

The Riddle of the Tariff
A. C. Pigou M.A.

Fellow of King's College Cambridge
Jevons Memorial Lecturer University College London
1904

Batoche Books

Kitchener

2003

Originally published 1904.
This edition published 2003
Batoche Books
email: batoche@gto.net

Contents

Preface	5
I. Two Cries and Four Problems	7
II. Free Trade <i>v.</i> Protection	12
III. Limited Protection	17
IV. Tariff Bargaining	23
V. Imperial Preference	27
VI. Conclusion	38
Notes	41

Preface

The purpose of this little book is to examine, in a non-technical manner, the various suggestions for 'tariff reform' which are at present in debate. It is addressed, primarily, not to professional economists, for whom the first two chapters will contain nothing, and the others, at best, extremely little that is new, but to the general reader interested in the . problems with which it deals. In discussing these problems I have dwelt chiefly upon their economic aspect, not because I think the political question involved unimportant, but because I lack the practical knowledge needed for forming an adequate judgment upon them. When the course of the argument has demanded an expression of opinion upon a point in the main political, I have, for this reason, endeavoured to be as guarded and as brief as possible. It is, therefore, inevitable that my treatment of 'The Riddle of the Tariff' should be exposed to the charge of one-sidedness. My hope is that it may, in compensation, escape the more serious charge or enlarging upon matters which lie beyond the writer's province.

The first draft of my manuscript was in the printers' hands before the publication of Mr. Bal-four's pamphlet and the resignation of Mr. Chamberlain. Save for this fact, I might perhaps have varied somewhat the proportion of space allotted to Tariff Bargaining and Imperial Preference respectively. In view, however, of the general trend of events, I have not found it necessary to recast these chapters except in minor respects. For the *Times* seems to have been well-advised when it wrote, on September 22: 'The real interest of the political situation will lie in the exposition and discussion of Mr. Chamberlain's larger scheme, and, sooner or later, it must swallow up the smaller.'

Nor are any considerable changes necessitated by the ex-Colonial Secretary's Glasgow speech of yesterday evening. I have not, indeed, discussed preferential duties upon meat so fully as I should do if I were writing now; but, as is indicated in the text, the argument upon wheat preferences, *a fortiori*, applies to them. The other important proposal—that for a 10 per cent import tax upon manufactures—is, of course, Protection pure and simple. Mr. Chamberlain appears to have committed himself to this policy as well as to Imperial Preference. Consequently, the case against his scheme as a whole is stronger than it was when I drafted my discussion. To make up a deficit in the revenue by means of protective taxes may, perhaps, be popular; but there can be little doubt, as I have endeavoured to show in the second chapter, that, economically speaking, it is one of the worst possible methods of raising the required funds.

The only explanation which seems necessary of the method of this book concerns the employment and the non-employment of statistics in different parts of it. I have made use of them in the first chapter for a special and limited purpose, namely, to controvert certain alarmist opinions about national prosperity, which

appear to be widely held. The tables which I have given are not intended, and cannot be used, to prove that 'everything is for the best in the best of all Cobdenite worlds.' A paean of rejoicing requires a broader foundation than figures for single years. I have not aspired to supply the substance of any such paean, but merely to furnish an answer to a dirge. Except in the first chapter I have not used statistics at all. In many articles and speeches I have seen them employed to throw light upon the probable effect of import duties upon prices. Arguments of this kind, whether by way of comparison of the prices ruling before and after the imposition of a tax, or of the prices in a taxing and a non-taxing country respectively, appear to me altogether untenable. What we wish to ascertain is the relation of the price at a particular place and time, not to the price which did, as a matter of fact, rule at another place or another time, but to the price which would have ruled at that place and that time if the tariff arrangements had been other than what they were. To such a problem direct statistical argument is inapplicable. There remain certain acknowledgments of indebtedness which I am anxious to make. In the first place, my thanks are due to the Editor of the *Pilot*, who has generously allowed me to make free use of a series of articles contributed to his paper during July and August, and afterwards reprinted in a small pamphlet. The same courtesy has been extended to me by the Editor of the *Westminster Gazette* as regards a portion of what now forms the first chapter of this book. In the second place, I am, of course, in common with all economists, under very great obligations to the standard writings of Professors Marshall, Edgworth, and Bastable, and to the official publications of the Board of Trade. Lastly, I have to acknowledge the very kind help given me by Professor J. H. Clapham, of the Yorkshire College, Leeds, and the Rev. J. R. P. Sclater, who have read through the proofs of my work and have made a number of very useful suggestions.

A. C. Pigou.
October 1, 1903.

I. Two Cries and Four Problems

For the past few months there have been before the country two cries and four problems. The cries are, on the one hand, that our national prosperity is threatened by foreign competition, and, on the other, that the fabric of imperial unity is crumbling away. The problems have reference to the desirability, or otherwise, of the following suggestions: first, a return to some form of general

Protection, especially in the case of manufactured articles; secondly, a special and limited application of Protection against the aggressive action of Trusts and Kartels; thirdly, a modification of tariff policy, designed to increase our power of bargaining with other nations; and, lastly, a system of reciprocal preferential arrangements within the British Empire. The right solution of these problems does not, of course, in any way depend upon the substantiality of the accompanying cries, but the plea of urgency, so often raised concerning them, gathers all its force from the notion that danger is imminent, and must lose it all if that notion is uprooted. I propose, therefore, to begin this discussion with some observations upon the two alarmist propositions to which reference has been made.

First, how does the case really stand in the matter of national prosperity? Disputants upon both sides have generally concentrated their attention upon the published figures of our import and export trade, and there is a widespread belief that, if the progress of that trade, and especially of the export branch of it, can be shown to be 'unsatisfactory,' it is conclusively proved that we are confronted, as a nation, with a highly dangerous state of affairs. It is, in short, tacitly assumed that statistics of foreign trade afford an adequate index of changes in national prosperity.

Now, I submit that such a view only needs to be clearly stated to be recognised at once as untenable. Even the complete figures for home and foreign trade combined would not constitute a really reliable index, except for periods short enough to permit of a number of conditions, which are really fluctuating, being taken as fixed.

But, in lack of these comprehensive statistics, to measure general well-being by the very small part of them represented in our foreign trade returns is not only inadmissible, but is little short of ridiculous. The blunder is similar in kind, and different only in degree, from the one that would be committed if a single branch of foreign trade—the pickles branch, for example—were made to serve as the weather-glass of British fortune. It is *possible*, of course, that an increase of foreign trade may mean an increase of prosperity, but it is equally possible that its true significance may be the precise opposite of this. If, for example, we were to suffer from a series of exceptionally bad harvests, our imports would probably be augmented by additional sendings of grain from the United States, and our exports, as constituting part of the payment for

them, would probably increase also. The statistics of foreign trade would, therefore, show an 'improvement'; but this, so far from being a witness of good, would be the direct consequence of bad, national fortune.

It may, perhaps, be answered that, though there is a 'theoretical possibility' that foreign trade and national prosperity may move in divergent lines, yet there is a great 'practical' probability that the one will advance or decline *part passu* with the other. Again, I venture to submit that this popular opinion is, so far as long periods are concerned, the opposite of the fact, and that the balance of probability weighs strongly against any such correspondence between the two movements. For, as a nation's income increases, it will, at first, seek to procure therewith the material goods, food products, and so forth, which other countries are willing to sell to it; but, after awhile, its need for these being more nearly satisfied, it will begin to devote a larger proportion of any further income which it may gain to the purchase of higher goods, such as educational and other personal services. These *must* be produced on the premises, and cannot possibly enter into the statistics of foreign trade. Consequently, the richer a country becomes, the greater, in all probability, will be the disparity between advances in its real wealth and prosperity and the upward movement of its import and export trade. In the 'limiting case' of a nation already rich enough to buy all the foreign goods of which it has any need, these latter figures will go no higher, however great the leaps and bounds by which wealth continues to increase. Thus, we should naturally expect that, in a country situated as England has been during the last half-century, foreign trade would not only develop less rapidly than general prosperity, but that the relative slowness of its advance would become greater with every succeeding decade. Hence, it is altogether fallacious to assume that a falling-off in the rate at which our foreign trade has been developing is evidence of a check to the advance of national well-being. On the contrary, 'if the working-classes have nearly as much bread and sugar and tea and tobacco as they want urgently, and prefer to spend a large proportion of their growing income on better sanitation and education, more sports and holidays, is there great matter for regret?'¹

So much in criticism of the popular view. I do not, however, propose to stop short at this negative argument, for the recent Report of the Inland Revenue Commissioners, coupled with the return issued at the instance of Mr. Gibson Bowles, affords a means of approaching the problem in a more direct manner. Take, first, the statistics of national income. The following table, constructed from the return referred to, shows the population, the gross assessment to the income-tax, the gross assessed income per head in the last five census years, and the latter figures arranged as percentages of those ruling in 1871:

	Population in Millions.	Gross Assessed Income in Millions.	Gross Assessed Income per Head.	Gross Assessed Income per Head compared with 1871. (1871 = 100.)
1861	28.9	311.8	10.7	76
1871	31.5	445.6	14.1	100
1881	34.9	560.0	16.0	113
1891	37.7	678.1	18.0	127
1901	41.4	866.9	20.9	148

These figures represent changes in money income. The purchasing power of money has not, however, remained constant during the period under review. In order, therefore, to obtain an idea of the movement which has taken place in *real* assessed income per head, I have divided the figures in the last of the four preceding columns by the Board of Trade index-number for the corresponding years. For the year 1861

Sauerbeck's index-number has been interpolated, as is done in the chart at the beginning of the recently issued return on wholesale and retail prices. It may be added that the following table would have appeared still more favourable if this index-number had been employed throughout:

Real Assessed Income per Head.
(1871 = 100.)

1861	77
1871	100
1881	117
1891	151
1901	187

It may be suggested in reply that an increase of *assessed income per head* is quite compatible with a decline in the prosperity of the poor, and that, in the present case, the upward movement, indicated in the table, merely represents an improvement in the circumstances of classes that were already well-to-do. I therefore submit a further table, worked out by combining figures given in the important Blue-Book on British and Foreign Trade and Industry (Code 1761) with the Board of Trade index-number:

General Level of Real Wages in the United Kingdom.
(1871 = 100.)

1801	91
1871	100
1881	116
1891	144
1901	165

Evidence of a like kind is furnished by the fact that the percentage number of Trade Union members returned as unemployed does not appear to be increasing, and by the following figures from Mr. Bowles's return for pauperism, savings-bank deposits, and deposits of friendly societies:

	Paupers: Total Indoor and Outdoor.	Post-office and Trustee Savings- Bank Deposits. Total in Millions.	Deposits of Friendly Societies. Total in Millions.
1861	1,054,099	41.5	No returns
1871	1,237,353	55.8	8.0
1881	1,010,473	80.3	13.9
1891	956,084	114.4	26.6
1901	979,166	192.3	43.2

Worked out proportionately to the population, this table yields, roughly, the following result:

	Paupers per 1,000 of the Population.	Savings-Bank Deposits per Head.	Friendly Societies' Deposits per Head.
1861	36	1.4	No returns
1871	39	17	0.2
1881	29	2.3	0.4
1891	25	3.0	0.7
1901	24	4.6	1.0

For reasons which will be obvious to statisticians, I refrain from emphasizing these figures by constructing the dazzlingly optimistic table, which could be got by converting them into percentages of any given year. With regard to the first column, I would observe that the indicated decline of pauperism per 1,000 of the population has taken place in spite of the increased leniency of some Boards of Guardians and the greater attractiveness of some modern workhouses. These groups of facts, taken one with another, are scarcely compatible with the theory that the whole of the recent increase of wealth has gone to the well-to-do classes. I do not, however, wish to press the figures unduly. All of them are, of course, subject to qualifications; the remarkable movement of income may be due, for example, in some slight measure, to greater stringency on the part of the assessors, and the Board of Trade *wholesale* index number is a very poor measure of *retail* price changes. But, when every allowance has been made under these and other heads, there can be little doubt that the plea for urgency in finding some defence against the imminent decay of our material prosperity is not one which can be seriously sustained.

