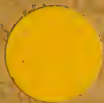


HF
2046
M3

UC-NRLF



8 3 116 309



YC 88856

W. L. F.
W. A. T.
MAY 19 1911



PRICE ONE PENNY

NOV 20 1916



The
Fiscal Policy of
International Trade

Being a Summary of the Memorandum
by Prof. ALFRED MARSHALL, published
as a Parliamentary Paper in 1908

BY

J. M. ROBERTSON, M.P.



CASSELL AND COMPANY, LTD.
London, New York, Toronto and Melbourne
1910

The
**Fiscal Policy of
International Trade**

Being a Summary of the Memorandum
by Prof. ALFRED MARSHALL, pub-
lished as a Parliamentary Paper in 1908

BY
J. M. ROBERTSON, M.P.



CASELL AND COMPANY, LTD.
London, New York, Toronto and Melbourne
1910

HF 2046
M3

John H. ...
Digitized by the Internet Archive
in 2008 with funding from
Microsoft Corporation

INTRODUCTION

AT the end of 1908 there was printed, by order of the House of Commons, a "Memorandum by Mr. Alfred Marshall on the Fiscal Policy of International Trade." It had been originally written in the autumn of 1903, at official request, by way of answering two main questions. But, as is explained in its Prefatory Note, some of the author's emendations and additions to the original draft were lost in course of post, and for this and other reasons, he preferred that it should not be published. In 1908, however, a question having been asked about it in the House of Commons, he consented to revise it slightly, and he re-wrote one portion; whereupon it was officially published with his consent.

The value of the Memorandum was at once recognised by students of economics and by many politicians; but, partly by reason of the official form in which it was issued, it has never had the general circulation which it so well deserves. The present pamphlet is a condensed statement of the whole argument, with many extracts in Professor Marshall's exact words. The italics are usually ours. Where any suggestions are introduced which are not explicit in the original they are put in brackets; and at one or two points critical comments are thus presented. It is hoped that in this way a valuable essay may be brought within the reach of un leisured readers. The original White paper, price 3d. (folio form), numbered 321 (1908), can be procured through Messrs. Wyman and Sons.

A special value attaches to Professor Marshall's pronouncement in respect of his having always insisted on

the possible value of Protection to the industries of a "new" industrial country. From the first he championed the declaration of J. S. Mill on that head, in opposition to the Free Traders, who condemned it. His defence of the system of Free imports for the United Kingdom is thus the impartial doctrine of one ready to declare for Protection wherever it could, in his opinion, yield good results. Thus the Free Traders who may still dissent from his doctrine as to the value of Protection for nascent industries may claim him as the more weighty an authority for Free Trade at home.

J. M. ROBERTSON.

The Fiscal Policy of International Trade

PROFESSOR MARSHALL'S paper is in two parts, the first dealing with "The Direct Effects of Import Duties," the second with "England's Fiscal Policy considered with reference to the Economic Changes of the last Sixty Years."

PART I

DIRECT EFFECTS OF DUTIES

§ 1

On the first problem he at once lays down the opinion that, "*in nearly all important cases,*" import duties "*are borne almost exclusively by the consumer.*" He admits that in some actual cases, on a small scale, "a perceptible part of the burden of an import duty is borne by foreigners"; and that on the first imposition of any new tax some of the burden "is apt to rest *temporarily* on the producers, merchants, shippers and others, until they are able to shift it to *its permanent resting-place on the shoulders of consumers.*" Any further burdening of "the foreigner" is theoretical, and cannot be proved from actual price movements.

The problem, however, "cannot be completely solved by a mere study of price movements." Taxes on given imports make them dear relatively to gold; so that in a country with many high import duties the purchasing power of gold is *generally* low; and the rise caused in the price of any one commodity by a tax does not tell the relative amount of the new burden. Where the import

duties are few, however, the tax will burden consumers (near the frontier) by the whole amount, and this will indicate the real increase in cost.

On the other hand, rapid improvements in production and transport may so raise incomes as to outweigh rise in prices, though the rise in incomes might have been much greater in the absence of import duties. The question is thus a very wide and complicated one, and cannot be fully handled in a memorandum. But this much can be shown:—

“A country cannot expect to throw any considerable share of the burden of her tariff on other countries, *unless she is in a position to dispense with a great part of the goods which she imports from them*, while she is at the same time in the possession of such large and firmly established partial monopolies that those countries cannot easily dispense with any considerable part of their imports from her. So far as the latter condition is concerned, England was in a strong position early in last century. But not even America is in a strong position now; *while England and Germany are, as it seems to me, in weak positions.*”

[In other words, England and Germany in varying degrees need the raw materials and wheat supplied by other countries, and export little that is indispensable to the countries whose products they do or may tax.

It should be added that the “strong position of England” was rapidly undermined after the peace of 1815.]

§ 2

A theoretical solution of the problem is beset by many difficulties. If we suppose two countries, A and B, trading solely with each other, and A alone to impose import duties, and B to be in urgent need of A's goods, while A is not in urgent need of B's, B would clearly suffer. “But in the real world B always has access to other countries,”

and a triumphant pressure from one side, "in fact, never does occur on a considerable scale in the modern world."

In practice, the problem is complicated enough. A duty may raise prices at the frontier, but not elsewhere. "Timber is sometimes almost without value on the Pacific slope, while in other parts of the United States its price responds to taxes on importations from Canada." But "in countries, no part of which is far removed from the frontier suitable for importation, such as the United Kingdom and Belgium, *the full effect of an import duty is felt by nearly all consumers, even of commodities as bulky as wheat.*"

Geographical causes may come into play. Possibly Germany may force part of the burden of her tariff on Russia. But she cannot so burden England, "even though there are a few chemical and other German products which England cannot easily forego. England can always take these as her first choice, and for the rest of her trade Germany must force her way with goods which England has no special reason for obtaining from her rather than from other sources. *And what is true of Germany, with regard to England, is true of England with regard to the whole Western world.*"

[Professor Marshall goes on to argue that England was in a "strong" position when her wool was indispensable to Flemish weavers; and, again, when "in the first half of the nineteenth century" her exports "consisted chiefly of manufactures made by steam machinery, which was not in general use anywhere else; together with tropical products, which she had special facilities for obtaining." In regard to these, he thinks, "England did no doubt throw a considerable part of the burden of her taxes (import and export) on the foreign consumer," though she thus forced the latter into competition, and checked the progress of her own people by unwise adjustment of taxes.

