his examples are trifling when set beside our greatest *new* trade, and greatest *new* export—our shipping trade. I say new, for our supremacy in shipping dates only from our adoption of Free Trade, and is by universal consent a product of that policy.

Its gross revenue is quite equal to that of all our home railways put together, which amount to about 110 millions. I will not trouble my readers with detailed figures, but a few main facts about this trade are easily remembered, and worth remembering. Vast as our foreign trade is, it is only one-sixth of the international trade of the world, but our ships carry, not one-sixth, but one-half of the trade of the world. We carry more goods from foreign port to foreign port—trade which never touches this country at all—than all our British trade amounts to, we carry more for the celebrated group of the ten Protectionist countries alone than we do for ourselves. To compare any other nation with us in this trade is ludicrous; to compare all other nations put together with us is to compare the inferior in value and efficiency, if not in tonnage, with the superior. That we have been “engineered” into this lonely pre-eminence in this trade partly by our own Free Trade policy, and still more by the Protectionist policy of other nations, no person who is qualified to have an opinion at all doubts. The nations who, by their



tariffs, restrict exports of our "staple" manufactures to their shores, are forced by the natural law from which commerce cannot escape to accept the payments for their exports to us largely in the form of our shipping services. Is this a decline from higher trades to a lower one? Mr. Chamberlain says it is. At Preston he said, "What does the working man get out of these invisible exports—out of the freights of ships? He gets very little. The wages in the shipping trade are, I am sorry to say, a small and diminishing quantity." I wish to speak respectfully of Mr. Chamberlain, so I will only say by way of criticism that, as a piece of economic analysis, this appears to be incomplete. The shipping trade gets over 100 millions a year into its pocket. The railway companies get a similar amount, and pay nearly half of it to their shareholders; the cotton trade gets as much, but it has to pay 40 millions to the foreigner for its raw material. The shipowners work on a capital of less than one-seventh of that of the railways, and what their shareholders get is a minute portion of their gross

receipts; the rest, less a small sum for foreign port charges, is all distributed to pay the best class of British labour. Their ships are built and engined, re-fitted, and repaired in British yards and British engine works of British material, officered and engineered, and mostly manned by British subjects, provisioned in British ports, insured in British offices, and coaled with British coal. No other British industry gives so great an amount of employment to British labour of the highest class. To an island people our most necessary trade, politically our most imperial and coveted trade, economically our largest trade, and industrially our best trade, is our shipping trade. It shows no signs of losing its lead or any portion of its lead. In the last year of which we have the returns—1906—we added to our shipping tonnage ten times as much as Germany added to hers, and Germany is the only nation, except Japan, with a growing mercantile marine. Our shipping trade has only two things to fear—any departure from a Free Trade policy by England, or the abandonment of Protection by America and other

countries. This is the great example of the success of foreign Protectionist tariffs in "engineering" us out of some old trades into other new trades. They have succeeded in "engineering" us out of some portion of our old staple trades, but they have "engineered" us into a better trade.

But there are other examples. Time would fail to describe the economic process by which the Protectionist policy of other nations has secured the supremacy of the "Land of free imports" in the business of merchants, textile spinners and manufacturers, engineers and machine makers, distributors, brokers, bankers, and insurance. To say that we are being "engineered" into inferior trades is to say that bankers, merchants, brokers, shipowners and officers and crews, skilled engineers and machine makers, are inferior to the old furnace men and puddlers, or the naked and par-boiled men I remember in the sugar houses in my boyhood. No, British trade is neither decreasing nor degenerating.

- (c) *That British capital and labour are flying to Protected countries, and will inevitably do so to an increasing extent.*

This phenomenon, while only half understood, has furnished perhaps the most telling argument of the British Protectionist. The British manufacturer, he says, shut out of a foreign country by a tariff, takes himself, his capital, his machinery, and sometimes his men, and flourishes mightily abroad, instead of starving at home, to our national loss. The fact that these emigrations of capital have taken place cannot be denied, but they are not so frequent now as they were in the early days of American Protection. But notice what follows in the Protected State. Notice how retribution follows, and in the end restitution, too. When its protected infant industries have grown to be protected giants, when they aspire to an export trade—a “world trade”—they find that, on the whole, the best results in product for a given expenditure can be obtained in the “Land of free imports,” and one after another they establish their works in England. They bring their

German education, their American enterprise and organising power, and their capital to this country, when they establish themselves on British soil, pay British taxes, and employ the highest and best paid of our working population.