If this be the case with the national cry, what is to be said of the imperial one? We are continually told that a crisis has been reached in the history of Greater Britain; that to maintain the 'Cobdenite system' is no longer compatible with the maintenance of the Empire; that the current controversy is one, not merely between the advocates of conflicting policies, but between Imperialists on the one hand and Little Englanders on the other. If this presentation of the case were a just one, and if the drawn sword of disruption were really impending over our heads, the loudest rhetoric might well be excused and the most heroic remedies attempted. But what evidence *is* there that this danger, so often darkly hinted at, is anything other than a figment of the brain? There is no evidence of it in colonial action. On the contrary, we have only recently witnessed an unexampled display of loyalty and patriotic devotion on the part of Britain's sons in every quarter of the globe. There is no evidence in the utterances of those Englishmen who have held high positions as representatives of the King in Colonial Governments. Take, for example, the opinion of Lord Brassey. 'We are told by Mr. Chamberlain,' he declared recently, 'that unless the country is prepared to adopt Protection or preferential tariffs, the Empire will break up. That was not the impression with which I left Australia after a number of years' residence as Colonial Governor.' Nor is there any evidence in the speeches of colonial statesmen themselves. Of course, they would be glad of a preferential market for their goods if we found ourselves able to grant one, but there is no hint or suspicion that they are anxious to force such an arrangement upon us as the price of their continued loyalty. Even Mr. Seddon has declared that 'he would deal with the question of preferential trade on grounds of patriotism and love of his country, not with the object of gain.' Sir Edmund Barton is reported from Melbourne as saying, on August 30 last: 'I believe that love and affection should inspire a righteous desire to increase the material well-being of each part of the Empire by mutual concessions. Therefore, I am in favour of preferential trade. We do not know what are the exact proposals of Great Britain, but any which tend to reasonable reciprocity will be welcomed by the

Government ' (*Times*, August 31). A sober enough pronouncement surely, and very little indicative of an impending crisis! Concerning Canada, the birthplace of the new policy, there is, if possible, even less justification for pessimistic forebodings. Take the words of Mr. Ross, the Premier of Ontario, at a dinner recently given to Lord Strathcona. 'They asked,' he said, 'for Preference because it would be for the good of the Empire, and especially for the United Kingdom. It was not a Canadian, but an Imperial cry. Preference was not wanted if it was not good for Great Britain.' Lastly, there is Sir Wilfrid Laurier's speech at the Chambers of Commerce Banquet. 'So far as Canada is concerned, I may say to our friends from the Motherland that we are intensely desirous of having a preferential market for our food products in Great Britain, but we think the first step would come better from Britain than from ourselves, and we do not want to force our views on our brothers. If such an arrangement would not be satisfactory to them, for my part I do not want to have such an arrangement. If we are to have Preference it must be with the firm conviction that such an arrangement would be mutually proper' (*Times*, August 22).

In the presence of facts and utterances such as these, it is plain that the plea of urgency fails as conspicuously with regard to the imperial as it does with regard to the national situation. This country is called upon, therefore, not to save itself at all hazards from a situation of imminent peril, but calmly to examine the expediency, and decide between the claims, of certain rival schemes of fiscal policy which, owing to a conflict of opinion within the Government of the day, have been brought rather suddenly into the arena of popular debate.

II. Free Trade v. Protection

We may now pass from current cries to current problems. The first of these—one, be it observed, which has been brought into prominence, not by the recognised leaders of any political party, but by a number of more or less irresponsible journalists and pamphleteers—is whether it would not be well for a considerable portion of the national revenue to be raised from Customs duties upon imports which compete with the products of home industries. I put the question in this form because I am anxious to be as fair as possible to those who are dissatisfied with our existing Free Trade policy. It must be confessed that partially protective taxes have not been credited by certain ‘Cobdenite’ writers with the contribution which they yield to the national exchequer, and it is plainly erroneous, when discussing their general merits and demerits, to ignore this aspect of the matter.

Nevertheless, I am bound to add, in passing, that, if the usual method of describing the subject of controversy is unduly favourable to Free Traders, the one which is here adopted is hardly less so to their opponents. For, though, in theory, it is quite easy to imagine a fiscal system consisting of partially protective taxes, whose amount is strictly limited by the money requirements of the State, in practice such a conception is very unlikely to be realized. Many of the import duties of the United States were originally levied, during the war period, for purely revenue purposes. They were coupled with corresponding excise duties, and were adjusted to the necessities of national expenditure. When peace was restored, however, the excise was abolished, and the revenue motive for the tariff was very shortly crushed by the protective motive. The right position of affairs was reversed, national expenditure came to be adjusted to the yield of the protective duties, and various extravagant expedients had to be devised for disposing of an entirely unnecessary surplus. Does not the suggestion that old-age pensions could be more readily instituted, if Mr. Chamberlain’s tariff proposals were carried through, indicate—apart altogether from the merits of that particular social policy—that dangers of this class cannot safely be ignored even in our own country?

That point, however, need not be further pressed. I pass to compare the merits of two tariff systems, yielding the same revenue, but differing from each other in that one does, and the other does not, incidentally protect native producers. At the outset it must be observed that the popular distinction between protective and non-protective taxes is one of degree and not of kind. To some extent every import duty ‘protects’—that is to say, shelters from foreign competition—one or more home industries. For competition is not solely between goods of the same class and the same name. Tea, for instance, competes in the market with other beverages, and the tea-duty undoubtedly affords a slight degree of ‘protection’ to the brewing interest. The real question, therefore, is not between Free Trade and Protection, but between a less and a greater amount of

the latter. I make this observation because certain writers seem to imagine that when they have pointed out an inaccuracy in the use of the *phrase* Free Trade, they have demonstrated an absurdity in the *policy*. Consequently, it is as well to state quite definitely that by Free Trade I mean a system in which the protective element is slight and accidental, and, by Protection, one in which it is considerable and avowed.

A question typical of those involved in any comparison between the two systems is whether it would be for the good of the country as a whole that the £5,000,000 now collected upon imported tea should be assessed, instead, upon imported iron and cotton goods. Of course, considerations based upon the pathological effects of tea-drinking must be ruled out of the discussion. That commodity is taken simply as a convenient instance of one which is imported, but is not produced at home. In order to understand the Protectionist argument, let us put ourselves at the point of view of a group of English manufacturers in some industry that is face to face with severe foreign competition. They see, perhaps, that not only their foreign, but their home markets also, are being gradually taken away from them; that continental manufacturers, working under less stringent factory laws, and employing workmen who are contented with a lower rate of wages, are able to offer their commodities for sale at prices with which they themselves are unable to compete. They see their profits dwindling, and the expansion of their industry checked. Many of their number are driven to contract their sales, and some of them either to abandon their business altogether or to transfer it to another place. Meanwhile, many of the workmen engaged in the industry are thrown out of work, while the wages of those still employed have to be reduced. Whole families are brought down to a state of poverty, and the distress to which they are subjected very likely reacts permanently upon the physical, mental, and moral efficiency of their children. The evil is obvious to everybody, and nothing could be more natural than the view that the importation of cheap foreign goods, out of which it directly arises, should be checked by means of a moderate import duty.

Now, if we were entitled to confine our attention to the immediate and direct effect which this remedy would have upon the particular trade in question, the foregoing argument would be a perfectly valid one. But in economics, as in most other sciences, the 'things which are seen' by the superficial observer are often of much less importance than 'the things which are not seen.' The statesman must look beyond the immediate to the ultimate results of the measures that he proposes, and he must take account of their influence not only upon the industry which they are primarily designed to benefit, but also upon the other constituent parts of the community. When this is done in the present instance, the situation quickly assumes an altered aspect. For what precisely is the malady with which we are confronted? Primarily it is a case of dislocation of industry. The symptoms which have been catalogued above are by no means confined to businesses in which foreign competition plays an important part. On the contrary, they appear in an aggravated form whenever the push and energy of growing firms begin successfully to attack the market of old-established rivals. When new machinery and new processes are invented, their presence is still more marked. Plant representing large capital outlay is rendered worthless, and there is much temporary unemployment. These symptoms are the inevitable concomitant of movement, and movement is the very essence of modern life. It is not because of Free Trade, but because the industrial army is continually advancing, that the road is strewn with abandoned baggage and lagging men. Dislocation through foreign competition is only a single species of a far larger genus. People who are prepared to welcome mechanical inventions for the sake of their ultimate contribution to national wealth, and in spite of the temporary disturbances which they almost always create, cannot logically object when the same result, accompanied by the same disadvantages, is introduced by foreign competition.

The real problem for us to consider, therefore, is not the temporary incidents of the process of adjustment between the trade of different nations, but the ultimate effects of Free Trade and Protection respec-

tively upon the real income of the United Kingdom. Let us return, then, to the tea duty. The detriment inflicted upon the people of the country by that impost is measured by the amount of the duty actually paid, together with an additional loss of satisfaction arising from the fact that, in consequence of the enhanced price, a reduced quantity of tea is consumed. If the same amount of revenue were collected from imported manufactures, both these elements of sacrifice would, other things equal, remain the same. In addition to them, however, there would be a further loss arising from the fact that industry would be diverted from its natural course. Owing to the enhanced price of the protected articles, British labour and capital would be attracted to the business of producing them, instead of to some other business in which it would otherwise have been employed. Capital and labour may, however, be presumed, in a country where enterprise is free, to gravitate towards different occupations in such relative quantities as to yield, directly and indirectly, a greater amount of desired commodities than could be produced under any other arrangement. The productive powers of the nation, in seeking the most profitable employment, are drawn by that very fact to those in which they are most efficient. When, therefore, a given quantity of capital and labour is artificially restrained in an occupation, from which it is being impelled away by the broad economic forces of the time, there must, in general, be a loss of total efficiency. If, in the normal course, it would have been devoted to the manufacture of bicycles to be sent abroad in exchange for bonnets, it will yield, when held down, through the operation of a protective tariff, to the direct production of bonnets, a smaller quantity of these than it could have obtained by the indirect method of exchange. Thus, protective taxes, so far as they really do protect any native industry, inflict upon the country imposing them the evil of a less efficient employment of its resources, in addition to the other sacrifices which all Customs duties necessarily involve. They may confer a benefit upon a particular group of producers, but only at the cost of a more than equivalent loss to the rest of the community. For this reason they are economically inferior to a Customs tariff of the kind now established in England.

But it may be answered: 'This reasoning would be all very well if our Free Trade system involved foreign competition merely with one or two of our minor products. As a matter of fact, however, it causes us to be threatened on every hand, and, so far from rendering the employment of our resources more efficient, makes it very doubtful if we shall long have an opportunity of employing them at all. It may, perhaps, be true that it causes goods to be cheaper; but what is the use of this if, through the destruction of our industries, we find ourselves without the money wherewith to buy them?'

In order to answer this very plausible objection, it is necessary to look a little more closely at the nature of international trade. Foreigners sell goods in England with a view, as a rule, to carry-ing away the proceeds to their own country. That payment must be made somehow is obvious. The critical question for us concerns the way in which this has to be done. The three generally recognised methods are: first, the remittance of bills of exchange drawn upon the foreign purchasers of English goods and services; secondly, the direct shipment of gold; and, thirdly, the export of securities. So far as the first of these methods is adopted, there is no great difficulty in seeing that the importation of foreign goods cannot possibly injure our industries as a whole. For, *ex hypothesi*, it is by the augmentation in the exported products of certain of them that payment for the extra imports is made. What the development of foreign trade does in this case is exactly typified by our bicycle and bonnet illustration. It enables capital and labour to be transferred from producing a particular class of goods for home consumption to producing other goods, which can be sent abroad in exchange for them, and which will purchase a greater quantity of them than we could, by the same effort, have produced directly for ourselves.

The second possible method of payment is by direct shipment of gold. It is fairly clear that, for a non-raining country like England, this cannot possibly be more than a temporary expedient. The case is, how-

ever, instructive, because of the light it throws upon a common difficulty. To many people it seems obvious that, if another country, through greater natural resources, cheaper labour or less stringent factory laws, has an advantage over us in every direction, it must necessarily be able to offer every exportable commodity in our markets at a lower price than our own producers can afford to take. As a matter of fact, however, so far from such a result being necessary, an elementary acquaintance with monetary theory at once shows that it is absolutely impossible. For, if it be not so, let us assume that such a state of affairs exists. What is the immediate result? Plainly, that all our purchases are made abroad, and that no foreigner purchases anything from us. Consequently, there is an instantaneous and enormous flow of bullion away from this country to equate the balance. Consequently, prices at once move downwards in England and upwards abroad, and the movement of bullion does not stop until they have so adjusted themselves that it has become profitable for foreigners to purchase in England goods equivalent in value to those which we purchase from them. We are then exporting those commodities for the production of which we are at a less comparative disadvantage, and importing those for which our disadvantage is greater, just as, in Socratic phrase, a bad cook may exchange his services with some one who, while superior to him in the culinary art, is still more superior in that of literature or shoe-making. The ultimate effect of trade in this, as in the former case, is merely to divert our capital and labour from a less to a more advantageous occupation. Shipments of gold serve to bring price-levels into conformity with this fundamental circumstance of international exchange, and the fear that foreigners may offer us everything at a lower figure than our own compatriots could accept arises from ignorance of a simple theorem, upon which all economists are agreed.