Upon these propositions two comments may be made.

1. The *need to sell* must at times have forced English exporters of wool in the old days to bear *part* of the export duty. This actually happened in recent years as regards the coal duty.

2. The resort to steam machinery on the Continent can be shown to have been rapid from about 1820 onwards; and there was severe foreign competition in textiles in the 'thirties. It is in the nature of machine production, too, to outrun demand, and exporters must thus often have failed to get the theoretically possible benefit of a "partial monopoly." It would be chiefly in sales of tropical produce that English traders would benefit at the period in question.]

On any view, England is no longer in a position of special advantage as regards her exports. "Her arts and resources of production have become the common property of all countries of the Western world, and in some important cases have been developed by others faster than by herself; and the growth of her population has made her demand for many of her imports more urgent than is the demand of any other country for any of her exports." But she is not in a much weaker position here than Holland and Belgium and Germany.

"Small gains," it is true, "may be snapped by sudden import duties." Thus a sudden extra duty on Greek currants, or on port wine, might hit the foreign producers for a time. Similarly, if manufacturers in any country have laid down costly special plant to supply a particular foreign market, a new import duty there might force them to lower their prices. But these effects can only be temporary, and the gain to the importers will be short-lived.

§ 3

Granted that under a high general tariff the general purchasing power of gold tends to be low, and that a rise in the price of a commodity from any one import duty is not necessarily a relative increase in cost to that amount in comparison with foreign prices, on the other hand the low purchasing power of gold implies a deduction from the estimate of any country's prosperity. Before the modern tariff period in Germany, the purchasing power of money there was reckoned to be two-thirds higher than in England. The saying ran: "A thaler equals 5 francs, which equals 5s." "I took considerable pains to verify this statement, and I found it to be approximately true, even after allowing for the fact that many comforts and minor luxuries had then to be bought either from England or from world markets." To-day Germany is substantially abreast of England in these matters, also in iron and steel production, and nearly abreast also in labour efficiency. Possibly the tariff, by helping new industries, may have had some small share in this progress; but, on the other hand, "undiscriminating import duties, imposed to gratify powerful interests, and not needed to protect any nascent industry, have (partly, indeed, by strengthening cartels or trade combinations) so raised prices against the consumer, that *the real wages of the German workmen have risen less rapidly than those of the English*. Money wages in the more progressive parts of Germany have probably risen rather faster than in England; though, save in the heavy iron industry, the condition of which is temporarily exceptional, they still lag behind. But *the prices of the necessaries of life have risen, while those in England have fallen*; so that 6 marks—instead of 3, as was the case thirty years ago—are required, I believe, to purchase as much of them as 5s. do in England now [1903]. In spite of Germany's vast technical advances, in spite of

the growing energy of her people, in spite of the development of German iron ores—while those of England are running short—I believe it to be true that the real wages of the German are increasing less rapidly than those of the Englishman; and that *if Germany abandoned Protection*, which has now no considerable service to render her, *the wages of the German would rise a great deal*. To hazard a bold guess, I should expect them to rise by about a fifth.”

§ 4

As regards wheat prices in England since 1820, it is obvious that changes in import duties may be temporarily countervailed in one or other direction by good or bad harvests, by changes in freights, or by a war which interrupts commerce. When, however, such causes are allowed for, it will be found that “nearly every movement in the world’s market for wheat, and especially in the relative prices of wheat in English and Continental ports during the nineteenth century, will be found to be such as could have been anticipated from the doctrine that a tax on such a commodity as imported wheat raises the price of that wheat near the frontier by at least the full amount of the tax.”

In the first half of the nineteenth century, wheat-growing for export was not much developed in Central and Eastern Europe, where the badness of the roads made its transport too difficult before the introduction of railways. In North-western Europe, some parts or countries had good roads, and some a good system of water communication. But these regions were not always well adapted for wheat-growing, and being in general thickly populated, they needed most of their corn for themselves. Further, England, which was the largest market for wheat, had such a perverse system of prohibitions and sliding scales that it

was "an act of gambling rather than of sober business to grow wheat for the purpose of meeting her uncertain demand." Consequently, her imports were made up of the surplus of wheat crops of districts in most of which rye was the staple food; and the supply which she got from any one port would often vary tenfold from one year to the next.

In the second quarter of the century roads were somewhat improved and railways began to appear, but not till after the Crimean War did they begin to be driven, for military purposes, through the large wheatfields of Central and Eastern Europe. It is only by taking note of these facts that we can understand the effects of the abolition of the Corn Laws in 1849.

For a few years after 1846 European harvests were mostly good, but the Crimean War was accompanied by general bad harvests; freights were for a time very high, and the Russian trade was, of course, interrupted. And this was not all. In the period before 1849 the world's stock of gold had been shrinking relatively to the growing need, and, as a result, prices in general had been falling. [Thus a comparison of the prices before and after 1849 does not fully indicate the actual costliness of food under the old system.] Upon the new gold discoveries of 1848, the natural rise in prices led to speculation, which forced prices up to a point of general inflation. "It was just when all these exceptional causes were working together that that rise of wheat to a little over 70s. occurred, which has been urged as a reason for doubting the influence of the policy of free importation on the price of wheat. And a second rise in 1867 to a price a little above 60s. has been forced to the same service; though it is amply accounted for by simultaneous exceptionally bad harvests in America and Europe in 1867, following after the indifferent harvest of 1866."

