

VI.—*Our Foreign Commerce and Free Trade Policy.* By Joseph T. Pim, Esq.

[Read Tuesday, 22nd November, 1881.]

IN February, 1878, I read a paper before this Society in defence of our national policy of free trade, which was at that time assailed with some vehemence as the cause of the then prevailing mercantile depression. Since 1878, although our commerce has to a considerable extent recovered the ground previously lost, we have undergone the pressure consequent on a series of bad harvests, culminating in the disastrous season of 1879. Our agricultural classes have had to sustain the loss arising from bad crops, without obtaining relief from the enhancement in prices which usually accompanies deficient harvests. Through a strange concurrence of circumstances, whilst we have had extremely bad crops in the United Kingdom, there have been superabundant crops in the United States, unusually low transatlantic freights, and a reduced purchasing power amongst our manufacturing classes, owing to the prolonged depression of trade, all tending to keep down prices of agricultural produce. This has occurred, too, at a time when, by the resumption of specie payments in the United States, the value of gold has been enhanced and the prices of commodities depressed. Our farmers and landowners have had to pass through a most severe ordeal, and not a few have succumbed in the struggle for existence.

The outcry against free trade, which if sustained only by the discontent of the manufacturing classes, would have died out as the demand for our productions from abroad revived, has been strengthened by the complaints of the farmers who have lost their crops and the landowners who have lost their rents. Our free trade policy is loudly assailed as the cause of these misfortunes, and a return to the policy of protection, in some form or other, advocated as essential to the prosperity of the nation. The battle of free trade has to be fought again; but with this difference in the circumstances of the combatants, that the free traders have now to defend the position which they carried by assault a generation ago.

The great fact on which the modern protectionists, who call themselves fair traders, base their case is, that our exports have been diminishing and our imports increasing, and the excess of imports over exports growing greater. This excess of imports over exports they call the adverse balance of trade; and, being adverse, they assert that we must be living on our capital, and consequently growing poorer. Admitting the facts as to the amount of imports and exports, I deny the validity of the deduction. But whatever the value of the argument of the fair traders, it is in point of time somewhat awkward. For already, without any change in our fiscal policy, the tide of commerce appears to have turned. For many months past our exports have been increasing and our imports diminishing, and the so-called adverse balance of trade growing less.

Before reversing our fiscal policy it would be well to solve two or three questions:—Is our trade bad? Where is it bad? Why is it bad?

The Statistical Abstract published annually by the Board of Trade shows us in figures the condition of our foreign trade. From it we shall find the following to be the position of our affairs.

Exports.

The trade of the United Kingdom, measured by value of total exports, reached its maximum in 1872. From 1872 to 1878 the total value of our exports continuously declined. In 1879 our exports rose again, and from that year they have continued to advance, so that whereas in 1878 we had fallen back to where we were in 1870, we rose again in 1880 to the level of 1871; and as our export trade in the present year continues steadily to increase, we may hope that the total for 1881 will approach the inflated figure for 1872, when protectionism was latent, and reciprocity never mentioned as the one thing needful to insure prosperity.

In the six years ending in 1872 our exports increased £75,680,000, or at the average rate of about £12½ millions per annum.

In the six years from 1872-78 they declined £69 millions, or at the average annual rate of £11½ millions.

Between 1878 to 1880 they increased again £41 millions, and the increase for the first ten months of the present year has been £7,312,000, or £8,840,000 including re-exports of foreign products.

These figures relate only to our foreign trade. We have no similar means of testing our home trade by figures, but every one knows that our home trade has been stagnant if not declining in many branches.

Imports.

Then as regards our imports :—

In the six years ending in 1872 they increased £59½ millions, or at the average rate of about £10 millions per annum.

From 1872 to 1877 they increased £40 millions, or at the rate of £8 millions per annum.