There can be no doubt that, during the last few years, the tide has turned, and this immigration of capitalist aliens has much exceeded the flight of British manufacturing capital to protected areas. It is one of the most conspicuous of the developments of English trade. And, observe, it is the very best firms who feel most strongly the attractive force of the Free Trade country. It is the largest maker of electric machinery in the world which has come from America to establish itself at Rugby; it is the largest maker of mining machinery in the world which has come from Chicago and San Francisco to start near London; it is the largest sewing-machine maker in the world who has established his immense works at Glasgow. Finding their European trade hampered by retaliatory tariffs, there is a growing disposition among the most wealthy

and progressive American manufacturers, especially those who are cultivating and depending more and more upon an export trade, to look forward to the establishment of works in England, by which they would not only manufacture more cheaply, but their products would receive the benefit of the "most-favoured-nation" clauses in the commercial treaties of this country. It may thus be seen that the establishment of exotic industries can be due to two causes, which, though entirely opposite, exercise the same effect. There are many examples of English industries established in protected countries, to which it was found impossible to export at a profit in consequence of their high tariffs. We now see similar foreign industries founded in this country as the direct result of our Free Trade policy. We English have many commercial deficiencies, we commit many commercial errors. We neglect our secondary and technical education, we despise foreign languages, our consular services do little for trade, we maintain our antiquated system of coinage and weights and measures, our ports are not encouraged, and our canals are allowed to

perish; but our Free Trade policy, like a beneficent fairy, interposes between our faults and their punishment. It brings to our shores and our service the finest products of German education and training, and attracts the best enterprise and most highly specialised skill and capital of America, to work out its full development in the "Land of free imports."

After a fair review of the condition of British trade dynamically as well as statically, not only what it is, but what it is becoming, it is impossible to maintain that our markets are contracting, and that we are trading at an increasing disadvantage; that our trade is degenerating in kind; or that England is losing her position as economically the best seat for manufacturing industries.

## GENERAL CONCLUSIONS

### FAILURE OF PROTECTIONIST THEORY AND PRACTICE

During the past generation we have seen the National Protectionist Theory of Taxation of Imports applied to new countries and old, to young and small communities, such as our

colonies, and to great continental States, such as America and Russia; and we have seen Great Britain alone steadily adhering to her policy of Free Trade. The experience of two generations in which these two great opposing policies have been put into practice side by side, surely furnishes sufficient data for testing the two theories in the light of that experience. Adam Smith and Friedrich List each in his own day propounded his theory academically, and enforced it by purely deductive arguments, based on certain generally-admitted principles of human action. The recent fiscal controversy has rightly proceeded on entirely different lines—it has been in the main an attempt on both sides to reason by inductive process from the mass of available statistics and experience.

I have endeavoured in these pages, without entering into the statistical argument in detail, to follow the latter method, to state what appears to me to be the broader general conclusions which may be accepted, in particular as regards the United Kingdom, as demonstrated by the logic of experience, and as shown in the statistical case presented by the



advocates of Free Trade in the fiscal controversy; and to consider these conclusions in their relation to the *a priori* theories and deductive arguments of the two great opposing masters of this branch of economic science.

The phenomena which emerge most conspicuously from this inquiry are two:—

First: The complete failure of the States which pursue the policy of national protection to realise their ideal—the self-sufficing State.

Second: The extraordinary vitality of the industries and commerce of this country, which in many cases appear to turn to their profit and to thrive on the very measures taken to injure them.

*First—Failure to Benefit Protectionist  
Countries*

It must be admitted that the very statistics of the growth of international trade throughout the world, selected by Protectionists to prove their case, prove that the economic policy intended to substitute internal exchange for international exchange—to import nothing which can be produced at home—has met with scanty success, and that the more

advanced Protectionist nations pass through precisely the same stages of industrial evolution we have passed and are passing through. Germany takes to manufacturing industries, she constructs a tariff framed to stimulate their growth and export, and nevertheless she suffers the "melancholy" fate of all prosperous nations—an excess of visible imports; and now she is experiencing a growing dependence on the foreigner for her food supply. (Meanwhile she has grown to be our best customer except India.)

America, in her determination to be economically "national," perpetrates a McKinley tariff. At first she succeeds in reducing her visible purchases from us by 15 millions, or by 33 per cent, but the figure starts growing again; six years later she repeats the operation by the Dingley revision of the tariff with the same results, and now her visible imports from this country amount to 58 millions in value, or 11 millions more than the pre-McKinley maximum. Meanwhile her invisible imports from us leap forward continuously by tens of millions (see Note, page 137).

It is seldom realised by Protectionists how

few people in the best protected countries directly or indirectly benefit by Protection.

America, with its high and all-round tariff, is, perhaps, the best example. In the United States, Mr. Edmund Atkinson has made a careful analysis of the very complete Census returns made in that country, and he finds that out of 29 millions of male and female persons "occupied for gain," only 600,000 benefit directly or indirectly in their business by the tariff; and the 28,400,000 who get nothing pay for it. The employment of these 600,000 persons may have been created by the tariff, but it cannot be supposed that they are a clear addition to the sum of the population and employment of the country, when it is remembered that the same tariff, which created them, among innumerable other similar achievements, incidentally destroyed American shipbuilding and the shipbuilding trade. In advanced countries the proportion of the population engaged in manufactures of some kind would probably be little affected by universal Free Trade; the manufactures would to some extent be different manufactures, in all cases the alteration would be to better manufactures for

the particular country, the product would be sold for less money, the consumers—that is, the whole population—would have easier lives, and the national income would be greatly increased. But the proportion of national industrial energy liberated from primary rural industries, and devoted to manufactures, which it is the whole policy of national protection to regulate, would probably be scarcely affected in advanced countries.