A new state of affairs began to develop in the 'seventies. It is not generally realised that the cultivation of wheat about that period was greatly fostered in the United States by the terms on which western farm lands were granted to pioneer agriculturists. Getting the land on the sole condition of cultivating it, they could afford to grow wheat, for which in any case the new soil was well adapted, at very small profits. Their main reward was the land itself. England was their best foreign market; and, in the circumstances, she might perhaps have thrown on the American farmers a small part of an import duty if she had chosen to impose one, making them sell more cheaply still, "on the supposition that a rise in the price of wheat would diminish its consumption." Up till about fifty years ago a rise in wheat prices did mean some diminution of consumption. But since then the people of England have in general been able to buy what bread they needed, with a margin for more expensive foods; and as a rise in wheat prices still leaves bread the cheapest kind of food, they buy even more of it than before, lessening their expenditure on meat and other foods. "Consequently, a general tax on the importation of wheat into England now might increase rather than diminish England's total demand for wheat; and, unless it led to a great increase of supplies from England herself, it might raise and not lower the net price which foreigners obtained for their wheat.

"In Germany, on the other hand, in spite of her recent great advance in wealth, a rise in the prices of wheat and rye compels many people to substitute potatoes and other cheap foods for part of their consumption of bread; and therefore an increased tax on imported grain, harvests being normal, is sure to diminish importations."

In the United States, pioneer wheat-farming at low profits is now declining. Wheat is thus ceasing to be a

“bye-product,” and its price tends to rise; though it is likely that continued economies in transport will for a long time countervail such a rise, so far as the English market is concerned. The total production continues to increase. Apprehensions have been founded on “the fact that between 1880 and 1900 the population of the United States increased 52 per cent., but its cereal products only 27 per cent. It was perfectly natural to select for comparison census years, because exact statistics of population are available only for them. But, unconsciously, some bias has been introduced thereby. For 1880 was an exceptional prolific year, and 1900 was not a very good one. If we invert the bias, and select for comparison the years 1881 and 1893, we find the wheat crop rising from 383,000,000 to 685,000,000 bushels, and the maize crop rising from 1,195,000,000 to 1,924,000,000 bushels.”

In large countries like Germany and France, themselves producing much wheat, inland prices will not always correspond to those at the frontiers when the latter are determined by import duties. Still, the actual correspondence has been remarkably close. “From 1820 to 1840 the average price of wheat in England was about double that in the specially wheat-producing districts of Germany, and quite half as much again as in the industrial districts of Westphalia and the Rhine Province; while now the price in Germany is about a third as much again as in England. In France, with an almost stationary population, Protection has compelled the people to pay about as high a price for their wheat now as they did early in the century.

“If in England a tax were imposed only on foreign and not on Colonial wheat it would, under existing circumstances, diminish the English demand for foreign wheat, and thus probably cause it to be *offered temporarily on very slightly lower terms: i.e.,* the price here would probably not be raised at once by quite

the full amount of the tax," but a check would be given to the production of wheat in foreign countries. In Argentina less new land would be broken up for wheat; and in the United States mixed farming would spread faster even than it is doing now. "That is to say, the time during which even a very small part of the burden of the tax could be thrown on foreign producers would be short; and during that time Germany and other wheat-importing countries would gain the benefit of slightly cheaper supplies of wheat from places other than British Dependencies, as fully as this country would, though this country alone paid the cost."

PART II

ENGLAND'S FISCAL POLICY CONSIDERED

§ I

In his second part, Professor Marshall answers the question: "How far, and in what directions, the circumstances which formerly made Free Trade the best policy for this country have been altered?"

In his opinion, the early Free Traders "misjudged both the needs and the potentialities of backward countries, and especially of new countries. They assumed that every country which has latent resources and faculties for an advanced industry will attract that industry to her from other countries as easily and surely as one county of England would under like circumstances attract it from other counties. But this is not true now, and it was even less true then."

Sixty years ago the difficulties of pioneer manufacturers were much greater than they are now even in old countries, and very much greater in "new" countries. "And to the inevitable difficulties there were added frequent applications of the force of large English capitals in underselling, even at a loss, pioneer manufacturers.

“List and Carey, the great German and American founders of modern protective policy, insisted on two fundamental propositions: one was that Free Trade was adapted to the industrial stage which England had reached, and the other that State intervention was required on behalf of pioneer industries in less advanced countries. Had English Free Traders appreciated fairly the force of the second of these positions, their powerful arguments that Protection was an almost unmixed injury to England would perhaps have been accepted by the whole civilised world. As it was, this, their one great error, put many of the most far-seeing and public-spirited statesmen and economists in other countries into an attitude of hostility to their position as a whole. It has caused, and it is causing to-day, able men to deny, directly or indirectly, economic truths as certain as those of geometry, because English predictions, suggested by this one great error, have proved both misleading and mischievous.”

[It is unnecessary in present circumstances to debate the issue here raised. But by way of reminder that there was a very strong Free Trade case against the doctrines of List and Carey, it may be pointed out that in the fourth decade of the nineteenth century cotton and steel manufactures were successfully carried on, both in the United States and on the Continent, in competition with English producers. “New” industrial countries were then able to undersell English manufacturers in some branches in the English market, and to break down the English “partial monopoly” elsewhere. And it is to be observed that the invariable sequel of protective duties in “new” countries has been, not the avowal of the expected success, but a demand for still higher protection against foreign competition. The strongest argument in these cases, probably, was the fact of the resort to “dumping” by English exporters.]