The third and last way in which imports may be paid for is by the export of securities. When this method is adopted, there is, it may be said, no reason why foreign trade should not destroy one group of our industries without giving any corresponding stimulus to another. To this suggestion I reply, first, that, as a matter of fact, all the available evidence goes to show that England is not at present paying for any considerable part of her imports in this way. The statement that 'the sum of our investments abroad is diminishing is not, as yet,'—in the words of Mr. A. L. Bowley—'supported by statistics that will stand critical examination.' Even, however, if the fact were otherwise, it does not follow that any permanent reduction of employment would be involved. The capital withdrawn from investment abroad would almost certainly be reinvested in England; for, after all, the people, who sell securities, are individuals, and there is no reason to suppose that they will take to treating capital as income merely because it is repaid to them by foreigners. The supply of capital in England would, therefore, be increased, the rate of interest would fall, and industrial enterprise would be stimulated. Foreign 'underselling' would not prevent this result, because prices here would be reduced through the change in discount rates and the inflow of commodities from abroad, while they would be raised in foreign countries through the corresponding outflow of commodities. International price-levels would thus be adjusted to the conditions of exchange as effectively as in the preceding case, though by a slightly different method.

The argument in favour of Free Trade is not, therefore, in any degree weakened by the suggestion of general 'underselling.' On the contrary, the fear that such a result may come about is seen to rest upon inadequate economic analysis. It remains true, therefore, that taxes of a protective character are more injurious than other taxes to the material wealth of the country, and that the amount of the injury varies directly with the amount of the Protection. It is possible, of course, that the actual material loss may be, in part, counterbalanced by the application, through longer hours of labour and so forth, of greater efforts to production, but the only difference thus made is that leisure is sacrificed instead of goods.

These are merely the material disadvantages of Protection. Unfortunately, however, they do not stand alone. Over and above the economic danger, we have to reckon with the political one. 'Le protectionisme,'

says M. Yves Guyot in a notable phrase, ‘remplace la concurrence économique par la concurrence politique.’ Under it there is—to put it at the lowest—a not inconsiderable chance that manufacturers, confronted with competition, will expend energies, which might best be devoted to discovering more economical methods of work, in the sordid trade of ‘persuading’ and ‘influencing’ legislators. From this it is not impossible that ‘log-rolling’ may develop, different industries making treaties of mutual support in the scramble for tariff doles. This is hardly a prospect to be anticipated with enthusiasm; for one of the things of which Englishmen are proudest is the comparative purity of their political institutions. It is *possible*, of course, that these might withstand the blast of corrupt solicitation, to which the adoption of any form of protective policy would inevitably expose them; but he would be a bold man who, with history before him, would venture to predict that it is *likely*. Indeed, there can be little doubt that the fourteen academic economists, who recently discussed this matter in the *Times*, were voicing the conclusions of the great body of educated opinion, when they wrote: ‘There are also to be apprehended those evils other than material which Protection brings in its train—the loss of purity in politics, the unfair advantage given to those who wield the powers of jobbery and corruption, unjust distribution of wealth, and the growth of “sinister interests.”’

III. Limited Protection

The argument of the last chapter was a general one, and needs to be supplemented by the consideration of exceptional cases. One of these is supposed by many popular writers to arise when Free Trade on the part of one country is met by Protection on the part of others. The theoretical basis for Cobden's policy is imagined to consist in his mistaken prophecy that foreign nations would follow in the tariff footsteps of England. We are triumphantly informed that this has not been the case, that our fiscal system is not Free Trade at all, but merely Free Imports, and that the latter is a lame and halting makeshift to which the ordinary arguments of economic text-books are inapplicable. ¹ his opinion is not only erroneous, but is evidence of incomplete acquaintance with English tariff history. The advantage which a policy of Freedom possesses over one of Protection does not, and has never been believed to, depend upon its being reciprocated. The high Customs duties of foreign countries do, indeed, inflict an injury upon us. They have this result, however, simply because they put a check upon exchange. They impose a burden upon the outward branch of our foreign trade, which, of course, diminishes both our exports and our imports. If this country were to add a further burden upon the inward branch of it, she would diminish them both still further. The mere fact that impediments exist can give no ground for modifying the reasoned opinion that impediments are bad, and ought, whenever possible, to be removed. It is, therefore, altogether misleading to set up a kind of antithesis between Free Imports and Free Trade. The former policy is a part of the latter, and the only part which we, as a nation, have complete power to realize. ² In the second place, it is sometimes argued that the 'orthodox' arguments against Protection are inapplicable to the problems of to-day, because they do not take sufficient account of the increasing mobility of capital. A tariff, it is suggested, may serve to check the emigration or stimulate the immigration of this important 'factor of production,' and may thus indirectly result in a benefit to the protecting nation as a whole. This argument has been countenanced by Mr. Balfour in his pamphlet (p. 16), and by Professor Ashley in his recent book on the Tariff Problem. The latter writer gives a list of a number of English firms which have, since the heightening of the tariff walls of other countries, set up factories within the protected area, and he comments in these terms: 'Adam Smith argued that Protection could only divert capital from one industry to another; the Protectionists can reply that in many instances it has attracted fresh capital into the country' (p. 79). This argument appears to me thoroughly unsound. In so far as Protection is economically injurious to a country, it diminishes the profit which capital can expect to reap there, and hence the inducement which is held out to it to come or to remain in that part of the world. Analysis, in short, suggests that a policy of Protection would, in this matter, have an effect precisely the opposite of that which Professor Ashley attributes to it. It is impossible to confute this general reasoning by

adducing instances of individual migration. The worthlessness of these, and the weakness of Professor Ashley's position, is clearly brought out in the following extract from Professor Marshall's Presidential Address to Section F of the British Association in 1889. Speaking in reference to the discussions excited by the McKinley Bill, he said: 'An old fallacy has reappeared in a new form in an argument, which has attracted much attention both here and in America, that the Act must have benefited America, because it has led to the investment of a few hundred thousand pounds of English capital in starting tin-plate and lace works, etc., in America. Protection always puts capital into some industries: that movement "is seen"; but before we can regard it as a net gain we must make sure that there is not an equal or greater, though "unseen," leaking of capital out of other industries which the new tariff indirectly injures; and for every £100,000 that the Protection policy causes to be sent from England to be invested in American factories, it probably keeps away at least £1,000,000 that would otherwise have been sent there to be invested in railways and agriculture.'

A third circumstance which is sometimes thought to necessitate a modification in established fiscal doctrine is the fact that, in certain cases, an increase in the scale upon which a commodity is produced will cause the average expenses of production to fall. Protection, it is said, would enable English manufacturers to supply practically the whole of the home demand, and also to gain a further footing in the foreign market by means of goods offered at reduced rates. In this way they would be enabled to produce in enormous quantities, and so to introduce economies which are beyond the reach of smaller concerns. Thus there would result a real gain to the British consumer, because, though home-made goods would be sold more cheaply to the foreigner than to him, yet the prices demanded, even in this country, would be lower than they would have been except for the expansive influence of Protection upon the general organization of industry.

Upon this argument, as thus interpreted, an important comment needs to be made. For what precisely is it that popular writers mean, when they speak in this way of 'an increase in the scale of production'? Surely it cannot be suggested that any important economies would result from the mere fact of greater quantities of iron, or textile, or other such goods being produced in British territory. Large-scale production is of comparatively slight use for this purpose except when it is accompanied by large-scale organization — by an increase, that is to say, either in the size of individual plants or in the number of plants embraced under the same management. If, however, these are the chief ways in which economies of the kind under consideration can be brought about, it is plain that they are already available for our staple industries. They are not dependent upon the small increase of total output which might possibly result from the exclusion of foreign competition and the 'dumping' of our own surplus produce abroad. On the contrary, they could easily be introduced to-morrow if three or four British firms elected to combine. The fact that they have not been introduced to the extent that some people consider desirable cannot possibly be set down to the smallness of our total output, for that is already amply sufficient to permit of a tremendous expansion in the scale of organization. This particular argument, therefore, appears to break down under criticism. It may, however, be revived in the modified doctrine that Protection is desirable as tending to promote the integration of industry. Now, there are two kinds of integration: the vertical kind, where, as in the Carnegie company, all the *successive processes* of a complex manufacture are co-ordinated under one management; and the horizontal kind, exemplified by the ordinary Trust, where a number of firms engaged upon the *same process* are thus united. The former kind of integration is the more favourable of the two to economies, and the less likely to lead up to monopoly. There is no evidence to show that it is especially likely to take place under a system of Protection. On the contrary, there have recently been several instances among firms engaged in the various branches of the British iron and steel trades in which it has come about, not merely without the assistance of that artificial stimulus, but under the direct influence of the foreign competition, which it would be the purpose of Protection to suppress.

With the second kind of integration the case is different. The Trust and the Kartel are believed by the best authorities to be, in part at least, the product of Protective tariffs. From the former it is no doubt true that economies in production and distribution generally result, but the benefit of them almost invariably accrues, not to the consumer, but to the monopolistic corporation by which the market is dominated. The Kartel, in general, is even more pernicious than the Trust, for it is a mere monopoly without the compensating advantage of a common management. The fact that Protection tends to promote the formation of bodies of this kind would never be cited by an intelligent American or German as an argument in its favour.

So far, therefore, the Free Trade position remains unshaken. Neither the assertion that Free Imports is a better name for it, nor the fact that capital is mobile, nor what is sometimes rather absurdly called the 'law of the wider market,' avails against it in the least. There remains, however, one group of considerations which the general argument of the previous chapter left untouched. It was there shown that Protection involves the diverting of some part of our national resources from industries, in which their efficiency is greater, to those in which it is less. It is, however, possible that, in certain circumstances, this loss may be more than counterbalanced if it leads indirectly to the training and development of new national aptitudes. For, as Professor Marshall has somewhere pointed out, 'the commodities which a country can now produce most easily' are not necessarily identical with those which it 'has the greatest natural advantage for producing.' Consequently, so far as purely formal considerations go, a perfectly good case can be made out for the Protection of particular industries under special circumstances *and for a limited time*. This exception from the general Free Trade rule chiefly comes up for discussion in new countries, which are considering whether or not to guard their manufactures, in the days of 'infancy,' from the attacks of old-established and powerful foreign rivals. That particular case is, of course, of merely academic interest so far as England is concerned. The theoretical and practical considerations that arise in connection with it are, however, in many respects the same as those involved in our own problem of how best to deal with industries which complain of being injured by foreign 'dumping.' This problem was among those referred to by Mr. Balfour in his speech at the Constitutional Club in June last. 'Foreign nations,' he declared, 'under their Protective system, are able and willing to import into this country objects which are largely manufactured in this country, at below cost price either in the country of origin or in the country of importation.' he added that this was one of the dangers which it might be desirable to meet by a change in our fiscal policy.