Experience gives no confirmation to the argument so frequently, and apparently so successfully, used by American Protectionists, that their protection is in any sense a protection of the wages of the working classes. Seeing that no direct protection is given to labour unless it be imported from China or Japan, and that low-class immigrant labour flows freely into the country at the rate of a million persons per annum, no deductive theorist could argue that it could do so; and recent statistical investigation has shown that, not only are the wages of labour no higher in the protected industries than in those in the same country which enjoy no protection, but employment in these industries is less secure, and that,

in all, the increase in the cost of living, due chiefly to the Protectionist tariff, has more than kept pace with the increase in wages, while the contrary has been the case in this country. The whole of the enhanced cost due to protective duties represents in part a net economic loss due to the perversion of the national industry, and in part the swollen profits of a very small body of extremely wealthy capitalists, generally united in the form of a Kartel or Trust, but no part of it appears to reach the pockets of the working populations.

Doubtless the total effect of the Protection of the Protectionist nations has been vastly to diminish the total volume of international trade. Its cost to the people, especially to the poor portion of the population, has been beyond estimate, and has entailed a lower standard of living, dearer food in most countries, dearer clothing, and fewer comforts and luxuries in all countries; but it has not fulfilled either of its two great purposes in any country, it has not built up a self-sufficing State, and it has not been the means of the building up of the great manufacturing

powers of the advanced nations to anything like the extent commonly supposed either by Nationalist Protectionists or by Free Traders.

The nations of the world which have put into practice the national theory of Protection have thus found that it will not work in the modern world. They have paid the price, but they have not achieved the blessed equilibrium desired by List—the “proportionate development of their agriculture, manufactures, commerce, and navigation.” On the contrary, their foreign trades, import and export together, have grown for a period even more rapidly than our own, and the dependence of each on other nations is constantly increasing. We find that everything which ought to happen and must happen does not “come off” according to the logical programme, and we begin to suspect there are other forces and principles in the world of modern trade than enter into the Protectionist’s philosophy.

*Second—Failure to Injure Great Britain*

But how are we to explain the surprising fact that after forty years of severe Protection in America, after thirty years of growing

Protection in France, Germany, and other countries, after the unanimous adoption of rigorous Nationalistic Protection in the narrowest sense by our Colonies, we, against whom alone these measures have been taken, remain with a prosperous industrial organisation equal to the employment of our whole available population ; that we pay the highest nominal and real wages, and work under the best conditions ; that we keep the first call on the trade of the world ; that we keep the best of the trade ; that we keep as much as we can do in good times ? What is the explanation of this surprising phenomenon ?

The explanation is, that the National Theory of Protection is foredoomed to failure, for it is directed against modern forces far stronger than any that tariffs can control.

The forces of civilisation and contemporary industrial progress forbid national isolation. These forces, the growth of communications, the quickening and cheapening of carriage by sea and land, the increase of commercial intercourse and information, the rapidly-growing habit of travel, are all bringing the nations together, favour international trade and

interdependence, and make for international friendship and peace. These forces create new international industries and services, and higher industries and services, faster than tariffs can check the old ones.

We have seen that these higher and new industries gravitate to England, and thus it is that Free Trade England, dominated by the "demon of cheapness," instead of being isolated, extinguished, starved out, as the Protectionist theorist says she should, and must be, is able to secure not only as large a share as she can take, but is able to secure to herself the best of the trade. And thus the nation which holds and follows the morally higher theory of trade has its reward even in this world.

#### THE FUTURE

Before concluding my argument on the purely economic aspect of the development of our Foreign Trade, I must in a few sentences give my forecast of its probable future. It is, in my opinion, not only unlikely, but impossible, that the phenomenal growth of our exports and imports we have witnessed during



the last four years can be maintained, and, further, it is not desirable that it should be maintained. Doubtless, foreign trade will grow at a slower rate. But, as a nation progresses in industrial development, a constantly decreasing proportion of its energy is necessarily directed to the production of material goods suitable for foreign exchange. A primitive people must expend all its energy in catching and growing food to live. An advanced people expends a small portion of its energy in the production of food, and a constantly decreasing proportion of its energy in its old primitive "staple" trades. It advances to more specialised products for more elaborated and specialised needs—from the bread-and-meat it advances to the "pickles-and-jam" stage. Its increase is in quality rather than quantity, for when a nation has enough in quantity it does not require more things—it requires better things. And these better things are not the material of foreign trade, they are better houses, better cities, better communications, better education, better amusements. Study the last Census returns, and you will see a constantly increas-

ing proportion of our people engaged on these better things: in transport and distribution, in Government and public works and service, in the fine arts and the applied arts and crafts, in education, and in recreation and amusements. As we advance in prosperity this process will go on, and these newer occupations are not the production of the material goods suitable for foreign trade. It is even probable we shall pay for our imports in an increasing degree by our services, and in a less degree by our goods. But our production of material and non-material wealth may then be much greater than it is now—its distribution may be better, our national income, our comfort, our prosperity may be greater, and our standard of living higher. And this brings me back to the point at which I started, that our foreign trade is no measure of our whole trade, and our imports and exports are no measure of our national income; and that our course of industrial and social progress in the future lies on lines for the most part distinct from foreign trade.