§ 2

The early Free Trade economists in England "did not condemn all import duties, but only the most inconvenient, such as those on raw material, or those which pressed heavily on the poor"; and, lastly, "differential" duties, which tended to hamper the consumer without benefiting the revenue. Proceeding on actual experience, and not on mere theory, they found "that in the case of all commodities for which the English climate was suitable, or for which inferior substitutes could be obtained, the evasions caused by a tax were very great; the waste was, in fact, so great as to exceed many times the small part of the burden of the tax which could be thrown upon foreigners. They therefore advocated the abolition of all such taxes as contrary to the principle of economy in taxation.

"A chief corner-stone of our present fiscal policy is the great truth that the importation of goods which can be produced at home does not in general displace labour, but only changes the direction of employment. Of course, any violent change is, to some extent, an evil; but there is a strong *primâ facie* possibility that if the business men of a country, when left to follow their own judgment, decide that it would be more costly to make certain goods at home than to import them in exchange for other home-produced goods for which there is a foreign demand, their judgment is right. Unfortunately, however, when those in the industries with which the imported goods compete set themselves to persuade the public and Government that a protective import duty should be levied, their private interests are at a great strategic advantage in competing with those of the public. For it is possible to point to the particular places in which additional employment would be given by the tax. It is easy to find out the

particular employers and workmen whose profits and wages would be raised by it; to invite the employers to subscribe to a 'campaign fund' on its behalf; and to urge both employers and employed to exert all the political influence, direct and indirect, which they possess, in putting pressure on the Legislature in their favour. In earlier times, as now, unscrupulous politicians would boast that, by going from one constituency to another, and holding before each a protective duty which would give a visible bounty to a considerable portion of the constituency, they could work up an eager cry for a protective policy, and could thus shout down any arguments based on the general interest.

"Those who cared more for the well-being of the masses of the people than for class interests or for political power, found themselves in a difficult position. For, though they knew that such taxes must lessen employment and lower real wages in the aggregate; and that those industries which gained by the taxes would gain at the expense of a greater aggregate loss to other industries; yet they could not always point out the particular industries which would suffer most; while the far more numerous workers who had nothing to gain by such taxes had seldom any organisation and were not vocal. Thus the benefits of such taxes, because easily seen and described by persons who could easily make themselves heard, were apt to count at the polling booth, and even in the counsels of statesmen of upright intentions, for more than the evils. For those evils, though greater in the aggregate, were less easily seen; and they did not directly appeal to vocal classes."

The Free Trade cause was aided by the fact that many of the old duties were conspicuously injurious to employment, while that on corn burdened the food of the people. The impression thus made, however, has somewhat diverted attention from the general argument, which

proves that protective taxes lessen rather than increase the aggregate employment, wages, and profits.

In putting that argument the older economists expressed themselves badly, and laid too great stress upon the "capital stocks" of machinery, raw material, food, etc., whereas later economists look rather to the total yield of production and commerce. But the main argument remains the same—namely, that when goods which could be produced at home are imported, they are generally got at less cost of labour and capital by way of exchange, and that the total efficiency of production, and the aggregate of products, from which all incomes are drawn, are thus increased.

Further, "a tax which puts obstacles in the way of the importation of things which consumers prefer to buy from abroad, does not enlarge employment or raise wages; it is not in the interest of 'producers.' It is sure to be in the interest of *some* producers (if among producers are counted landlords and other owners of natural sources of production). But it is sure also to injure other producers more than it benefits the favoured group; because it lessens the aggregate flow of desirable things available as a basis of employment and for distribution among the various classes of the nation.

"This fundamental truth is, of course, not inconsistent with the counsel that, as the prudent husbandman puts seed-corn into the earth, so a nation should be ready to sacrifice something of present income in order to develop industries which are immature, and perhaps exposed to the competition of others which are strong. But this counsel had no application to England, because her industries were relatively mature.

"The founders of our present system had to combat the objection that, although Free Trade might be for the advantage of all nations if adopted by all nations, it was

a mistake to open English ports freely unless and until foreigners would reciprocate this generosity. To that two replies were made.

"The first was that foreigners would certainly adopt England's policy as soon as they saw how successful it was. The events of the next few years gave some support to this hope. But it was based on a misconception of the position. It ignored the fact that protection to immature industries is a very great national good; and that, though that good may be bought at too great a cost, it would have been foolish for nations with immature industries to adopt England's system pure and simple.

"Their second answer was sufficient by itself, and was complete without a flaw. It was that if, in spite of taxes levied by other nations on her goods, she could get them in exchange for her own at less cost than she could make goods like them for herself, it was in her interest to do so. Of course, here again there might be exceptional cases. It might be possible to retaliate by taxes, a part of the burden of which would be borne by foreign consumers of English goods. But as has already been noted, it was decided not to try for such small gains."

[With regard to the reaction towards Protection in foreign countries, it should be noted that it took place in nearly all cases under special financial pressures. In the United States the tariff was lowered in response to the action of this country, and at the time of the outbreak of the Civil War it remained low. War finance, however, necessitated heavy excise duties, and import duties had to be imposed to balance these. After the war the excise duties were removed, but the import duties remained, and once thoroughly established, they constituted an almost irreversible vested interest. In Germany, Prussia reached a position of approximate Free Trade before the Franco-German War. But when Bismarck

found afterwards that he required a greater revenue for military purposes than the States of the Empire would consent to pay in their "matricular contributions," he induced manufacturers on the one hand and landowners on the other to support him in a tariff policy by offering special benefits to both. In France financial needs were similarly operative. In almost no case was "a very great national good" in the way of promotion of new industries the moving principle; and in Holland, notably, a policy of substantial Free Trade has been adhered to. In agricultural Denmark, too, food imports are mostly left free.]