From 1877 to 1879 they fell back £32 millions ; so that the total for 1879 was only £8 millions greater than the total for 1872 ; but in 1880 they rose again to the prodigious total of £411 millions, or nearly £57 millions more than in 1872. During the present year there has been a considerable falling off in imports, and for the first ten months there is a reduction of £9,692,000 as compared with 1880.

From these figures it is perfectly clear that our trade has been bad, but it is also clear that our trade is now on the mend.

The next question is—where has our trade been bad ?

Where our trade has been bad.

Our total exports, which

In 1872 were £314½ millions,

Fell in 1880 to 286½ „

Being a falling off of £28 „

In the same period our exports to British possessions rose

From £65½ millions,

To 81½ „

Showing an increase of £16 „

We have therefore to account for a falling off of £44 millions in our exports to foreign countries. In round numbers this falling off has been distributed as follows :—

Germany, Holland, and Belgium, £22 millions.

Egypt, 4 „

Turkey, Austria, and Italy, 3 „

United States, 8 „

U.S. Columbia, 2 „

Brazil, 1 „

River Plate, 2 „

Chili and Peru, 4 „

£46 „

Less increase to Russia, etc., 2 „

£44 „

There has been no material change in our trade with France, Spain, Portugal, and Denmark ; while there has been an increase of about £2 millions in our exports to Russia, Scandinavia, and some minor countries.

Why our trade has been bad?

Having found out where our trade is bad, the next consideration is—why is it bad ? It would seem a foolish policy to alter our fiscal system because trade is bad, unless we can show that our bad trade is due to our fiscal system, and that the changes proposed are likely to make trade better.

There are two reasons why men and nations do not buy our goods—one because they cannot afford to buy them, and the other because they do not like to buy them. If our productions are good and serviceable, want of means is the great check on customers. This cause of bad trade appears to be wholly left out of sight by those who think they can create trade by fiscal changes, intended to punish the nations that will not or do not buy enough of our wares.

For one-third of the deficiency in our export trade the following countries are responsible, viz.—Egypt, Turkey, New Granada, Brazil, River Plate, and Chili and Peru.

Retaliatory import duties will not get us over the difficulty of bad government, bad harvests, revolutions, and wars in other countries.

Half the reduction in our exports is due to Germany, with which I include Holland and Belgium, because so much of the goods which ultimately reach Germany are shipped to Holland and Belgium.

Now, although our trade with these countries in 1880 shows a great falling off as compared with 1872, it is just where it was in 1869, the year before the Franco-German war. It is a well-known fact that for two or three years after the close of the war, German trade was inflated by the artificial stimulus of the war indemnity received from France. Our trade with Germany in 1872 was too good to last. A very severe reaction set in in that year, hastened and rendered more severe by the contraction in prices due to the adoption of a gold basis for German currency. German internal trade has suffered most severely, and as a restorative Prince Bismarck has tried a course of protection ; but things have got worse rather than better, and now he is endeavouring to devise a socialistic salve for the distress of the working classes.

Notwithstanding the increase in German import duties, there has been some improvement in our trade with Germany, Holland, and Belgium (taken together) in the past two or three years.

The next great offender is the United States, and this finishes my catalogue of delinquent customers. Our exports to the United States, which in 1868 were less than £24 millions, steadily increased up to 1872, when they reached a total of nearly £46 millions. In 1873 a severe reaction, commencing with the failure of the great banking house of Jay Cooke & Co., set in, and our exports diminished year by year, until in 1878 they had fallen to £17½ millions. The prolonged crisis in the trade of the United States passed away, and the magnificent harvests in America, coincident with a succession of extremely bad harvests in the United Kingdom, have given a fresh impetus to trade. Our exports to the United States have increased by more than £20 millions in two years, being for 1880 just £38 millions, or about what they were in 1871.

Now these large fluctuations in our trade with America are in no way due to changes in the United States tariff, for it remains, without almost any modifications, as it was fixed during the War of Secession.