In my vision of both present and future you may consider me an optimist. Mr.

Chamberlain calls himself an optimist—"an incorrigible" optimist. Well, if he is an optimist, so were Jonah and Jeremiah. But one who believes in the truth, the present profit, and final triumph of Free Trade, must be an optimist.

### THE ETHICAL CASE

#### NATIONAL AND INTERNATIONAL

In the foregoing pages, and in fact in the whole literature of the fiscal controversy, the case of Free Trade *versus* Protection has been treated as a purely economic question, a sordid business "proposition," which each nation must solve for itself according to its own view of its immediate industrial and commercial interests in the narrowest national sense.

That it has a deeper and wider significance, that it is a battle not only between truth and error, but between light and darkness; that, in the realm of trade, it is a constant struggle of honest industry and intelligent enterprise against corruption and intrigue; and, in the realm of political life, a struggle of the greatest influence for "peace and goodwill among

nations" against international jealousy and strife, is an aspect of the question scarcely noticed in the din of the controversy. And the reason of this is clear, it is that on the ethical plane there are no two sides to the question.

To the Protectionist nation itself the economic loss is of a varying and uncertain nature, but where it is greatest it is of far less importance to the community than the deterioration of the moral standard both of commerce and politics. The inner history of every modern protective tariff is a history of commercial and political corruption. When once it has been established in a democratic State, the minute minority of protected capitalists, in alliance in some cases with an agrarian party, always manage to rule the community in their own interests. Whatever may be the momentary subject of political controversy, whatever may be the issue of which the voters are conscious at a general election, at the back stand the financial potentates and monopolists to guard the tariff by which they live and were brought into being. If public opinion is becoming

rebellious, public opinion is found to be an article which can be manufactured at a cost—newspapers are started or captured and subsidised, universities are endowed, the springs of truth and knowledge are poisoned, the fountain of justice itself is contaminated. Above all, the organisations of political parties are made secure, party funds are always insufficient, the “sinews of war” decide the event, and pensioners inevitably become tools.

These are the occult forces which strangle freedom in a free country—forces described in the (at present) Protectionist *Times* as “the forces which are sapping the life of the United States, the forces of greed, of corruption, and of wealth, organised more perfectly than ever before in the history of the world.” In England we have in the long run “government of the people by the people for the people.” It is an American who has said that in America they have “government of the people by the machine for the trusts.”

But it is not so much in its national as in its international aspect that the strength of

the ethical case for Free Trade lies. List himself speaks of Free Trade in its ethical aspect as "commended both by common sense and religion." The vision which inspired Cobden was of a world of nations in which growing international trade would bear the fruit of better mutual knowledge and greater mutual sympathy, and these together would weave a web to bind peoples together of such infinite complexity that a war would become both a moral and an economic impossibility. This great moral end he believed could be gained by economic means.

The end in view of the nationalistic Protectionist, on the other hand, is not peace, but war and efficiency in war, and its method is the "method of barbarism," a perpetual state of economic warfare. The ideal State of List is the economic unit which can gather its internal resources together, and find within itself all that is necessary to enable it to fight its neighbours, and to attain this desirable condition he did not scruple to say Germany will have to annex Holland and Denmark. His successors to-day say Germany must have a colonial empire to provide an outlet for her

surplus population, and food for her people at home.

The higher moral standard of Richard Cobden's theory and policy all Protectionists, as well as Free Traders, must allow, but it is their custom to cast ridicule upon the great Free Trade politician as a visionary and a convicted false prophet, and to speak of the great exponent of the national economic system as "scientific."

Here again we may appeal to the experience of sixty years, not to assist our moral judgment, but to survey the progress of the conflict between the admittedly higher and admittedly lower—between the economics of peace and the economics of war. It cannot be denied that although all the nations of the world except ourselves have deliberately adopted the national system of tariffs, it has become not less difficult, but infinitely more difficult for them to prepare for and maintain a state of warfare on a scale which would engage the full strength of their military organisations. At the edge of the world, in Manchuria or South Africa, it may still be possible, with infinite difficulty, to wage a war

on a considerable scale, but those who have most closely considered the question are most strongly of opinion that a great European war, in which naval as well as military powers were engaged, in which the customary channels of international intercourse, material and financial, were stopped or paralysed, would collapse by the utter economic and industrial breakdown of the countries concerned, and could never be fought out to a finish by the armies and fleets of the nations engaged. If this be true, and personally I have no doubt it is true, is it too much to say that when Cobden prophesied that the increase of international communications would end warfare between civilised States, he prophesied even better than he knew, and that the rival system of List, which aimed at the creation of the self-contained State, self-sufficing for war, has broken down in its attempts to realise its anti-ethical ideal as completely as its economic ideal?