Now, the term 'dumping' is one which is used to cover two entirely distinct phenomena. In the first place, there is the broad fact that trusts and kartels in protected countries may very often find it profitable, on the average and taking one year with another, to accept abroad prices considerably lower than those which they charge to the home consumer. Newspaper writers frequently speak of these sales as being effected 'at less than cost price.' This phrase is, however, misleading. A useful parallel to what really happens can be found in the 'competitive' and 'local' freight rates charged by an ordinary railway company. So far as the law allows, the charges on local non-competitive traffic are generally arranged so as to cover, not merely the 'prime cost' of the service rendered, but also the fixed charges for interest and so forth on the railway. The rates between competing points, on the other hand, generally stand only slightly above the 'prime cost' of the service rendered, and contribute very little towards the permanent charges. It is worth the company's while to offer these rates, because otherwise its rival would oust it from the long-distance traffic. Then it would get no contribution whatever towards upkeep, etc.; now it, at all events, gets a little. And yet, in the usual sense of the word, these rates, which it is profitable to accept, are below (total) cost price. The case of a Trust in a protected country is almost exactly similar. Because the tariff wall guards it against competition from outside in its own market, it can charge there the equivalent of local rates; while it is worth its while permanently to accept abroad prices which do little more than cover 'prime cost.' I do not, of course, mean

that either the foreign or the home prices will remain constant, or even that the former will never rise to a higher level than the latter, but simply that it may be good business for a Trust to make its foreign prices, on the average, lower than its home prices. When this happens, the case of the British manufacturers with whom it competes seems, at first sight, a hard one. A little consideration, however, makes it plain that the advantage which the foreigner possesses over them is not essentially different from that afforded by low wages or lenient Factory Acts. The case is one to which the general argument of the last chapter is strictly applicable. Though a particular group of manufacturers may, and probably will, suffer a loss while industry is being adjusted to the changed conditions, there is bound to be a net gain to the community as a whole. This kind of 'dumping,' therefore, affords no justification whatever for a protective tariff.

It has, however, been implied by Professor Ashley and Mr. Balfour that the case is not fairly stated when attention is confined to the 'average' level of the prices made by Trusts and Kartels. It is not as though these prices were steady. On the contrary, they fluctuate enormously. 'What we have to face in England for some time to come are periods of temporarily cheap imports, followed by a return to the old prices each time the wave of prosperity returns in the exporting country.'³ German steel, for example, is 'dumped' into our market at these low rates only when the supply has outrun the domestic demand, and the uncertainty thus introduced into the calculations of English men of business tends, according to Mr. Balfour, to 'disorganize industries.'

Now, of course I agree that fluctuations are an evil, and that, so far as the export policy of Trusts and Kartels tends to aggravate them, it inflicts an injury upon us. But there is no evidence to show that this policy is responsible for any appreciable addition to the normal instability of industry. In 1902 the German crisis led to a large amount of 'dumped' iron and steel coming to this country. The extracts from trade journals which Mr. Schloss prints as an appendix to his Memorandum to the Board of Trade (in Cd. 1761) do not, however, indicate any great 'disorganization' in England as a consequence. In the first place, the German imports constituted only a small part of the total supply, and we are again and again told that, in spite of their low prices, 'local steel-makers still adhere firmly to their quotations.' Secondly, a considerable amount of work is done on long contracts, and this, of course, is executed without reference to any 'dumping' that may be going on. Thirdly, large concerns are perfectly capable of standing an occasional lean year. It is what they naturally expect, and they would be frail indeed if they were to be 'disorganized' thereby. Finally, an inspection of the figures concerning employment in the iron and steel trades published in the *Labour Gazette* does not indicate that the fluctuation was any greater than usual in 1902, while the number of 'shifts' worked per man actually exceeded those recorded for the previous year.

The evil is, therefore, certainly a small one. On the other hand, in order to keep the prices of Trust imports stable, an extraordinarily elaborate, mobile and inquisitorial tariff system would be required. So serious are the practical difficulties involved, and so little encouraging the history of the only experiment which has been tried in this direction (that, namely, of the 'sliding scale' under the old corn laws), that most people would probably agree that, even if the malady confronting us were grave, this particular method of dealing with it could not be entertained.

There remains to be considered the second of the two practices, which go by the name of 'dumping.' In this case the foreigner does something more than merely send us goods at 'competitive rates,' which it pays him to accept as a regular thing. He is assumed to have large capital behind him, and his offence is to pour goods into our market at prices which, if continued for long, would ruin him, but which he is willing to take for a short time in the hope of driving his English competitors out of business, and thereafter compensating himself by the exaction of a monopoly price for his goods. This is a case to which the 'infant industries' argument for temporary Protection applies in principle. The judgment of pure theory is that it might be—not

necessarily would be—economically advantageous for our Government to frustrate the designs of such a foreigner by means of an import duty.

It must, however, be observed that the case is one of exceedingly narrow application in real life. It cannot be realized except with commodities whose production outside of England is in the hands of a Trust which practically dominates the world. For it will not be worth while for a group of American or German producers to make heavy sacrifices in order to destroy their English rivals, if other foreign producers are in the field, whose competition would prevent them from, subsequently, exacting the higher prices, out of which their compensation should come. Needless to say, such world-embracing Trusts are rare.

Thus, the theoretical argument for the taxation of ‘dumped’ goods is only relevant to practice under conditions the occurrence of which is exceedingly improbable. Indeed, after a perusal of Mr. Schloss’s Memorandum to the Board of Trade, I will venture the opinion, which Mr. Courtney also has somewhere expressed, that there is at present no single instance with regard to which that argument can fairly be employed. But, even if the opposite of this were true and instances were manifold, the case for tariff manipulation would not be established. For we should still have to consider the grave disadvantages which are bound to arise when ordinary human beings endeavour in practice to select the proper cases for intervention, the right time for beginning it, and, above all, the moment at which the temporary duty ought to be removed. Can we seriously suppose that a democratic Government, pressed upon all hands by interested suitors, bewildered by conflicting evidence, nervous of offending political adherents, would prove itself equal to that Herculean task?

In the first place, it is extraordinarily difficult to remove a protective tax when its temporary purpose has been served. In the case of purely revenue duties, all the parties affected are desirous, wherever possible, of securing a reduction. When, however, the protective element has been introduced, powerful interests are perennially opposed to any such change. Businesses which have been built up under the shadow of a tariff wall — even though the wall be a low one—do not willingly sacrifice the advantages they have secured. In this country it is well known that the brewing and the railway interest already wield ‘a potent voice in Parliament.’ In the United States of America the case has been far worse. Fifty years ago, under the then condition of that country, there was much more to be said for a protective policy than there is to-day. Since that time, and even, as Professor Marshall told the British Association fourteen years ago, since the seventies, ‘the advantages of Protection in America have steadily diminished, and those of Free Trade have increased.’ And yet it has not been found possible to break with the old policy. Duties imposed to foster ‘infant industries’ are continued when these have grown to world-embracing dimensions. While the theory is that Protection is needed for the weak, in practice it is those who can shout loudest, lobby best, and pull wires most effectively to whom that boon is prolonged.

Secondly, it is at least equally difficult to restrain Protection, whether temporary or permanent, within the limits originally assigned to it. Sometimes the cry may be that, if one group of producers is assisted in any way by the State, it is only fair that others should receive an equivalent advantage. A more insidious demand is, however, likely to arise when, as is almost always the case, the taxed article is used as a raw material or an instrument of production in some further British industry. The recent Sugar Convention Bill is a case in point. Under it the Government took power to prohibit the importation of bounty-fed foreign sugar. Thereupon it was argued that this policy logically involved the taking of similar powers with regard to those articles of confectionery in the manufacture of which such sugar was employed; for otherwise British jam and chocolate makers would be seriously handicapped in their competition with foreign rivals. For the moment, it is true, the Government resisted this suggestion, but they were forced to admit that, if at some future time the danger became serious, they might be compelled to deal with it in the manner which had been

proposed. M. Yves Guyot, in the July issue of the *Journal des Économistes*, supplies a still more pertinent illustration from the recent history of France. In 1887 M. Méline imposed a duty of 5 francs per quintal upon imported corn, leaving the importation of bread free. 'Aussitôt apres on voyait des boulangers français établis en Belgique et des boulangers beiges expédier du pain jusqu'à Paris. M. Méline mettait alors un droit sur le pain égal à celui du froment.'

In view of all these practical difficulties, it is unreasonable and misleading to treat the problem of Protection against 'dumping' as though its solution depended merely upon whether or no it is conceivable that, in exceptional cases, a direct advantage might result from it. No economist would maintain that abstract theory alone is decisive against every possible form of special and limited tariff manipulation on the part of the State. On the contrary, as the late Professor Sidgwick wrote some twenty years ago, 'it is easy to show that Protection, under certain not improbable circumstances, would yield a direct economic gain to the protecting country; but from the difficulty of securing in any actual Government sufficient wisdom, strength, and singleness of aim to introduce Protection only so far as it is advantageous to the community, and withdraw it inexorably so soon as the public interests require its withdrawal, it is practically best for a statesman to adhere to the broad and simple rule of 'taxation for revenue only — at any rate in a free community where habits of commercial enterprise are fully developed.'⁴ When, in addition to these considerations, the political dangers referred to at the close of the last chapter are given their due weight, the case in favour of this old and well-tried maxim becomes of almost irresistible strength.

IV. Tariff Bargaining

I pass to the question of tariff bargaining. In the speech at the Constitutional Club, from which I have already quoted, and the argument of which is developed in his recent pamphlet, Mr. Balfour observed: 'Negotiation with regard to tariffs is rendered extremely difficult—in fact, negotiation in the true sense is rendered impossible —by the present position of our tariffs. . . . What I desire, if it could be carried out, is freedom of negotiation for the purpose of increasing freedom of trade.' In these sentences a perfectly definite problem is very clearly stated. Everybody agrees that the high tariffs of foreign nations are injurious to British interests, and the question is whether, by a modification in our established policy, we might be enabled to negotiate some reduction in them.

Now, this established tariff policy has a two fold aspect. In the first place we have, during the last quarter of a century, made it perfectly plain to all the world that, whatever changes other nations may make in their Customs duties, we are not prepared, either by way of retaliation or by way of reciprocal concession, to modify ours in the slightest degree. In the second place, we have elected, so far as possible, to collect that part of our revenue, which is derived from Customs, by means of duties upon commodities not produced at all in the United Kingdom. For special reasons an exception is made in the case of beer and spirits, but, even here, the assessment of a corresponding Excise upon the home production prevents our system affording any differential advantage to British manufacturers.

These two aspects of our tariff policy are, I submit, analytically quite distinct from one another. In much that has been written in the course of the present controversy, it has been tacitly assumed that, in order to abandon the policy of non-negotiation, it is essential that we should, at the same time, abandon that of non-protection to native industries. This, however, is not the case. 'The immediate participation of England in the future commercial negotiations of Europe,' which Signor Luigi Luzzati anticipates as a result of our present debates, does not necessarily involve this other new departure. With some countries it would be perfectly possible for tariff negotiations to begin to-morrow without any suggestion of our imposing duties upon commodities which are not already taxed. As against France, we could offer to reduce, or threaten to augment, the duties upon wine. If it were not for the Sugar Convention, we should have had an equally effective instrument of negotiation against Germany and Austria. For successful barter with other countries we might, indeed, need to add, or to threaten to add, to the scope of our Customs tariff, but even this would not necessarily involve Protection, because it would always be possible, though—as I shall presently show—practically most difficult, to set up equivalent Excise duties similar to those upon home-made beer and spirits.

Thus, in the first instance, we may leave the question of Protection aside in debating Mr. Balfour's problem. Negotiations of the kind contemplated may comprise, as has already been implied, both reciprocal concession and retaliation.

We may, in fact, endeavour to bring a foreign Government to terms either by an offer, or by a threat, or by a judicious combination of the two. What is there to be said for and against the deliberate recognition of this complex tariff bargaining as one among the functions of the Government? In the first place, we must, I think, admit that it cannot be ruled out of court by any *a priori* reasoning. For the reciprocal concession side of it, at all events a very strong case can be made out. It is, for example, quite conceivable that an occasion might arise when, by slightly lowering our wine duties, we could induce the French Government to make some considerable modification in its tariff. The direct result of seizing that occasion would be a somewhat freer market in France, coupled with a slight change in the way in which our own revenue was collected,—the deficiency in the yield of the wine duties being made up, perhaps, out of the income tax or the spirit duties. Even here, of course, it is by no means certain that the gain on the whole would exceed the loss, because the bargain struck with France might be displeasing to other Powers, and we might find ourselves involved in a tariff dispute with Spain or Portugal on the ground that the kind of wine produced by them was being unfairly discriminated against. As a result they might retaliate by increasing their duties on British imports, and the foreign market, taken as a whole, might, in the long run, be more restricted than it was before. Furthermore, the mere fact that we were known sometimes to negotiate by concession might lead to attempts on the part of foreign nations to bluff our Government by imposing taxes, whose sole purpose was to secure some concession upon the part of England as the price of their removal. If, in such a case as this, we were to take offence at the bluff and refuse their demands, the duties might not be removed. This consideration leads on to a further point. It makes it plain that, in practice, we should not be able to confine ourselves to negotiation by the method of concession only. For circumstances, such as those which have just been described, could hardly fail to tempt our statesmen into the adoption of retaliatory measures. Hence, the somewhat indefinite conclusion, which has hitherto been reached, cannot be taken as a final one. We have still to see whether the same neutral attitude can be maintained when account is taken of the fact that the diplomacy of concession is inextricably bound up with a wider policy of which retaliation forms a part.