When we state, as a proof of the advantages of free trade, that the mercantile progress of the United Kingdom has been greater than that of France, Germany, or the United States during the past thirty years, we are told that we ought to make allowance in any such comparison for the effects of the American War of Secession, and of the Franco-German War. This is perfectly fair; but if these wars retarded the progress of these countries, they likewise reduced their purchasing power from us, and the reduction in our exports cannot therefore be attributed wholly to the effect of adverse tariffs. This consideration is left out of view by the fair traders, when arguing as to the cause of the falling off in our exports.

Inflation and contraction.

In the comparisons which I have been making I have taken the figures for 1872 as the standard, because in that year, as already stated, the value of our exports reached its highest point. But were the figures for 1872 normal? I believe they were abnormal. I have already described them as inflated figures. The Franco-German war diverted, temporarily, a large amount of trade from France and Germany to England, and the rapid expenditure of immense sums of money for purposes of war created a temporary demand for various articles, which tended to raise prices. Two hundred millions was handed over to Germany by France to indemnify her for her war

expenditure ; and Germany, being suddenly enriched by the receipt of this enormous sum, entered for a time on a career of expenditure not warranted by her real resources. Trade and prices rapidly expanded. But this factitious prosperity did not last long, and from 1872-'73 prices have rapidly fallen.

The value of gold, which for some years had been falling owing to the increased production of that metal and the expansion in the paper currencies of the world, has since 1872-'73 been rising, owing to the reduced production of the gold mines, the increased demand for gold for currency purposes, and the contraction in the note issues of various nations. When the value of gold as a medium of exchange is falling, the prices of commodities as measured in gold must rise. In other words, the sovereign, or the napoleon, or the dollar, will buy less and less, and commodities will bring higher prices ; traders will reap the profits due to rising markets, and the community will appear to enjoy great prosperity. But when the value of gold is rising prices of commodities will fall ; traders will suffer the losses due to falling markets, and the community will appear to be passing through a period of adversity. Periods of currency expansion are therefore always popular, and periods of contraction unpopular.

It may be, however, that a nation is making more real progress in prosperity in periods of contraction than in periods of expansion—in times of falling prices than in times of rising prices. A man's wealth is not in reality to be tested by the value of his property as expressed in gold, but by the aggregate quantity of the various articles of which he stands possessed. Even if his whole property is invested in gold sovereigns—unless, like a miser, gold is the only thing for which he cares—the value of his property is to be measured not by the number of the sovereigns he owns, but by the quantity of useful articles which the sovereigns will buy. If at the end of any period a man finds himself possessed of a smaller number of sovereigns, but can with that smaller number buy a greater quantity of commodities, he is in reality richer ; whereas if his stock of sovereigns is increased, but he can with that increased number of sovereigns buy only a reduced quantity of commodities, he is in reality poorer. It is, therefore, somewhat doubtful whether as a nation we have not made more solid progress, notwithstanding appearances to the contrary, during the nine years since 1872 than during the nine years previous to 1872. From the beginning of the American War to the close of the Franco-German War was a period of expansion and rising prices. From the close of the Franco-German War to the present time has

been a period of contraction and falling prices. During the first period we appeared to be very prosperous ; during the latter period we appeared to be very much the reverse of prosperous.

Our exports increased in quantity though decreased in money value.