Doubtless, the ethical standard of international relations—the standard of war and diplomacy, is as yet of a primitive and barbarous character ; but still it slowly improves.



Civilised peoples have long left behind them the stages of wars of pure rapine, wars for cows, and wives, and slaves; wars of extermination for conquest of land. A dynastic or a religious war between civilised peoples is inconceivable in these days. The sources of international strife are now, at bottom, almost invariably economic. Is it the dream of a fanatic to believe that when nations once realise the complete futility of their nationalistic economic aims, this last cause of war may also disappear?

"But what about the meanwhile?" the average worldly man may ask; "we are living in a world which still believes in wars, and if occasion arises will rush into one. Admitting the possibility of universal collapse of the material organisation of civilisation under the strain, will it not then be worse for us than for others? Has our path of peace been the path of relative safety? Have we not more extensive international relations than others, and are we not, therefore, more dependent on the foreigner than they?" Here again we can prove that the higher path has been not only the most profitable, but the most secure. The

Report of the recent Royal Commission on Food Supply in Time of War proves by the unanimous testimony of the most experienced naval and commercial experts that, with our great Free Trade industries, with our merchants, and our ships, drawing our food and raw material from all parts of the earth, added to our naval power, our supplies are rendered more, and not less, secure by the very extent and variety of our operations, and are placed beyond the possibility of serious interruption by any enemy.

And thus Free Trade stands justified. In the sphere of ethics it is the path of humanity, honesty, and commercial purity, but no less in the sphere of politics is it the path of safety and in the sphere of economics is it the path of profit.

Protectionist nations have chosen the spirit and the methods of war to govern their commercial policy. We have chosen the higher path, and we have proved the old word true, that "Whosoever will save his life shall lose it, but whosoever shall lose his life, the same shall save it."

## VII

### MR. BALFOUR, ECONOMIST AND FISCAL REFORMER<sup>1</sup>

#### AN APPRECIATION BY AN OPPONENT

NOTHING so provokes Mr. Balfour to protest—emphatic, indignant and obviously sincere protest—as an insinuation that his fiscal policy is in any degree ambiguous or obscure. No sarcasm is too biting to be applied to those who fail or pretend to fail to understand it.

“I have, at all events, avoided any kind of obscurity,” said he at Sheffield.

But obscurity is just what a stupid and perverse generation did find, or profess to find; and when, five months later, Mr. Balfour described his policy as a “real change from petrified Free Trade to progressive Free Trade,” a by no means stupid person, Mr. John Morley, interrupted him by asking the

<sup>1</sup> *Contemporary Review*, November 1904.

innocent question: "Will the right hon. gentleman say what is the change?" Mr. Balfour warmly referred to his Sheffield speech, which, he remarked, "appears to be more laughed at than read." And when Mr. Morley, in quiet tone, again put the question: "But what is the change?" Mr. Balfour gazed at him as at a curious and perplexing phenomenon. Is this innocence simulated, or can it be real? his expression seemed to inquire. "I venture to say," he replied, "that even persons of the smallest intelligence, not to speak of the people of great intelligence whom I am now addressing, if they were to spend a quarter of an hour in reading what I said at Sheffield and Bristol would not have the smallest difficulty in understanding what the view of the Government is."

But his opponents, and not they alone, continued to make the same charge of obscurity; and when, on the 18th of last May, his old colleague, Lord George Hamilton, pathetically exclaimed, "I do implore him to speak out plainly, and tell us what is his policy," Mr. Balfour expressed himself as literally struck dumb. That he, the only politician of them

all who had expounded his economic faith and laid bare his economic soul in a reasoned and published treatise, besides many and "somewhat lengthy utterances," should be looked upon as a master of mystification and ambiguity, was more than human patience could endure. He metaphorically gathered his toga around him, and refused any longer to resist the stabs of foes and friends. In effect he said, "If they will not hearken to *Economic Notes*, if they will not be persuaded by 'Sheffield' and 'Bristol,' I can do no more." With elaborate sarcasm he accepted the "hypothesis" of "an initial defect" on his part, "a want of capacity of lucid exposition," and asked "how it was possible to suppose a sixth or seventh effort would be more successful than the others?"

Only a few minutes after this contemptuous repudiation, Mr. Asquith pointedly and powerfully repeated the same accusation in words approved and cheered by more than his own side in the House of Commons. "The Prime Minister has said that the Sheffield programme is plain enough to any man in the street. All I can say is that not one of his colleagues could understand it, if I may take understand-

ing to mean, not merely intellectual apprehension, which is a thing that goes on inside a man's head, but the capacity of articulate expression."