It was urged on the statesmen who set up Free Trade in England that they should not give free entry to the goods of countries who refused to lower their tariffs for us. In some cases this course was adopted; but it was not a policy that recommended itself to the "great and noble, if somewhat too sanguine men who threw England's ports open as wide and as quickly as they could." This decision of theirs "has not the strength of a scientific demonstration," such as their refutation of the doctrine that the importation of goods which can be manufactured at home tends to lessen employment. "It is based on a judgment of relative quantities." Such judgments are fallible, even for their time and place; and relative quantities change rapidly. Each age must judge such matters for itself.

[It may be added that Sir Robert Peel avowedly tried for years to induce foreign countries to lower their tariffs on condition of our lowering or cancelling ours; and it was after finding such negotiations in general fruitless that he decided to abolish many duties and reduce others in our own interest. It would be difficult to show that he was over-sanguine on the subject; and Cobden's "predictions" have been much exaggerated.]

§ 3

Other countries have not found, on the other hand, that a policy of Protection yields the results which the protectionist theory promises. Professor Marshall, taking a favourable view of a protectionist policy for "new" countries, did not find the facts square with his forecast.

"I for one was so much impressed by those arguments of Carey and his followers, which had found scarcely any echo in English literature, that I went to the United States in 1875 to study the problems of national industry and international trade from the American point of view; and I was quite prepared to learn, not indeed that the American system was applicable to England, but that it might contain ideas capable of adaptation to English conditions.

"I came back convinced that a protective policy in fact was a very different thing from a protective policy as painted by sanguine economists, such as Carey and his followers, who assumed that all other people would be as upright as they knew themselves to be, and as clear-sighted as they believed themselves to be. I found that, however simple the plan on which a protective policy started, it was drawn on irresistibly to become intricate; and to lend its chief aid to those industries which were already strong enough to do without it. In becoming intricate it became corrupt, and tended to corrupt general politics. On the whole, I thought that this moral harm far outweighed any small net benefit which it might be capable of conferring on American industry in the stage in which it was then.

"Subsequent observation of the course of politics in America and elsewhere has strengthened this conviction. It seems to me that the policy adopted in England sixty years ago remains the best, and may probably remain

the best, in spite of increasingly rapid economic change, because it is *not* a device, but the absence of any device. A device contrived to deal with any set of conditions must become obsolete when they change."

It is argued, on the other hand, (1) that Governments grow less corruptible and more competent to frame sound tariffs; (2) that certain countries flourish under them; (3) that tariffs tend to rise; (4) that England's industrial leadership is passing away; (5) that foreign industrial combinations, fostered by tariffs, have an increasing power to injure us; and (6) that new possibilities of tariff relations have arisen within the British Empire.

It is true that the early Free Traders distrusted governmental control; but they had reasons for doing so. Standards of efficiency and ethics have since risen; but this is largely owing to Free Trade, and it is very doubtful whether under a tariff system the improvement would continue. The experience of other countries is not reassuring. German official standards have always been high; yet the methods of the German "agrarians" have done much to make German workmen turn Socialists. Englishmen in general do not seem to realise this. To introduce a tariff system into England would surely tend to influence labour politicians in a similar direction.

Though governments improve in efficiency, their tasks increase in complexity and difficulty; and the need for carrying on so many new national and municipal undertakings is an additional argument against "an intricate system of combative finance which would occupy much of the best time and strength of Parliament and Government, and which might tend to lower the tone of public morality."

As regards the progress of Germany and the United States under tariffs, again, their increasing power alike

to purchase from us and to supply us has improved our position in many ways, while injuring it in others. In point of all natural resources, "excepting climate and coal" [the last exception is much open to challenge] "the United States is incomparably better supplied than England is; and in the early stages of nearly every great branch of her production, labour of a given efficiency will go much further than in England—in some cases more than twice as far." [In the States, much more coal is produced by a much smaller number of miners than in England; the seams being mostly near the surface, and easily worked by machinery.]

When, in the early part of the nineteenth century, European manufacturers were at much pains to smuggle machines or drawings of them out of England, Americans largely invented for themselves; and they have always been highly progressive in this respect. Further, the domestic trade of the United States "is larger than that of the whole western world was when she achieved her independence. Protection could not possibly do her much harm; and it is probable that the help given by her to a few industries, which really needed help, about compensated for the economic loss (but not for the moral injury) caused in other directions by her protective policy."

In Germany, again, a protective policy has on the whole probably hindered rather than helped industrial progress. If we take coal and iron together, her mineral resources appear about equal to ours [her iron resources, since the invention of the Gilchrist-Thomas process, are much greater]; and her agricultural resources are much larger. As regards foreign trade, she has almost exclusive access to large areas of Eastern Europe which do not yet manufacture for themselves, and much of her progress is due to this advantage. Finally, she has gained

immensely from the Zollverein, "the most important movement towards Free Trade that the world has ever seen, except the contemporary reform of *the British fiscal system*." Its influence "was largely in the opposite direction to that which would be exerted by the commercial federation of the British Empire; though in many respects similar to that which would be exerted by a commercial federation of Anglo-Saxondom, if that were possible."

§ 4

"England is undoubtedly in a worse position than she would be if the commodities for which she has a special aptitude were not generally liable to heavy taxes abroad. But the taxes on her imports levied by a country in the same industrial phase with herself will always be of relatively small importance to her. It is generally to the advantage of both that they should exchange textiles or metal goods whenever merchants see their way to a profitable exchange."

"Nor could England be very seriously injured even by a concurrent imposition of taxes on her imports on the part of all countries in the same industrial phase with herself. . . . Her own markets would afford scope in almost every branch of such work for several establishments of the largest size which can advantageously be controlled by single management; and therefore her loss under this head, though considerable, would not be very great. She would give more attention to products suitable for sparsely peopled countries; and this would help her in obtaining such crude mineral and agricultural products as she needed.