The consideration of this latter aspect of tariff bargaining makes necessary the drawing of certain further distinctions. A threat may be used either to compel a foreign nation to refrain from special discrimination against British or colonial goods, as contrasted with those of the rest of the world, or it may be employed as a kind of lever to stimulate a general reduction in certain foreign tariffs.

Take, first, the case of deliberate and avowed discrimination against British-made goods. Were such a case to arise, I recognise fully that this country might be bound to strike back. I am not prepared to say whether or not the return blow should be delivered in kind, but I recognise that it might need to be so given. A tariff war might, like a military or naval war, sometimes be necessary, and it would be the business of our diplomatists to decide whether or not it should be entered upon. My reply, however, to those who urge this point is that they are dealing in hypotheses, the concrete realization of which is in the highest degree improbable. Our Free Trade policy has not, as a matter of fact; had the effect of bringing upon us this hostile discrimination. On the contrary, it has everywhere, and in all important particulars,⁵ secured for our goods 'most favoured nation' treatment—an advantage of which there is no reason to suppose that they are in the least likely to be deprived.

It may, however, be suggested that, though there is nominally no discrimination against British goods, and though the taxes levied upon any particular class of them, in Germany for example, are identical with those levied upon the same goods when they are imported from elsewhere, yet there is a real adverse dis-

crimination in the class of goods which foreigners elect to tax. For example, if cotton manufactures were almost the only British export, and silk almost the only French one, a heavy cotton, coupled with a light silk, tax, would be a real discrimination against England in foreign markets. In view of the fact that other countries, when framing their tariffs, have not, in recent years, had to take into account the possibility of reprisals from us, there is no *a priori* absurdity about this suggestion. At the same time, the fact that we are all-round manufacturers, and that our exports are exceedingly various, makes it improbable that the evil, if it exists at all, is particularly serious. At all events, it is one, the reality of which needs to be proved by a careful examination of the details of trade returns. The fact that it is not demonstrably impossible is not an adequate ground for the assumption that it is urgent. Hitherto, I have seen no evidence to show that it has any great practical importance. Till some such is forthcoming, we are bound to presume that the accused foreign Governments are innocent of this charge, and to treat the case of real, like that of nominal, discrimination, as little more than an hypothesis.

Secondly, there is the case of discrimination against the goods of British colonies. Is the mother-country called upon to reply to that by tariff retaliation? If the attack upon the British colony is made simply because it is a British colony, we are again in the presence of an 'unfriendly act,' and the economic problem disappears before the political one. Once more I admit that it might be wise for our reply to be delivered through the tariff; but, once more, I add that the case is a shadowy hypothesis. In the real practical controversy, which is in everybody's mind, we cannot seriously pretend that the German Foreign Minister was adopting a deliberately aggressive attitude towards Canada. On the contrary, from his own point of view, Baron von Richthofen had an extraordinarily strong case. By granting a preference to Great Britain, Canada was depriving Germany of 'most favoured nation' treatment. Under the autonomous tariff of 1897 this led, *ipso facto*, to the higher scale rate of German duties being applied to Canadian goods. It might be said that Canada and Great Britain were parts of a single State, whose domestic arrangements were nobody's business but their own. But is not Germany's reply conclusive, that, 'if the English Colonies are to be in a position to follow out their own Customs policy, other countries must be allowed to treat them as separate Customs territories'? At all events, in a situation such as this it is ridiculous to speak as though we were being subjected to a national affront. Our *amour propre* is not in any way involved, and we have to deal, in the first instance, simply with a matter of business. From that standpoint, there can be no serious doubt that we had far better advise Canada to refrain from granting us well-intentioned but comparatively insignificant privileges, rather than involve ourselves in tariff disputes with foreign Powers. It may, indeed, be said that, though the economic loss, to which such disputes would probably lead, far exceeds the gain from colonial preference, yet to decline a boon offered by our daughter-nations would be a politically foolish act. If that be so, by all means let us accept it, and let us do what we can to protect them from any reprisals their Imperial attitude might evoke. But surely it is not beyond the resources of diplomacy to devise some less costly means of achieving this end than the initiation of a series of ruinous tariff wars. We want Germany to refrain from replying to a specific act on the part of Canada in a way which, we must admit, she can defend with an exceedingly plausible argument. Are there not concessions and advantages connected, for example, with the use of coaling stations, which we could offer to her as an inducement to conform to our wishes? Or, if we are determined to adopt an aggressive attitude, are there not threats and reprisals of a like minor character always ready to our hand? Diplomacy of this kind may perhaps be desirable, though there is the authority of Sir Edward Grey⁶ for believing that, even without it we could negotiate treaties, like those of France, Spain, and Portugal, forbidding discrimination against a colony on account of any relations into which it may elect to enter with the mother-country. It is, however, scarcely reasonable to suggest that, in order to avoid the necessity of declining a small token of colonial affection, we should make a revolutionary change in our

whole attitude towards fiscal policy. *Nee deus intersit nisi dignus vindice nodus.*

So far of adverse discriminations. Our practical conclusion is that, as a matter of fact, none such exist of a kind to justify a policy of retaliation. But there still remains the question whether we should be prepared to employ the general scheme of tariff-bargaining, which has been shown to imply occasional resort to this weapon, as a means of influencing the general level of foreign tariffs. I incline to think that, if we were to do this, our own tariff wall would probably, in the long run, be somewhat higher, and that of a few other nations somewhat lower, than would otherwise be the case. Unless we were so fortunate as to possess a Foreign Minister of almost superhuman genius, it is not likely that this latter effect would be very marked. For we have the experience of other peoples to show that this kind of diplomacy, instead of taking the form of friendly negotiations, culminating in a reduction of duties, ends often in the bitter conflict of a tariff war. Furthermore, Great Britain is in an exceptionally weak position for bargaining, first, because the action of her executive is liable to be crippled by Parliamentary interference, and, secondly, because our imports consist chiefly of food and raw materials, for which we have an urgent need, and which we could not generally tax without injuring ourselves considerably more than our opponent. In view of these unfortunate circumstances, it would be optimistic to suggest that the duties of any single nation would, on the whole, be lessened more than our own would be raised under the new policy. But, unless our bargaining was considerably more successful than this, our total loss would exceed our total gain. For pure theory indicates that, in order to compensate ourselves for the harm done us by a given rise in our own tariff, we should need to secure a fall about equal to that rise in the tariffs of all the world. Since, however, there are many countries whose Customs systems, whether because they are already on a Free Trade basis or for some other reason, we could not possibly expect to modify by negotiation, the reduction we should need to secure in the duties of those nations that *were* amenable, would be vastly greater than this. In the light of such a result, rough and inadequate though it undoubtedly is, the chance that the gain from the new system would exceed the loss, even if the tariff and the diplomacy concerning it were in the hands of a Cabinet of Solomons, must be pronounced exceedingly small. When the coefficients of human ignorance and frailty are introduced, most people will probably agree that it practically vanishes.

Thus far it has been assumed that the distinction between tariff negotiation and a tariff affording some measure of protection to home industries, can be not only drawn in theory, but also maintained in practice. In the present state of the public mind, however, there can be no doubt whatever that this is immensely improbable. The conversion of the nation to 'tariff bargaining' would almost certainly mean the erection of a Customs system under which more than one British interest benefited at the public expense. It is, therefore, necessary to add to the objections, which have been urged against such a change of policy, the further one that its adoption is impracticable otherwise than as bound up with the beginnings of Protection. That system, once inaugurated, is, as we have seen, nearly certain to grow to alarming proportions, and to bring in its train all the evils, political and moral, which were touched upon in the second chapter of this book. For all these reasons we must, I think, conclude that, in the matter of tariff bargaining as in that of protection against 'dumping,' it is better for us, as a nation, to bear those ills we have than fly to others of a more grievous kind. Hypothetical cases can, indeed, be set out in which a different line of action might be forced upon us, but, in the present condition, on the one hand, of our trade relations with foreign countries, and, on the other, of public opinion at home, the case in favour of a departure from the *status quo* has not as yet been made out.

V. Imperial Preference

In the three groups of problems to which this discussion has hitherto been confined, the centre of interest has been the United Kingdom. The question has been whether or not any scheme of tariff manipulation would be likely to confer a direct or indirect benefit upon the inhabitants of these islands, and the conclusion reached has been a negative one. Now, however, the scene must be shifted. In passing to the proposals with which Mr. Chamberlain's name is more intimately associated, we rise from the level of national to that of Imperial policy. The problem, therefore, becomes more complex, the elements involved more numerous, and the relations between them more subtle. The simplest division of the subject is threefold. First, there is the strictly business question as regards the United Kingdom, whether, namely, a system of Imperial preference would mean an economic gain to the people of these islands. Secondly, there is the same business question concerning the people of the mother-country, her colonies and dependencies taken together. Lastly, there is the political question, whether Mr. Chamberlain's plan would help forward the consolidation of the Empire by promoting unity of spirit and aim among its different parts.

These three questions are perfectly distinct. The considerations upon which an answer to the first two should be founded are predominantly economic, while those which lie behind the last are chiefly general and historical. A satisfactory decision as to whether Mr. Chamberlain's policy ought to be supported or opposed can only be reached after a careful examination of them all. It cannot be condemned offhand upon the ground that it would be economically disadvantageous to the United Kingdom, or even upon the further ground that it would involve a material loss to the Empire as a whole. For in matters of statecraft sentiment may often be more important than shillings, and the most profitable course of action need not necessarily be the best. In this chapter, therefore, each of these three questions will be considered in turn, the business problem from the mother-country's point of view being taken first.

Now in this there is involved a somewhat difficult comparison. For a balance has to be struck between a debit and a credit account, neither of which it is possible to summarize with any degree of accuracy. We have no precise information as to the amount, either of the duties which Great Britain will be asked to impose upon foreign imports, or of the special advantages which the colonies are willing to grant to her in return. Nor is this the worst. For, even if some entirely definite scheme were before the country, we could never be certain that the limits of our sacrifices were really expressed therein. For, when once a policy of this kind has been started, it is apt to develop within itself an expansive power, which can neither be calculated beforehand nor resisted when it appears. In order to secure equivalence between the advantages accorded to our different colonies and dependencies, it might, ere long, become imperative that imports, which nobody

at present has the least intention of taxing, should be brought within the purview of our Customs tariff. A beginning might be made with duties upon wheat and mutton only, but there can be no guarantee that these would not be driven to take unto themselves further duties upon fish, butter, cheese, vegetables, and eggs; perhaps even, to quote Sir Michael Hicks-Beach, upon ‘the tea, the cocoa, the rice, the fruit that comes to us from India and the Crown Colonies.’ Certainly, as Lord Ripon pointed out in the House of Lords, ‘we could not give a preference to the self-governing colonies without considering the extent of the claims which India might have to preference upon her side.’ We are told, again, ‘that the new policy could not extend to taxes on raw materials, and no one imagines that such taxes would be proposed in the first instance. But they have already been suggested by those interested in Canadian timber and in the wool and skins sent us by Australia; and how long could South Africa, which sends us hardly any food, and large quantities of raw materials, be satisfied without them?’⁷ Nor is the danger confined to the probable expansion of the *number* of imports subjected to taxation. There is also a considerable chance that the *amount* of individual duties would have to be raised above what was originally proposed.