A refusal to comprehend on the part of opponents may proceed from malice and not from incapacity; but here we have a statesman in a political situation which constrains, not an opponent, but an old friend like Lord George Hamilton to "implore him to speak plainly" and clear it up; yet one which Mr. Balfour himself describes, in words of obvious sincerity, as having been made so clear that "Every future misunderstanding shall be patently and obviously a wilful misunderstanding." The explanation of the difficulty is that the two parties are not talking about the same thing; the one is speaking of the position of Mr. Balfour the Economist, the others are speaking of Mr. Balfour the Fiscal Reformer, the politician, the Prime Minister. The one expounds the principles in which he believes, the others demand to know how he intends to put them into operation here and now; the one declares the articles of his faith, the others ask what works are to be the evidence and

fruits of this faith. And the controversy rages with theological bitterness.

Mr. Balfour refuses to be cornered on the practical side, which alone interests the practical man. "The hon. gentleman," he replied to Mr. Black, on the 14th of April, "appears to desire that I should give him not only a preliminary sketch of my election address, but also the details of the first Budget which I should introduce, when I returned to Parliament. I think the demand is excessive."

#### MR. BALFOUR THE ECONOMIST

To sneer at Mr. Balfour's economic arguments is easy, but not prudent. It justly provokes the counter-sneer that they "appear to be more laughed at than read." Mr. Balfour is no vulgar Fair Trader, he is no ignorant hater of imports in the lump, of things "made in Germany," or elsewhere. When Mr. Chamberlain made the crude statement, which Professor Marshall declares induced him to enter the arena and sign the Professors' manifesto, that "It is a mathematical truth that, if imports come into this country of manufactured goods, which we

can make as well as any other nation, they must displace labour," Mr. Balfour must have smiled. When Mr. Chamberlain, at Newcastle, painted the amazing picture of every mill and furnace in this country being closed, production and exports alike entirely ceasing, and our imports in consequence of this state of things rising to some 1900 millions sterling, Mr. Balfour must have shuddered. In short, Mr. Balfour is a well-instructed, logical, deductive economist, who has not suddenly but deliberately adopted and long held the opinion that for an "island" in the conditions of these British Islands the defence of a Protectionist Policy would be advantageous.

Mr. Balfour's declaration at Edinburgh that "I individually am not a Protectionist" cannot be accepted by either "old-fashioned" or "new-fashioned" Free Traders, unless he will alter his definition of Protection. If, instead of saying, "A Protectionist policy is a policy which '*aims*' at supporting or creating home industries by raising home prices," he will admit that a Protectionist policy is any policy which by means of a



tariff *actually does* support or create home industries by raising home prices, whatever its "*aim*" may be, we might accept his definition. But if, while not "*aiming*" at "raising home prices" by a general tariff involving the taxation of food, he nevertheless imposes such a tariff with another "*aim*," that of placing this country in a position to "resume its liberty of negotiation," he does, in fact, impose a tariff which is Protectionist in effect, which raises home prices, and he is a Protectionist. If Mr. Balfour will show that his scheme of retaliation does not involve a general tariff which will raise home prices, I shall be prepared to admit that he is not a Protectionist. If he will not make this admission, I would ask, wherein do his practical proposals for a new tariff differ from those of Mr. Chamberlain, whatever his ultimate "*aims*" may be?

Mr. Balfour starts from a broad scientific platform by contemptuously brushing aside the vulgar fallacies of the ordinary Fair Trader and Tariff Reformer. He admits to the full the past progress and actual present wealth and prosperity of the country

(*Economic Notes*, p. 10). He explicitly states that "we cannot get our imports without paying for them, and can only pay for them by our exports" (Bristol). He will not contest the statement that from the point of view of the nation "it is only what we import that matters" (*Economic Notes*, p. 10). He will not contradict the Free Trade doctrine, which, however, he slightly exaggerates in stating "that the only person that ought to be thought of is the customer"; he only suggests the caution that his "immediate interest" may not be the same as his "permanent interest."

In his survey of the general commercial situation, one feature seems in his eyes to dominate the prospect; in fact it fills the entire landscape. On every side he sees the same phenomenon—the rejection of the Free Trade theory and the adoption of Protectionist practice by all the nations of the world, except ourselves, including our own self-governing Colonies.

"The highly-developed industrial countries show no sign of any wish to relax their Protective system; the less developed com-

munities are busily occupied in building up protected interests."

His survey shows that these countries have prospered, but whether because of or in spite of their Protection he will not stay to inquire, his concern being with this country, and he is too enlightened to regard the prosperity of one nation as anything but conducive to the increased prosperity of the others.

On the whole he sees no decay, but he scents danger. The tendencies of the world are in the wrong direction, for Mr. Balfour's ideal is Free Trade, and especially do "these tendencies, which are moulding and must more and more mould the commercial fortunes of the world, appear to be inimical to the fortunes of this country."

This is the final conclusion to which Mr. Balfour comes, that this policy of foreign nations has been an injury and nothing but an injury to this country, and if we and they continue in our present courses it will be our ruin. "It would be impossible for any man to say we have not suffered profoundly from foreign tariffs" (Sheffield). "It would be impossible to hold a version of the Free

Trade theory so perverse"—as one that would deny this (*Economic Notes*, p. 21).