"Nor is there any very urgent danger to be feared *in the near future* from the concurrent imposition of heavy import duties on manufactures by sparsely peopled countries. For most of those countries are still in urgent

need of capital; and they cannot afford to divert much of it from developing their abundant resources to setting up modern steel and other industries. Consequently, many manufactured products will long continue to be imported on a large scale even into the more highly developed new countries."

The world, however, is being peopled very quickly. A century hence the fertile and minerally rich countries may be mostly peopled up to their feeding power, and able to produce most of the manufactures they require, and to use most of their own raw produce. "When that time comes, those who have surplus raw products to sell will have the upper hand in all international bargains. Acting concurrently, whether by mutual agreement or not, they will be in the possession of an unassailable monopoly; and any taxes, however oppressive, which they may choose to impose on the only products which densely peopled countries can offer to them, will be paid mainly by those countries. It is this consideration, rather than the prospect of any immediate danger," adds Professor Marshall, "which makes me regard the future of England with grave anxiety."

In one important respect England has gained more than almost any other country from modern progress—that is, in the reduction of the cost of carriage of the food and raw materials which she imports. In nearly every other respect she has gained less than any other country; while countries which used to be dependent on imported manufactures have gained all round. Formerly backward races can now work textile and other machinery fairly well. "Thus England is at a steadily increasing relative disadvantage in trading not merely with people like the Japanese, who can assimilate every part of the work of an advanced factory; but also with places where there are abundant supplies of low-grade labour,

organised by a relatively small number of able and skilled men of a higher race. This is already largely done in America, and it certainly will be done on an ever-increasing scale in other continents.

“Consequently, England will not be able to hold her own against other nations by the mere sedulous practice of familiar processes. These are being reduced to such mechanical routine by her own, and still more by American, ingenuity that an Englishman’s labour in them will not continue long to count for very much more than that of an equally energetic man of a more backward race. . . . England’s place among the nations in the future must depend on the extent to which she retains industrial leadership. She cannot be *the* leader, but she may be *a* leader.”

At present, Paris maintains an industrial leadership by constantly designing new articles on the border line between art and luxury. After a time German and English producers sell good imitations of them in large quantities and at relatively low prices; and by that time Paris is producing new articles. “Sixty years ago England had this leadership in most branches of industry.” It was inevitable that she should cede much of it to the enterprise of the United States and the science of Germany. “It was not inevitable that she should lose so much of it as she has done.” Her many advantages led to a more luxurious way of life and a shorter day’s work than obtained elsewhere; the effects of the American and the Franco-German Wars in retarding industrial development in the States and Germany further advantaged the English producer, and the influx of new gold facilitated all his operations. The result was much slackness among the sons of fathers who had been enterprising, and a large share in the industrial leadership was rapidly lost. “In the ’nineties it became clear that

in the future Englishmen must take business as seriously as their grandfathers had done, and as their American and German rivals were doing; that their training for business must be methodical, like that of their new rivals, and not merely practical, on lines that had sufficed for the simpler world of two generations ago; and, lastly, that the time had passed at which they could afford merely to teach foreigners and not learn from them in return."

If, however, we measure a country's progress by the volume of her foreign trade, without reference to its quality, we may draw misleading conclusions.

"Other things being equal, an increase in the efficiency of those industries in which a country is already leading will increase her foreign trade more than in proportion. But an increase in the efficiency of those in which she is behind will diminish her foreign trade.

"England has recently [1903] been behind France in motor-car building, and behind Germany and America in some branches of electrical engineering. A great relative advance on her part in those industries would enable her to make for herself things which she had previously imported, and would thus diminish her foreign trade. On the other hand, even a small advance in her power of spinning very high counts of cotton yarn would increase her foreign trade considerably; because that is a thing for which other nations have an elastic demand, and are at present almost wholly dependent on England."

[In point of fact, the English motor-car trade has been rapidly catching up with the French since 1903, and in 1910 it is busily occupied not only in manufacturing for the home demand, but in supplying French orders. Professor Marshall's argument is thus well illustrated. Home industry has advanced out of proportion to the given

branch of export trade. The new Census of Production will throw much light on such forms of progress.]

“Improvements in manufacture and in transport, aided by Free Trade, enable England to supply her own requirements as regards food, clothing, &c., at the cost of a continually diminishing percentage of her whole exports. Her people spend a constantly diminishing percentage of their income on material commodities; they spend ever more and more on house-room and its attendant expenses, on education, on amusement, holiday travel, &c. Recent censuses show a progressive increase in the percentage of Englishmen who earn their living by providing for these growing requirements. That is to say, the number of Englishmen who devote themselves to producing things which might be exported in return for foreign products increases very slowly. Of course, if her foreign trade be measured by the quantity of things exported and imported, it is increasing fast; for a man’s daily labour now deals with a much larger volume of goods in almost every industry than formerly. But still it is not increasing [in 1903] as fast as that of Germany and America. How far is this really an evil?”

[In point of fact, the British export trade increased in the years 1905-6-7 more than that of Germany and America, as regards manufactures; though, as we have seen, home trade and total well-being also continued to increase.]

England’s share in the world’s good things, if we take into account not only consumption of commodities but the pleasures of travel enjoyed by so many of her people, remains greater than that of Germany. “The real test of relative progress which foreign trade offers lies in the opportunity afforded by it for measuring the skill with which each nation applies her industry to

producing great results with small manual effort. . . . In view of her failing stores of iron ore, England rightly exports an ever-increasing proportion of machinery and implements which are of small bulk relatively to their value, and that is an indication of the qualities of leadership; but her imports of electrical plant and aniline dyes show that her hold on leadership is insecure, and can be retained only by renouncing the easy self-complacency engendered by abnormal prosperity in the third quarter of the last century."