It is almost certain that the colonists would form an exaggerated estimate of the advantages which the new policy would confer upon them. Professor Davidson has told us that its inauguration would inevitably be followed by a tremendous boom in Manitoba and the Canadian North-West. ‘Settlers would pour in; thousands of acres would be broken; the land companies would flourish, and advertise, and flourish more; railways would be projected, perhaps begun; new town sites would be laid out, existing hamlets would mortgage their future, and all would go merry as a marriage-bell.’ But ‘*the preferential wheat boom will burst like other booms*. Then will come Canada’s second thought about the preference, and that will be accompanied by gritting of the teeth.’⁸ When that time arrives, is there not bound to arise a loud and urgent demand for an increase in the rate of our preferential duty? Great Britain, it will be said, has, by her policy, tempted the Canadian farmer to move westward; she has directly caused, and is, therefore, in honour bound to cure, the evils of the boom. It will not be easy for a Government, anxious to promote good feeling within the Empire, to resist appeals of this kind. There is grave reason to fear that they may be unpleasantly numerous, and that the amount of our duties may, in response, be steadily increased.

Let us assume, however, for the sake of argument, that these dangers are imaginary, and that the debit side of the preferential account may fairly be calculated upon the basis of the duties imposed in the first instance. These, everybody is agreed, must fall upon articles of food, most probably upon grain and meat. That being the case, it will be observed that they are necessarily of a protective character. Every one of the chief colonial food products—and the same thing is true of Australian wool—is produced in large quantities at home. Nobody has suggested that it would be practicable to impose a corresponding excise upon the staples of British farming. Consequently, there is no escape from the conclusion that those interested in English, Scotch, and Irish agriculture will be sheltered from a certain amount of foreign competition to which they would otherwise be exposed. An incidental result of preference is partial agricultural protection.

Now, in the second chapter it was pointed out that Protection in general involves a sacrifice through the diversion of labour and capital from occupations in which they have greater, to others in which they have less, relative advantage. Protection of agriculture in an old country is, beyond all dispute, responsible for this class of sacrifice. In addition, however, it possesses two further highly objectionable features. In the first place, an increase in the crop yield can, *ceteris paribus*, only be brought about at continually increasing cost. If tariff arrangements compel a gradual movement of workmen into the textile industries, it does not necessarily follow that the average output per man is less after the change than before. In agriculture, however, in accordance with the physical law, to which economists give the name of *diminishing returns*, this result does follow. Agriculture is, therefore, one of those industries which, from an economic point of view, it is espe-

cially undesirable to protect. Partly involved with this consideration, there is a second point which will be more readily appreciated by the general reader. Protection to manufactures involves a detriment to the nation's annual income of real wealth. Protection to agriculture involves, over and above this, a further detriment to the manner in which that income is distributed among the different sections of the community. For, under it, rents inevitably tend to rise, and the circumstances of the land-owning class are improved. But there can be no doubt whatever that landlords are, on the average, already much better off than the artizan and labouring population. Consequently, agricultural protection leads to a larger proportion of the diminished total of the country's wealth falling to the relatively rich, and a smaller proportion to the relatively poor.

It may be replied that these considerations are offset by the social advantages to be anticipated from the encouragement of agricultural pursuits; that the flow of labour from the country to the towns will be checked, and the overcrowding of the slums relieved. In order to examine this argument, it is necessary to distinguish sharply between the immediate and the ultimate effect likely to follow from the proposed change of policy. Let us take the circumstances of the period of transition first. So long as this lasted there would, no doubt, be an influence at work tending to draw labour back again into the rural districts; for the enhanced demand of the farmers would probably manifest itself in a rise of agricultural wages. Unfortunately, however, this would not be the only way in which the moving force would operate. Besides the increase in the advantages of country labour, there would be a decrease in those of town labour, owing to an enhancement in the price of food. Thus, though it is probable that, under a protective system, the towns would at first grow less rapidly relatively to the rural districts than under Free Trade, this result would be partly due to the fact that the workpeople in them would be rendered worse off. So far as immediate effects are concerned, the proposed change of system, instead of making the conditions of town life better by diminishing the congestion of population, would contrive to diminish congestion chiefly by making these conditions worse.

Turning to ultimate effects, we have to observe that these can have no important bearing, one way or the other, upon evils which are due to processes of transition and adaptation. What is proposed is a permanent fixed duty upon certain foreign imports. This may obviously influence the centre about which industrial change takes place, but not the magnitude nor the frequency of the changes. Now, the overcrowding in towns, of which so much is heard to-day, like the over-crowding and excess of labour in the rural districts, which was a hardly less conspicuous evil sixty or seventy years ago, is due, much less to any given set of industrial circumstances, than to the fact that industrial circumstances in general are in a perpetual state of flux. It is primarily the result of the inevitable lagging in the adjustment between demand and supply. Protection to agriculture might, therefore, ultimately make the number of town dwellers less than they would otherwise be, just as it would probably keep down the total population; but there is no reason to suppose that it could cause either employment or house-room to be better adapted to the needs of the people than they are at present. The result would not be towns that were less overcrowded, but, at best, smaller overcrowded towns. Consequently, the specific evils of town life remaining unaffected, Protection cannot rightly be advocated as a remedy for them. Its extra-economic justification must be sought, if anywhere, in the plea that the average—not the exceptionally unfortunate—townsman is, on the whole, an inferior person to the average countryman. This contention is far too disputable to sustain a policy which must diminish the production of wealth, injure its distribution, check the growth of population, and influence its place of residence chiefly by making the struggle for subsistence more severe.

It may, however, be objected that the whole of the foregoing argument is based upon a misconception. The stimulus, which a preferential system would afford to colonial agriculture, is expected by many people to make the price of wheat and meat in England lower and not higher than before. In that case, no effective protection could be afforded to the home producer, and all that has been said, hitherto, would be irrelevant.

If the premiss upon which this reply rests were sound, the conclusion would no doubt follow. I propose, however, to dispute the premiss. The argument, by which it is defended, starts from the indubitable fact that Canada possesses, in Manitoba, the North-West Territories and the western parts of Ontario, an enormous area of excellent wheat land, which still remains to be brought under cultivation. In the American Government report concerning the 'Commercial Relations of the United States with Foreign Countries during the year 1901,' this circumstance is very clearly brought out: 'The area of land in the district adapted to the production of wheat is over 350,000,000 acres, and it is safe to say that 250,000,000 of these acres are of unsurpassed fertility, and have climatic conditions favourable to the production of the best grades. Less than 2 per cent of this available wheat area is now under cultivation.'⁹

The second step in the popular argument is the proposition that, if this area were developed, the supply of wheat would be so increased that prices would stand considerably lower than would otherwise be the case. The third step is a confident prediction that the adoption of a preferential system by England would be *followed* by a great expansion of Canadian wheat-growing, and the fourth an insinuation that this expansion would be *caused* by our change of tariff policy.

The first three steps of this reasoning call for no comment. The last, however, involves a logical blunder, and begs the whole question at issue. For it is plain that neither the expansion of the Canadian wheat area, nor any of the effects which flow from it, can fairly be described as a consequence of Mr. Chamberlain's policy, unless it can be shown that the expansion, or some part of it, would fail to take place in the event of that policy being rejected. If new wheat-lands are destined to be opened up in any case, the price movements that may result therefrom have nothing whatever to do with our present problem. What we are concerned to know is, not the way in which English prices are going to be affected, whether there are preferential duties or not, but the difference between the prices that would rule if these duties were established, and those which would rule if the country declined to establish them. That is the point. Preferential duties are bound to have a protective effect if they cause prices to be higher than they *would otherwise have been*, whatever be the relation between these latter prices and those which *used to be*. The comment, therefore, which should be interposed between the third and fourth steps of the above argument, is that a great expansion of the Canadian wheat area is absolutely certain to take place in the near future, whatever the statesmen and the electors of the United Kingdom may do or refrain from doing. The development of the North-West has, in fact, already begun under the operation of purely natural causes. Two pieces of evidence may be quoted to prove this. The first is from an article by Colonel G. E. Church in the March number of the *Fortnightly Review*: 'The dense populations of Pennsylvania, New York, and the New England States no longer raise sufficient wheat to supply their local wants for more than a small fraction of the year; hence from those wealthy communities the railways have received ample financial support to press west and north, until they now impinge upon the frontier of the Dominion of Canada, carrying with them an intelligent, restless, and determined population. The attractions beyond the Canadian boundary are great, and the impelling force in the rear is full of hungry energy. Forty thousand American farmers crossed the border last year, and it is estimated that over a hundred thousand more will follow during the coming summer, and settle in North-West Canada. The people of the country give them welcome, for they are of the same race, with interests, lines of thought, habits, customs, and language in common; and all their purposes of life are similar.' My second quotation is from a special article in the *Times* of September 7. 'The curious thing is that, while nearly all former immigration into this great North-West has come in timidly in isolated and ill-organized fashion, these shrewd Americans come in boldly, confidently, and in large companies. Now that they have made up their minds the country is a fine one—and of judges in such a matter there could be none better on earth—there is no halting, no half-hearted measures; they come in their thousands, and form the

very best classes in the Western and North-Western States.' My purpose in making these extracts is not merely to emphasize the illogicality of those who write as though all the development of Canadian wheat-growing which takes place *after* the introduction of Preference may fairly be counted as a *consequence* of it. The point has an importance of its own which will become apparent immediately. For let us trace the process by which the new situation, brought about by the acceptance of Mr. Chamberlain's scheme, would work itself out, on the assumption, of course, that the fraudulent shipment of foreign grain as colonial-grown could be prevented. The first result of the new import duty would be to diminish the profit to be made by sending foreign wheat to England. Consequently, other things equal, there would be an immediate contraction in the quantity so sent, this, in turn, would lead to a rise in the English price. Since wheat is an article of prime necessity, Englishmen would not be prepared materially to reduce their consumption, but would offer prices high enough to restore the foreign importation to its old level. This would necessitate practically the whole of the duty being paid by the consumer, or, in other words, a rise of price equal to the rate of duty above—not necessarily what it was before—but what it would otherwise have been then. So far of immediate effects. The higher price-level thus established would, however, encourage English and colonial farmers to increase their wheat acreage, with the result that prices would again fall in some degree. Under normal conditions equilibrium would ultimately be restored, with prices in England raised above what they would otherwise have been by *slightly* less than the tax, and prices abroad reduced by the same slight amount below what they would otherwise have been.¹⁰

When, however, a considerable group of the producers, to whom a differential advantage is given, are engaged in the cultivation of territories inadequately supplied with railways and in other ways still to be opened up, the conditions are not normal. In this case, it is possible that the increase brought about in their output may lead to such a reorganization of method and such a development of transport facilities, that they are soon enabled to despatch wheat to England at prices much lower than they could formerly accept with profit. If this were to happen, the high prices resulting from the first introduction of Preference might be regarded as a kind of investment made by the mother-country in the education and general equipment of the colonial agriculturist. They need not constitute a real sacrifice, because they would lead 'ultimately' to a lower level of prices than would have been established otherwise. Of course, it is in no case certain that the 'ultimate' gain would exceed the temporary loss, and, indeed, when it is remembered that the latter would need to continue till high wheat prices had availed to stimulate a great development of colonial railways, this result appears exceedingly improbable; but still there is no analytical error involved in the assertion that some net advantage would result.

At this point, however, the facts which have been established with regard to the early and inevitable development of the Canadian wheat-fields, whatever England may do, have a part to play in the discussion. For, in view of these, the utmost that a policy of Preference can be expected to effect is, not to open up the Empire's granary *ab initio*, but merely to add a little to the strong stimulus to which it is already subjected. But a given increase in the acreage under wheat is likely to mean a great deal more in the development of railways and agricultural methods when it takes place from a relatively small initial amount than when that amount is already large. What I wish to suggest is that natural forces will develop the Canadian wheat area far enough to secure practically all the economies obtainable from large-scale organization, and that the slight further expansion, for which Preference may be responsible, is not likely to add much in the way of further economical methods. In many manufacturing industries it is found that an increase in the size of the plant, *up to a certain point*, means cheaper production, but that, after that point has been reached, no such effect can be observed. It seems to me most probable that, under existing circumstances, the Canadian wheat supply will, in any event, be carried, before long, up to the point at which extra output ceases to mean extra

cheapness, and that, therefore, there is no ground for the opinion that the immediate and direct effects of Preference in raising prices—effects which scarcely any instructed economist would question—will be balanced by ‘ultimate’ indirect compensation.