It is interesting to trace the method and the steps by which Mr. Balfour has reached his melancholy conclusion. It has not been by patient investigation of the facts, but by deductions drawn from the general principles of human conduct. Accepting frankly, as a postulate, with Free Traders, that foreign tariffs affect our imports and exports to an equal extent, he concludes:—

1. That trade flows along channels engineered not by nature "but by diplomacy" (Sheffield).

2. Therefore, by foreign tariffs we are forced to change our industries, from the industries out of which they have been engineered, into others.

3. That these changes are "to trades presumably less remunerative than the old," *i.e.* from the higher to the lower.

4. That the working classes will be the chief sufferers, for the capitalist manufacturer may transfer his capital, "adhere to his trade by changing his country."

5. That, seeing our "large imports are a

vital necessity to us, and the exports required to pay for them are not necessities to the foreign nations," we are in a position of disadvantage in the business.

6. That, therefore, we must purchase imports by lowering prices.

7. That imports must become "first costly, then unattainable."

This is the end to which we are hastening if we do not change our methods. This is the disastrous conclusion to which Mr. Balfour has brought us, step by step, by an assumption here, and a deduction there. Given his assumptions, there is no escape from his deductions.

Having followed Mr. Balfour to the melancholy end, I would ask in his own words to the British Association: "Do we not here touch a series of problems with which that most unsatisfactory branch of philosophy *inductive* logic ought to deal?" He himself speaks of "revising his principles in the light of experience." How would the assumptions from which he has deduced such tragic conclusions have fared if he had faced this painful labour?

If he had endeavoured to verify his assump-

tions that foreign tariffs *force* us to pay for our imports by continuously lowering the price of our exports, he would have found that, although during the past thirty years we have greatly cheapened our wares, yet the Board of Trade calculate the foreigners have cheapened the goods they send to us to a rather greater extent. We are getting more, not less, of serviceable commodities by the exchange.

If he had revised his "principle" that changes of trade forced upon us by hostile tariffs *must* be from the higher to the lower, "in the light of experience," he would have discovered that in fact the contrary had happened—unless he is prepared to say that bankers, brokers, sailors, shipbuilders, and engineers are inferior to naked sugar-boilers, and scorched—and too often maimed—puddlers and furnacemen. Our largest export trade, our shipping trade, has been built up in the last forty years as much upon the foundation of the Protectionist policy of our neighbours, who have refused our iron and calico and forced us to pay our debts in shipping services, as upon our own Free Trade policy. And surely for an island people the most important,

the most imperial, the most envied trade is our shipping trade.

If he had tested his statement that foreign tariffs attract within the orbit of their operation the British capitalist, who changes "not his trade but his country," he would have found that though this has been true in the past, and is less true to-day, the tide has turned, and to a still *greater extent* the very highest and best and largest of the foreign capitalist manufacturers are flying with their capital, their organising ability and technical training, to this land of free imports,<sup>1</sup> where

<sup>1</sup> The Tariff Reform League have published a list of Expatriated British Industries. I am surprised to find this list so small, although they go back some twenty-five years for some of their examples.

On the other hand the most numerous and conspicuous examples of the converse process, the Importation of Industries, are of very recent date.

The remarkable attraction of this country appears to be operative chiefly in the cases of the very largest and best of the American firms—those who, having gained supremacy in their own markets, aspire to a "world" trade. These firms, instead of dumping their produce, appear to find it more profitable to "dump" themselves, their capital, experience, organisation and skill, to our great advantage. This phenomenon in part explains the very great excess of American exports over imports in recent years, and is likely to have a remarkable effect in increasing our exports, especially of machinery, in the near future.

For example—the most important manufacturers of mining machinery in the world, Messrs. Fraser and Chalmers, of Chicago and San Francisco, have established works near London. The

they employ the highest class of British labour, pay British taxes, and produce a better result for a given cost than they could do in any other country.

If he had looked at the question less from the point of view of the Foreign Office, and investigated the state of both economic and popular opinion in the United States and Germany; if he had weighed the force of the movement for Tariff Reform, *i.e.* for the reduction of the tariff, in America, the avowed policy of one of the great parties in the States, and one which has the sympathy of large numbers in the other party; if he had considered the means by which the new German Tariff was carried, and the significance of the Social Democratic vote, he might not have spoken of the "utter repudiation of Free Trade by every country but ourselves," doubt

largest makers of electric plant in the world, the Thomson-Houston Co., have established themselves at Rugby.

The largest single works for electric plant in the world are those the Westinghouse Company of Pittsburg have built at Trafford Park—works which employ 7000 of our most skilled and best-paid operatives. The largest American boiler-makers have works in Scotland; the American Screw Co. have works at Leeds; the Singer Co., the Kodak Co., the Swan Match Co., are further examples of a migration that is one of the most remarkable commercial signs of the times.



might have arisen as to the permanence of reaction in America, and a suspicion that the triumphs of the Agrarians and the life of the new German Tariff might be short.