§ 5

"For England, though not for America, Free Trade is essential to leadership. On the one hand, England is not in a strong position for reprisals against hostile tariffs. On the other hand, it is not merely expedient—it is absolutely essential—for England's hopes of retaining a high place in the world that she should neglect no opportunity of increasing the alertness of her industrial population in general, and her manufacturers in particular; and for this purpose there is no device to be compared in efficiency with the plan of keeping her markets open to the new products of other nations, and especially to those of American inventive genius and of German systematic thought and scientific training.

"Further, it is more necessary for her manufacturers than for any others that they should be able to buy cheaply, and without friction, any foreign products—whether technically described as 'manufactured,' or not—which they may want at any stage of their complex and varied work. This could not be arranged by a system of rebates. It would require the conversion of many manufacturing areas into Free Trade zones, each surrounded by a high wall, or a cordon of revenue officers."

In this connection it should be noted that "the main bulk of the burden on consumable commodities falls on the poorer classes, for two reasons. First, the poorer classes spend a much larger percentage of their incomes upon commodities than the richer classes do. And, secondly, the greater part of the taxes on commodities must, for technical reasons, be *specific*, that is, apportioned merely to the quantity of a thing of any given kind; and not *ad valorem*, that is, apportioned also to the fineness or high quality of the thing in its kind. Therefore such taxes amount to more shillings for every pound that the poorer classes spend on the taxed commodities than they do for every pound spent on them by the well-to-do."

But the injustice extends also to taxes on machinery, since the expenditure of the poor runs far more to goods and foods in the making and packing of which machinery it used, than does that of the rich. The Free Trade period found the workers paying a much greater percentage of their income in taxes than the rich did; and the end of the century found them paying a less percentage than before. England has no excuse for a return to the old state of things.

She has little to gain, further, by any attempt to coerce other countries into lowering their tariffs, and little to hope for from bargaining. Bargains of the kind would be a perpetual disturbance to trade; and in other countries they are a visible injury to politics. "Protective duties are easy to impose, and hard to remove; and the suggested plan would lead to a number of protective taxes based on no scientific system, and conducive neither to the material nor the moral prosperity of the country."^v

Certainly a refusal to her of "most-favoured nation" treatment by any Power would be an act of deliberate

commercial hostility, which would make it justifiable to consider reprisals. But that problem does not arise. "Nearly every one who is trying to get any taxes on imports lowered on behalf of his own country is likely to be working for England's good under this clause, unless he gives himself a great deal of trouble to avoid doing it. The few cases in which he takes the trouble are quoted over and over again in English controversial literature; while little is heard of the far more numerous cases in which England's masterly policy of quiescence is rewarded by her reaping the fruits of other people's excitements, quarrels, and worries. The clause in fact gives England nearly all that she could obtain by interminable tariff wars, and at no cost."

There seems to be no good ground, further, for the opinion that foreign imports compete unfairly with British goods in British markets because they have not contributed to the expenses of maintaining the British Government. "For by far the greater part of these imports are received in exchange for exports of our goods and services. . . . All these exports have paid their share of the expenses of the British Government. That share has entered into their cost. That cost has been defrayed by the imports obtained in exchange for them; and therefore it has been paid by those imports."

As regards the competition of foreign "trusts" and "cartels," which are alleged to undersell our producers unfairly in our free market, it may be noted that any tendency on the part of an American syndicate to sell more cheaply abroad than at home raises up against it enemies at home who demand that its protection shall be withdrawn, as being plainly unnecessary. German "cartels" differ widely in their nature and procedure from American syndicates; but they, too, before 1903, aroused much home enmity by selling their raw or half-

raw products to English and other foreign manufacturers at prices which enabled the finished product made of them to undersell the German finished product. Since 1903 the hostility thus aroused, and other influences, have greatly modified the policy of the cartels, which is latterly rather hostile to extreme forms of dumping.

“Dumping into the English market is annoying to some English manufacturers, while benefiting others in a greater or less degree. But it is hard to devise a remedy that will not be worse than the disease. It is not possible to prohibit all selling below the full normal price; it is not easy to say when such a lowering of the price is reprehensible, still less when it is an offence. English manufacturers, especially in the iron industry, were for more than half a century by far the chief evil-doers in this direction, and the memory of their ill-deeds rankles sorely in American minds. Even now the accusations levied against some combinations of English shipping companies, not without indirect Government subsidies, are very bitter. And it might be hard to take formal action against foreigners, who were selling cheaply in English markets, without laying ourselves open to very sharp retorts, and even retaliations.”

§ 6

There remains to be considered the appeal for “closer relations between England and her Dependencies” under a system of tariff preferences. If it be considered from the point of view of British industrial interests, it is ill-founded. The Mother Country is exhausting her coal, her main natural resource; she has to bear the whole burden of the National Debt, part of which was incurred by the forefathers of our brethren in the Colonies as well as by our own forefathers; and the Colonies have contributed scarcely anything to the great naval ex-

penditure which protects their coasts and keeps the sea free for them as for us. As they yield high returns to investments of British capital, "it is perhaps reasonable that she should continue to defend their coasts with but little aid from them, while great wealth is flowing into them, earned partly by the expenditure which has created her debt; but she may fairly expect some response to her generosity."

"Imperial unity is a high ideal. A well-to-do Englishman who is not prepared to sacrifice something for it appears to be hardly worthy of his age. And as all classes of Englishmen have a clear responsibility to posterity, it might be reasonable to ask that even the poorer of them should contribute a little towards the attainment of this ideal, if they could be assured that their present sacrifice would redound in a greater national benefit to their descendants. The contribution expected from them must however, in equity, be small relatively to that made by the well-to-do.

"Thus England might perhaps contribute to such schemes as that of an 'all-red route' round the world, which would promote general intercourse throughout the Empire. . . . And she might even consider proposals for some departure from that financial policy which has seemed best suited for her own needs, if she could hope that she could go a little way without being drawn on to go a great way; and that she could do herself no great harm by going a little way. But can she entertain this hope?"