Up to the present, however, we have been concerned with that aspect of the preferential scheme in regard to which this latter plea can be suggested with the greatest degree of plausibility. No hopes of the kind have been held out concerning meat and dairy preferences. It may, therefore, be concluded with some degree of confidence that, so long as England continues to any important extent dependent upon foreign food imports—and at present more than 80 per cent, of our imported supplies are derived from non-British sources¹¹The figures represent millions of pounds. — a preferential system must keep prices raised, by nearly the full amount of the duties, above the level at which they would otherwise stand, and British agriculture must, consequently, be protected to that extent. The relevance of all that was said in the earlier part of this chapter concerning the evils of such a situation has thus been established. These evils have to be set upon the debit side of the preference account, and, in addition to them, the further sacrifice imposed upon us in an annual payment to the colonial agriculturist of a sum nearly equal in amount to the rates of the different duties multiplied by the quantities of colonial imports.

Upon the opposite, or credit, side of the account have to be set the reciprocal advantages which the colonies are prepared to concede to the mother-country. Strictly speaking, we ought to subtract from these whatever concessions they might be expected to grant irrespective of further advances on our part. Nor is this consideration unimportant. For not only was the Canadian preference accorded to us without any expectation of a *quid pro quo*, but within the last two months Mr. Seddon has declared his intention of following the sister colony’s example, and ‘leaving it to the mother-country to respond or not as she thought fit’ (*Glasgow Herald*, August 13).

This point, however, cannot, in the nature of the case, be worked out, and we must content ourselves with a rough guess at the probable action of the colonies if Mr. Chamberlain is successful, without attempting formally to discount from that their probable action if he is not. Some help towards this guess can be obtained from the resolutions of the last Colonial Conference, and the recent utterances of various public men. From these expressions of opinion two inferences of importance may be drawn as to the nature of the advantages which the mother-country is likely to receive. In the *first* place, the amount of any possible preference is limited by the revenue requirements of the colonies. It is a practical necessity for most of them to raise the great body of their revenue by indirect taxation. In the case of Canada, though the Dominion is constitutionally entitled to have recourse to direct taxes, it is in fact debarred from doing so lest its demands should clash with those of the separate provinces, to the governments of which this source of revenue is the only one open.¹² With the other self-governing colonies the case is, for various reasons, similar. Upon such a matter Lord Brassey should be an authority of weight, and in June last he is reported to have declared ‘that he knew positively that it was practically impossible for the self-governing colonies to make any material reduction in the duties now levied on British manufactures. The income obtained from their Customs was essential to enable them to carry on their governments, and there was no available means of obtaining that income from other sources.’¹³ This necessity of collecting a given revenue from import taxes is not, indeed, fatal to a reduction in the duties upon British imports, so long as other imports, to which part of the burden can be shifted, exist in sufficient quantities. Unless, however, these other imports are of a different kind from those sent by the United Kingdom, it would have to be considered how far the highly-taxed foreign articles would be ousted from the colonial market by their favoured British rivals. In so far as this result occurred, the loss of revenue in one direction would not really be compensated by a corresponding increase in another, and though, no doubt, the fall in the rate of duty would be accompanied by a growth in the total quantity of

the imports upon which it was levied, it is very doubtful whether the Customs receipts would be restored by this means to their old amount. The exigencies of the colonial revenue systems are thus seen to present a serious obstacle to a reduction of the duties upon imports from the mother-country.

In the second place, a further difficulty arises from the keen desire of the colonists to foster their own manufacturing industries. Mr. Fielding, in introducing his last Budget in the Canadian House of Representatives, described the attitude of the Dominion's delegates at the Colonial Conference in this way: 'We told them (Mr. Chamberlain and Mr. Gerald Balfour) that, if the Imperial Government was prepared to adopt the preferential policy and give our products exemption from the duties now imposed, or hereafter to be imposed, on foreign goods, we would be prepared to grant some further preference, subject to certain conditions which we clearly laid down. *We frankly stated that we could not undertake to give that further preference in a manner which would operate to the disadvantage of our own industries. As between the British manufacturer and the Canadian manufacturer we thought we had gone as far in the way of reduction of duties as we could.*'¹⁴ There is reason to suppose that in this matter the Canadian attitude is typical of that of the self-governing colonies as a whole. It is in accord with a resolution recently passed by the council of the Protectionist Association of Victoria, which the *Times* correspondent declares 'fairly to represent the attitude of the Protectionists and the Protectionist press in Australia,'¹⁵ and also with the form of preferential concession, which Mr. Seddon is reported to favour in New Zealand.

These two sets of considerations taken together give ground for the general conclusion that the preferences granted to Great Britain in return for her concessions would take the form, almost exclusively, not of a reduction in the duties upon British imports, but of a substantial addition to those already imposed upon the competing imports of foreign countries. The representatives of the Cape and Natal at the Colonial Conference confined themselves to this single proposal, offering a 25 per cent, or equivalent all-round increase on foreign imports, and similar offers constituted an important factor in the suggestions made on behalf of the other colonies. The preference we may look for, in short, is one, not over the colonial, but over the foreign manufacturer, and by way, not of diminution in the duties against us, but of increase in those against our rivals.

This point is important for more reasons than one. In the first place, since our new Imperial policy is to involve the imposition of a positive and obvious detriment to foreign traders both in this country and in the colonies, the chance that it may provoke 'reprisals' is increased. It is not a question of whether or not Germany and other countries would be morally justified in resorting to measures of that kind, but whether, as a matter of fact, they would be likely to do so. Now, so recently as April last, Baron von Richthofen hinted to the British ambassador that, if 'large portions of the British Empire were to give preferential treatment to Great Britain, it would be very difficult to obtain the consent of the Reichstag to the prolongation of most-favoured-nation treatment to Great Britain herself.' This suggestion may have been, and, indeed, at the time when it was made, probably was, little more than a piece of diplomatic bluff. But it is idle to deny that it points to a danger which is real, and which would probably become very serious if the colonial preferences were to take the form which has been anticipated, and if the mother-country were to reciprocate the policy of her daughter States. There is a very great probability that we should become involved in continued tariff discussions, occasional tariff wars, and, in view of the present temper of the nation, in the permanent upkeep of a clumsy and expensive 'big revolver.' Such advantage as we received in colonial markets would be accompanied both by a considerable loss of advantage in the foreign markets, and by the erection at our own ports of a bargaining tariff economically less advantageous than the present one. When it is remembered that British exports to foreign countries are about three times as great as those to the self-governing colonies, it appears only too likely that the advantages conferred upon us in return for our preferential duties would,

when taken in conjunction with their indirect results, not merely fail to balance, but actually increase the amount of our sacrifice.

For the sake of argument, however, that point also may be waived, and it may be assumed that England's relations with foreign countries would remain unimpaired. It is, then, only necessary to consider the direct effect of colonial preference upon British well-being. To begin with, it is obvious that an advantage conferred upon us by increased taxation of our rivals will be less than one involving decreased taxation of ourselves. For, whereas in the latter case we should be placed in a more favourable position relatively both to foreign and to colonial competitors, in the former it is only our relation to the foreigner that is affected. Whereas diminished duties might lead, not only to an increase in our share of colonial trade, but also to an increase in the total in which we shared, the kind of preference, which the mother-country is likely, as a matter of fact, to receive, cannot possibly bring about the second of these results. It may oust our rivals from existing, but can never create new trade.

It is necessary, however, in this connection, to note Sir Robert Giffen's opinion that 'almost all the high duties, of which our manufacturers complain, give no protection to colonial manufactures, because the particular manufactures which would compete do not, in fact, exist in the colonies.'¹⁶ If this view be correct, there is clearly less difference, from our point of view, between a preference given through increased duties on foreign imports and one given through diminished duties on those of British origin than at first sight appears. It must, however, be observed that other high authorities do not accept Sir Robert's view of the situation, and that textiles, which 'form more than half of the Canadian imports from Great Britain' are considered by Professor Davidson to compete directly with the native colonial manufactures.¹⁷ But I need not insist upon this point, because, in the light of a further fact, also noted by Sir Robert Giffen, the whole matter assumes a secondary importance. This fact is that a large part of the foreign imports of some of our colonies consists of classes of goods, such as foodstuffs and raw materials, which it is quite impossible that the United Kingdom could in any case supply. In view of this, Sir Robert's conclusion is that the *maximum* of trade which, under present conditions, could possibly be transferred from foreign to British hands 'is thus reducible to a very small sum when we take account only of those imports where foreign countries are our competitors.'¹⁸

It may be rejoined that, as the colonies develop, their capacity for purchasing goods from abroad will increase, while preference granted to them by the mother-country would itself help forward their development. This statement is no doubt true, but it is open to the following replies: first, the development of the colonies is certain to involve a great expansion of their native manufacturing industries, and, in view of the similarity between their 'natural advantages' and our own, the goods in which they are likely soonest to become self-sufficing are just those which we are best able to export; secondly, even upon the extreme supposition that the preference granted to their agriculture would indirectly lead to a doubling of their capacity to purchase manufactures from abroad, the result would still be insignificant. Even 'Tariff Reformer' in the *Times* has not ventured to suggest that British exports to the colonies could be increased by more than £10,000,000 a year.

Let us take this generous estimate and see what it amounts to. Its author naively implies that this £10,000,000 would measure the increase of our exports, not merely to the colonies, but to the world at large. This is, of course, ridiculously superficial. The analysis of the case, to which economists in general would subscribe, is in this wise. The new fiscal arrangements of the colonies would lead to certain foreign exporters being supplanted in their markets by English rivals. Consequently, the foreign productive force which would otherwise have been devoted to the manufacture of these exports would have to seek new employment. A large part of it would probably find this in some branch either of foreign or of home trade. It would thus

come, directly or indirectly, into competition with other groups of British exports, and would injuriously affect the market for them. Ultimately, therefore, our increased exports to the colonies would, in large measure, represent, not an addition to, but merely a diversion of, our total export trade. Further, even the increase of total exports would afford an entirely misleading and exaggerated measure of our national *advantage*. This would, in reality, consist only of the difference between the real cost of making these exports and that of making for ourselves the goods obtained from abroad in exchange for them. It would be represented, in commercial phrase, by the addition made, not to our turnover, but to our profits, and could not possibly be other than very small indeed.

When we come, therefore, to strike the balance between the debit and the credit side of the Preferential account, we find that, whereas the former is serious and substantial, the latter is bound, even under the most favourable circumstances, to be small. When we recall, further, the danger of reprisals on the part of foreign countries, the probability that our duties would expand both in number and amount, and the stimulus they would afford to the advocates of general protection, there can be little doubt that, as a matter of plain business, the policy of Imperial Preference would be an unprofitable one to the people of these islands. To mitigate the justice of this plea, two further considerations, on the borderland between the financial and the military, are sometimes advanced. In the first place, it is said that England ought to submit to whatever sacrifice Mr. Chamberlain's policy may involve, in order, by developing the agricultural resources of the colonies, to insure for herself an adequate food-supply in time of war. In view of the development of the Canadian wheat-fields, which is certain to come about in any case, this argument appears to me unnecessary. In view of what is known of the relations between nations, it strikes me as perverse. For is it not obvious that continental nations, at war with us, would be far more likely to seize wheat in transit to our shores from outlying portions of our own Empire, than if it came, as now, from the United States of America? In the latter case, as Sir George Trevelyan said at Birmingham a little while ago, 'America would place herself at the head of the neutral countries of the world, and would insist that wheat should go to British ports under neutral flags as freely as in times of peace; and, if America took that attitude, no European Government, however hostile to us, would venture to say her nay.' It is true that, if the United States herself were our opponent, the stress of the argument would be in the opposite direction, but it is surely better to insure against the more, than against the less, probable contingency, and nobody will deny that America is, of all the great Powers, the one with which we are least likely to become embroiled.

Finally, Mr. Chamberlain's supporters retreat from the naval to the military argument, and counsel us, cost what it may, artificially to develop the population of the colonies in order to increase our fighting force. I cannot here discuss the broad problems which this suggestion raises, but will merely observe in reply that, if this be our aim, preferential tariffs upon food are by no means the best way to promote it. Apart from the question of how far they would increase, and how far merely divert, population from one industry to another, it is easy to see that more direct methods, such as subsidies out of the Imperial Treasury for the construction of colonial railways, would be a far cheaper way of attaining the same end. Nothing could be effected by 'Preference,' which a straightforward policy of 'Bounties' would not effect much better.