By following this abhorred inductive process, Mr. Balfour might, by this time, have begun to doubt the absolutely universal application of his dictum that "we have suffered profoundly by Foreign Tariffs," or, at any rate, whether although they may have reduced the total volume of international trade, they have not injured least of all the single nation that has refused to fetter itself. Curiously out of place, we find at the end of Mr. Balfour's *Economic Notes* a page of statistics—two little tables of selected exports, selected after the Birmingham manner. To them, however, he scarcely refers in his text. They would seem to show that his concern has been aroused by the phenomenon of the relative, not absolute, decline of British exports. It might have occurred to a mind given, like Mr. Balfour's, to broad economic generalisations, to ask whether this is a sign of decaying or of advancing industrial civilisation; whether it is not possible, as has been so well shown by

Mr. J. A. Hobson in his last book on International Trade, that in the most advanced industrial organism a smaller proportion of energy will be devoted to the extractive arts and primary manufactures, and a larger proportion to the more specialised processes required to supply a greater variety of special needs, and to the production and distribution of non-material wealth, and thus a smaller proportion of the real wealth of the nation will be capable of forming the material of international trade; whether, in fact, we have not passed the industrial stage requiring a very rapid growth of exports.<sup>1</sup>

But those who agree with Mr. Balfour, and those who, like the writer, disagree with him, providing they have carefully read and not merely laughed at his words, must absolve him from the charge of obscurity as an economist.

<sup>1</sup> The opinion here expressed of the probability of a diminution of the relative importance of our foreign trade to our total national expenditure of energy, in future generations, is by no means affected by the large increase in the exports of our manufactured goods in the four years which have elapsed since the first publication of this paper. In an article published a year earlier, and reprinted in this volume (p. 48), I had distinctly stated my belief that we were about to witness such an increase in our export trade.

It remains in a very short space to consider

MR. BALFOUR THE FISCAL REFORMER

"Do you desire to alter fundamentally the Fiscal tradition which has prevailed during the last two generations?" is the question Mr. Balfour addressed to himself at Sheffield. "Yes, I do," was his reply. These be brave words, and from that day to this he has been pestered with the question he persists in regarding as impertinent: "Yes, but how?" Mr. Balfour and Mr. Chamberlain begin in perfect agreement. "If you are to have Colonial preference you must put a tax on food," says Mr. Chamberlain. "Any attempted remedy, so far as I am able to see, would involve the taxation of food in this country," says Mr. Balfour.

So far both statesmen speak with one voice; they have arrived by different roads at the same theoretical ideal. To convert theory into policy, and policy into fact, is the task before them.

How different is the spirit in which they enter upon this task. Even before the late

by-elections Mr. Balfour declared that the "remedy cannot be tried in its integrity, because I believe the country will not tolerate a tax on food." Even after the late series of by-elections, on 22nd July, Mr. Chamberlain thus encourages the Tariff Reform League at Birmingham: "Although there may be some hesitation, though there may be some difficulty, we shall win in the long run."

This indicates, not merely a difference of temperament, it is a difference of policy, so far as the word policy can be properly applied to the Fiscal utterances and conduct of the Prime Minister. Mr. Balfour, the Deductive Economist, "*desires*" to "alter fundamentally our Fiscal tradition."

Mr. Balfour, the Economist, would tax the people's food.

Mr. Balfour, the Economist, considers that the evil of food taxation, "provided that taxation is kept within narrow limits, has been exaggerated."

Mr. Balfour, the politician and Minister, will have nothing to do with Mr. Balfour the Economist.

This Mr. Balfour is a man with occasional

brilliant intuition ; he feels " that the country will not tolerate a tax on food."

Therefore Mr. Balfour, the Fiscal Reformer, has made only just one practical (?) contribution to the controversy. " I ask the people of this country," he said at Sheffield, " to delete altogether from their maxims of public conduct the doctrine that you must never put on taxation except for revenue purposes." This it must be admitted does not carry one very far. In itself it is a platitude, its force lies in its application.

With this and this alone to indicate the Fiscal Policy of the Prime Minister of England, is it wonderful that Lord George Hamilton continues to " implore him to speak plainly " ?

Mr. Chamberlain needs no economic lamp to light his path. He knows his way in the dark. No intelligible theory of international commerce can be reconciled with his various recent speeches. As Economist he must be pronounced at least incomplete. But as Tariff Revolutionist he knows whither he would go, and the way he knows, and how to point it out clearly. He means to tread it, and he means to carry us all along with him. Obscurity

is abhorrent to him. In speech or act it is impossible to him; and in thought—well, in thought it is possible to avoid obscurity by not thinking too much, by not looking too far before and after.

In contrast, Mr. Balfour stands holding up his economic lamp. The light shines clearly, but in the opinion of many who hear and admire him, it has, unconsciously to himself, been refracted and diverted by unsuspected lenses and prisms. He seems to see, and he declares, that it is destruction to stand where we are—there is only one step to take, he exclaims, but that step involves the taxation of food, and it is, alas, impossible.

THE END



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