A preferential system could probably be worked to-day with much less of smuggling and corruption than took place formerly under Protection. "But the abuses which caused the abandonment of differential duties by England were so great, and infused so much moral poison into many branches of business, that abuses much less than

they might yet count for a good deal in the balance between our present system and one which proposes to cement the Empire by such means. So far as these difficulties are concerned the position of England and her Colonies seems to be similar.

“But in regard to the main issue their positions are far apart. Protective policies come naturally if not necessarily to young countries, which believe that many of their young industries may have a great future if protected from the competition of powerful rivals in older countries, where capital is abundant and industrial organisation is highly developed. . . . But the history of all countries and all ages is repeating itself in the Colonies. Even honourable men there are being drawn into slippery paths. . . .

“England, on the other hand, is the oldest of all industrial countries. She has no industries which need protection on the ground of youth. But she has a few which have needed a stimulus because they have been sleepy. Under the stimulus given to them by the sale of high-class imported products in their own market, the greater part of these few have been markedly aroused during the last few years; and she might indeed have been several hundred million pounds the poorer if that stimulus had been shut out by a tariff. Her industries do not need defence against the cheaper capital of any other country. . . . In her case, therefore, import duties levied otherwise than with a direct view to revenue, seem to me to have no economic justification. They cannot, I have argued, cause foreigners to contribute appreciably to her public burdens. Though they may cause new employment to appear in certain directions, they will necessarily lessen the National Dividend; and therefore they will necessarily lessen the amount of employment at good wages.

"I believe that they have this effect in every old country, but that *there is none other to which they could do injury at all comparable to that which they would do to England.* She still has advantages in competition with other advanced countries due to her cheap capital; to her cheap coal; and to her climate, which is conducive to steady work, and is specially favourable to the finer cotton industries. But her chief remaining advantage lies in that unapproached freedom of movement, that *viability* that gives her much of the strength, without the cumbrousness and want of elasticity, of a single huge firm extending over the whole land. In the phase which the twentieth century seems to be opening out for her, *viability* for all things, great and small, that may be needed directly or indirectly for the production of fine and complex goods, is essential to her. Unless she can produce these with less labour than any other country can, it is in my opinion impossible that she can continue to pay, as she does at present, higher rates of real wages than prevail in any other old country for almost every kind of labour; the real wages of her people must fall to the German level. They might even fall below that, for Germany has advantages of her own. Railways are increasing the economic advantages of her situation in the centre of Europe very fast. Her people had learnt to use their low wages and professional incomes thriftily and wisely before they came under the temptation to imitate English carelessness in domestic economy; and in this matter, as well as in the technical economies of business, they have attained a high scientific perfection from which English men and women are yet far.

"The suggestion, then, that England should abandon that *viability* which is her chief source of strength in comparison with competitors in the Old and the New World, seems to me a radically bad way towards attain-

ing a good end. In particular, there is danger in the fact that in these schemes the gain which either side is invited to expect is greater than the loss which she is to incur; and yet, as the scheme includes differential duties which are essentially wasteful, the aggregate material gain must, in my belief, be less than the aggregate material loss. The schemes would be less dangerous if they started with the frank statement, 'Imperial unity is an ideal worth much material loss; let us consider how best to share this loss among us.' As it is, the schemes appear to me likely to breed more of disappointment and friction between England and her Colonies than of goodwill and the true spirit of Imperial unity. And, if approached in a spirit of greed, rather than of self-sacrifice, they are likely to arouse animosity in other lands, and to postpone the day at which it may be possible to work towards a federated Anglo-Saxondom, which seems to be an even higher ideal than Imperial unity.

"For these reasons it is superfluous to dwell on what appears the well-established fact, that from the point of view of mercantile bargaining the best preferences which the Colonies could offer to England would be of but very moderate advantage to her in her present phase. Nor is it necessary to insist that the duty of a trustee to his ward is in some respects more stringent even than his duty to his son; that India is the ward of England; that India is poor, while the Colonies are rich; and that India's commercial policy has been generous."

COBDEN CLUB PUBLICATIONS.

The Book of the International Free Trade Congress.

Price 1s. By post, 1s. 4d.

Tariff Makers: Their Aims and Methods. A Sequel to
Fact v. Fiction. Price 1s.

Fallacies of Protection: Being Bastiat's "Sophismes Economiques," translated by Dr. STIRLING, with an Introductory Note by the Rt. Hon. H. H. ASQUITH, M.P. Price 1s. net.

Isular Free Trade, Theory and Experience. By RUSSELL
REA, M.P. 6d.

The Case against Protection. By E. COZENS COOKE. 3d.

The "Scientific" Tariff: An Examination and Exposure.
Price 3d.

Cobden's Work and Opinions. By LORD WELBY and Sir LOUIS
MALET. Price 1d.

Things Seen and Things Not Seen. Translated from the
French of F. BASTIAT. Price 1d.

Shipping and Free Trade. By RUSSELL REA, M.P. Price 3d.

The Lessons of History on Free Trade and Protection. By
Sir SPENCER WALPOLE. Price 2d.

**The Colonial Conference: The Cobden Club's Reply to the
Preferential Proposals.** Price 6d.

14 DAY USE
RETURN TO DESK FROM WHICH BORROWED

LOAN DEPT.

This book is due on the last date stamped below, or
on the date to which renewed.

Renewed books are subject to immediate recall.

11 Mar '61 BAW

SEP 27 1982

REC'D LD

APR 17 1961

2 AUG 68 AS

REC'D LD

JUL 31 1963

REC. CIR. AUG 23 '82

REC. CIR. SEP 1 '82

NOV 26 1971

LD 21A-50m-12,'60
(B6221s10)476B

General Library
University of California
Berkeley

TIONS.

F. BRENTANO,

ote. By the

N ECONOMIST.

d.

Price 1d.



YC 8885