So far of the business problem in its most inclusive sense, from the standpoint of the United Kingdom. To some minds, the conclusion to which we have been led would be decisive upon the whole issue. Professor Davidson, for example, has declared: 'We may lay it down as a cardinal rule of colonial policy, that no portion of the Empire should be expected to sacrifice what it conceives to be its economic interests to promote the good of the rest.'¹⁹ There may be others, however, who would reject this view as insular and selfish, and would proclaim themselves ready to see England lose, if by so doing she could promote a greater or an equal gain to the remainder of the King's dominions. To such persons the important point is the effect

of Imperial Preference upon the economic interests of the Empire as a whole. Granted that the mother-country loses, will her loss be balanced by the colonies' gain? Now, if the arguments, which have already been employed in this chapter, are sound, the only possible answer to this question is a decisive and clear-cut negative. Had it been proposed that the setting up of new taxes in England should be matched on the side of the colonies by a reduction in their duties upon English imports, the total effect of the change might conceivably have been to make trade somewhat freer than before, and thus to facilitate the more advantageous employment of Imperial resources. Even in this case, in view of the enormous excess of British trade that would be adversely, over colonial trade that would be favourably, affected, no such result could come about unless the additions to English duties were at a rate quite insignificant compared with the remission granted in the colonies. Such an arrangement is, of course, exceedingly improbable, and would not, in any event, come within the range of practical politics. In the present instance, moreover, it has been shown that, so far from the colonists' *quid pro quo* taking the form of reduced duties, it will have precisely the opposite character. They, as well as we, are to raise their tariff against foreign imports. We are to pay more than is necessary for our food in order to buy it in the colonies, and they are to adopt a parallel policy with regard to manufactured goods. Each party to the bargain is to inflict a considerable injury upon himself, in order to confer a small benefit upon the other. Both parties taken together are deliberately to cut themselves off from some of the advantages of international trade, and the imperial unit is to become more protective against the rest of the world, without the compensating advantage, obtained in a true Zollverein, of becoming more free-trading within its own borders.

Mr. Chamberlain's proposals are, therefore, to be condemned from the imperial, as well as from the national, business standpoint. There remains, however, the political aspect of the problem. It is asserted that the adoption of the new policy would promote imperial solidarity and a spirit of unity and goodwill between the mother-country and the colonies. Upon this matter there is no denying that Mr. Chamberlain speaks as an expert. His opinion is, however, in conflict both with the views of ex-colonial governors, like Lord Brassey and Lord Jersey, and with the evidence which history supplies. He may appeal, of course, to the analogy of the German Zollverein, and point to its beneficent work in preparing the way for that completer union which Bismarck consummated. But, as has been pointed out again and again, a Customs union among adjacent States, by which tariff barriers are broken down and intercommunication freed, is not really parallel to a system of preferential tariffs among fiscal entities separated from one another by thousands of miles of ocean, and differing enormously in their economic circumstances. Nor is it as though this latter system were something entirely new and untried. In the first half of the nineteenth century, colonial preference was an established policy. The conditions of the time were, of course, different from those existing to-day, but they were more akin to them than the circumstances of pre-Bismarckian Germany. And how did the policy work? So far from cementing the Empire together 'the colonial preferences did a great deal to create in England a dislike for the colonies; . . . there arose a powerful party demanding the abolition of these preferences and prone, in the heat of argument, to denounce a connection which made such sacrifices necessary.'²⁰ When an experiment has already been tried and has conspicuously failed, strong arguments are needed to induce us to renew it. In this case, however, the arguments are all upon the other side. Nobody can deny that the difficulties to be overcome in adjusting matters equally among our different colonies and dependencies would be enormous, and that many opportunities for irritation and friction, both among them and between each of them and the mother-country, would inevitably arise. Is it not a fact that the gossamer thread of disinterested affection often binds more closely than any 'cash nexus,' and is there not a real danger that, by appealing to the lower motives of our colonists, we might seriously impair the uniting force of those that are higher? Furthermore, it is necessary to remember that if this great Imperial policy were to fail, it would not be easy

to abandon it. The old preferences of sixty years ago were not done away without rousing very bitter feelings among the colonists. To grant them a second time and again to withdraw them would be scarcely possible without the risk of grave disaster. There is at present no evidence of a tendency on the part of the Empire to 'fall to pieces and separate atoms'; but it is doubtful if the same could be said, should it ever come to be subjected to so severe a strain as this. The economic argument against Mr. Chamberlain's policy is a strong one. To many, however, the political argument seems, in the side-light thrown upon it by history, to be still stronger, and, by itself, to make imperative the rejection of the ex-Colonial Secretary's scheme.

VI. Conclusion

Before conclusion there had best come summary. The preceding chapters have been concerned with the four principal ways in which it has recently been suggested that British tariff policy could advantageously be modified. The proposed changes were: first, a return to old-fashioned general protection; secondly, some form of limited and temporary protection; thirdly, a modification of the tariff, designed to facilitate bargaining with other countries; and, lastly, a system of Imperial Preference. In the course of the discussion it was noticed that general protection has been advocated only by irresponsible persons upon grounds implying an imperfect understanding of economic analysis, but that the three other suggestions have been deemed worthy at least of consideration by important members of His Majesty's Government. The conclusion reached concerning these has been that theoretically valid arguments can be used in support of each of them, but that, under existing circumstances, these arguments are completely outweighed by others of an opposite tendency. Though, in the abstract, it is conceivable that any one of the schemes in question might do a little more good than harm, yet, when account is taken of the immense practical difficulties that they all present, of the fallibility of Cabinets, and the frailty of Legislatures, of the danger that a policy, inaugurated for the common good, may, through the pressure of interested parties, be continued and expanded much further than is wise, we are driven—regretfully it may be, but none the less decisively—to abandon the hope of bettering our condition in these ways.

There will, however, undoubtedly be a number of persons to whom this conclusion does not commend itself. There will be many advocates of Protection against 'dumping,' of a bargaining tariff, and of a preferential system, whose opinion it would be ridiculous either to ignore or to treat with disrespect. To them one further consideration may be addressed. In the present confused state of opinion and of parties, there can be little doubt that, if any change in tariff policy is adopted, it will eventually partake of the nature of a compromise. The sentiment—or, as some would prefer to say, the prejudice—in favour of 'the pure milk of the Cobdenite word' is too strong to be overcome except by a coalition between the supporters of more than one kind of change. Neither Protection, nor limited Protection, nor Retaliation, nor Preference affords by itself a battle-cry adequate to carry its champion forward to success. What we have to look for, therefore, in the programme upon which the nation will have—perhaps at the next election but one—to pronounce its judgment, is not any single one of these four things, but rather some more or less ingeniously constructed conglomerate of them all—a little Protection, a little Retaliation, and a little Colonial Preference. Now, what I want to urge is, that, while the proper course for anyone who distrusts each of the above kinds of change is already decided, the supporters of any one or another of them are in a much more difficult position. It is not

improbable, I suppose, that the next Government will be formed from the Liberal party. So long as it holds office, all kinds of 'tariff reformers' will naturally be banded together as opponents of its policy of *laissez faire*. But to be against standing still is by no means the same thing as to be in favour of moving in any one particular direction. Therefore, when, towards the close of the Liberal administration, which I am supposing, the situation has begun to shape itself, and the programme of the party of 'reform' has been authoritatively defined, it will be necessary for these men to carefully reconsider their position. One of the gravest dangers of the present situation is that those who would like to see *some* change introduced into our fiscal policy, may, through the influence of associations formed during their period of opposition, be swept up among the supporters of a complex scheme of compromises to which their reason has never really given its assent.

This point is worth insisting upon because an admixture between two or more of the different policies which have been suggested, would, in many cases, be much more harmful than either of them taken by itself. It is plain, for example, that a Preferential system, coupled with general protection, would be far worse than Preference alone. Nor is this all. For, in a number of possible combinations, the evils to be reckoned with considerably exceed the sum of those involved in the various policies which are combined.

There are dangers in the compound, additional to those in the elements from which it is formed. In the first place, if general protection was combined with a system of tariff bargaining, great insecurity would be introduced into the position of the protected British industries; for every bargain with a foreign country, and every resort to retaliation, would mean a modification in the amount of the protection which some or all of them received. The result would be an unstable and incalculable situation, bad for enterprise, conducive to crises, and proffering great inducements to dishonest political wire-pulling. Secondly, the difficulty of a satisfactory association between protection against 'dumping' and a bargaining system is even more pronounced. For, when a tariff is used for bargaining, it has to move up and down in accordance with the swing of diplomatic relations and the commercial policy of foreign States. In order, however, to be an effective remedy for the evil of 'dumping,' it must fluctuate in accordance with the conditions under which particular foreign goods are, for the moment, being produced and sold. It is impossible, therefore, that any tariff could be effectively utilized both as an instrument of bargaining and as a means of providing limited temporary protection for industries threatened by foreign monopolists.

Lastly, there is the case of a combination between a retaliatory and a preferential system. Of course, it would be possible for us to set up for bargaining purposes a number of duties additional to those on which preference to the colonies could really be effective. If, and when, this was done, there would be no extra difficulty. But suppose that an occasion for negotiation with the United States should chance to arise. Is it not certain that our diplomatists would be sorely tempted to make play with the taxes upon imported food? Any suggestion of this kind would, however, seriously imperil the efficiency of the preferential system as an instrument of Imperialism. For, even though we never bargained away the whole tax on American wheat, the recognition of our right to bargain about it at all would make the amount of the differential advantage accorded to the colonies variable and uncertain, and would, consequently, render the position of the Canadian and Australasian agriculturists dangerously unstable. It can hardly be supposed that this state of affairs would be other than prejudicial to the friendly feelings entertained by them towards the mother-country.

I have only one other remark to make in bringing this discussion to a close. What has been said is liable to the criticism that it is merely negative in result. I have deliberately refrained from attempts to avoid that reproach, not from any conviction that everything is for the best in the best of all possible worlds, but simply because it appears to me well to debate one question at a time. Certain proposals have been sketched in outline, and are at present engaging the attention of the country. It is upon these proposals, and not upon certain others which might be—but, as a matter of fact, have not been—brought into prominence, that the

country is required to make up its mind. When it has accomplished that task and given effect to its decision, other schemes for promoting national prosperity and imperial consolidation will probably come up for debate. Since, however, for the present, these lie outside the sphere of practical politics, they are not relevant to the inquiry towards which it has been the aim of these pages to make some slight contribution.

The End

Notes

1. Professor Marshall in the *Times*, Nov. 10, 1898, as summarized in the *Economic Journal*, December, 1898, p. 591.
2. I am not, of course, here concerned with the wisdom of retaliatory duties designed to force other countries to lower their tariffs. That point is deferred to the next chapter.
3. Ashley: 'The Tariff Problem.' p. 115.
4. 'Principles of Political Economy,' p. 486.
5. The detailed statements in the 'Preferential Trade Return' (No. 329), show that the respects in which, in one or two cases, we do not 'enjoy *de jure* or *de facto* most favoured nation treatment' are of no practical importance to our trade.
6. *Monthly Review*, October, p. 18.
7. Sir Michael Hicks-Beach, *Monthly Review*, August, p. 33.
8. *Fortnightly Review*, August, p. 479. I have slightly compressed Professor Davidson's final sentence.
9. P. 340, quoted by 'Economist' in the *Times*.
10. For a technical demonstration of this point I must refer the reader to my note on 'A Point of Theory connected with the Corn Tax' (*Economic Journal*, September, 1902).
11. The values of our food imports from certain foreign countries and the principal British Colonies and Possessions in 1902 are given in the Board of Trade Blue Book (Cd. 1761), as follows:

Grain.	Live and Dead Meat.	Dairy Produce.
	From foreign countries	
51.4	39.1	33.6
	From colonies and possessions	
9.4	87	7.4

The figures represent millions of pounds
12. Cf. Davidson, 'Commercial Federation,' p. 84.
13. Quoted by Mr. D. Cunningham-Anderson.—*Times*, August 25.
14. The italics are my own.
15. *Times*, Melbourne telegram, July 21.
16. *Times*, July 14.
17. 'Commercial Federation,' p. 80.
18. *Nineteenth Century*, July, 1903, p. 6. The Board of Trade estimates that the classes of colonial imports from foreign countries, which England could conceivably supply, amount to 16 millions annually taken by Canada, 8 millions by Australia, and 2 millions by the Cape (Cd. 1761, p. 281). Obviously, no practicable preference could transfer more than a small proportion of this trade to British hands.
19. 'Commercial Federation,' p. 84.
20. Davidson, 'Commercial Federation,' p. 14.