The falling off in our export trade is more apparent than real, and is due to a reduction in price, not to a reduction in quantity. In several important branches there has, in fact, been a large increase in the quantity exported, although the total value, as expressed in pounds, shillings and pence, is less. Comparing 1880 with 1872, while the value of coal exported has fallen £2 millions, or 20 per cent., the quantity has increased by $5\frac{1}{2}$ millions of tons, or over 40 per cent. ; while our exports of iron and steel have fallen £7½ millions in money, or over 20 per cent., the quantity has increased by 410,000 tons, or about 12 per cent. In chemicals, while our exports of alkali have fallen about 4 per cent. in value, they have increased over 50 per cent. in quantity. In cotton manufactures, while our exports of yarn have fallen nearly £5 millions in value, or about 30 per cent., they have slightly increased in quantity; and our exports of piece goods, which have remained stationary at about £63½ millions in total value, have increased over 25 per cent. in quantity. The jute manufacture, which has been very unprofitable, shows a remarkable expansion in extent. The total value of our exports of jute yarn was 10 per cent. less in 1880 than in 1872, but the quantity was just one-third greater ; and our exports of jute goods, which show an increase of 50 per cent. in value, show an increase of about 120 per cent. in quantity. With the exception of linen yarn and linen goods, and woollen yarn and woollen goods, which show a very serious falling off in both quantity and value, most of our manufactures show a considerable increase in quantity exported, and some show an increase in both quantity and value.

The two industries, then, which show a really serious decline are the linen and woollen manufactures. In them the falling off in quantity is nearly as great as the falling off in value. The loss of exports in 1880 as compared with 1872 amounted to £3½ millions in the linen trade, and to nearly £18 millions in the woollen trade.

Change of fashion has undoubtedly had a very injurious effect on the English woollen trade, by inducing the substitution of soft fancy dress goods, manufactured in France, for the plain and harder tex-

tures of Yorkshire. It is a question, too, whether the great reduction in the price of cotton in the past ten years has not displaced a large amount of linen and woollen fabrics, just as linen and woollen fabrics displaced cotton goods when cotton rose to such a high price during the American Civil War. A large part of the loss of trade in linen goods is due to political and financial troubles in the South American States and in the West Indies, which countries used to be amongst our best customers for linens.

Our swollen imports.

Having now analysed our export trade, let me turn to the other side of the account, our swollen imports, which terrify so many people.

The total increase in our imports in 1880 as compared with 1872 is £56½ millions, of which £13 millions is due to British possessions being somewhat less than the increase of exports to British possessions in the same period. The increase of imports from foreign countries is £43½ millions. This increase is due to the United States and to Germany, including Holland and Belgium, the increase from the United States being £52½ millions, and from Germany £16 millions. From almost all other countries there has been a falling off in imports, and to an extent greater than the falling off in exports to the same countries. From Russia and Scandinavia there is a falling off of £4 millions. With France our trade remains stationary; from Portugal and Spain and their colonies a falling off of £2½ millions in imports; from Mediterranean countries a falling off of £9½ millions, and from South America a falling off of £9 millions in imports. The imports from Germany probably include imports from Austria and Russia, shipped through Germany, and represent increased supplies of food. The great increase in imports from the United States we know represent increased food supplies. The whole shipments of manufactured goods from the United States are a mere bagatelle.

On looking into the statistical tables to find what our enormous imports are composed of, we find the last item in the list amounts to the sum of £42,296,245, as the valuation of unspecified articles. Whether these unspecified articles are manufactured goods or raw materials I cannot say, but the item has increased by £12 millions since 1872. The imports of manufactured articles have increased by

£11 millions since 1872. This increase is spread over the following articles :—

| | | | |
|---------------------|-----|-----|-------------|
| Cotton goods, | ... | ... | £1,040,000 |
| Artificial flowers, | ... | ... | 50,000 |
| Glass, | ... | ... | 570,000 |
| Gloves, | ... | ... | 340,000 |
| Silks, | ... | ... | 3,940,000 |
| Refined sugar, | ... | ... | 1,290,000 |
| Watches, | ... | ... | 76,000 |
| Woollen yarn | ... | ... | 375,000 |
| „ goods | ... | ... | 3,610,000 |
| | | | £11,291,000 |

This total of £11 millions is not a very serious increase, considering the growth in the population and the greater wealth of the nation.

As already shown in the case of our exports, the increase of quantity in our imports is much greater than the increase in value. We have imported 85 per cent. more glass for 45 per cent. more money; 40 per cent. more gloves for 25 per cent. more money; and 80 per cent. more refined sugar for 40 per cent. more money. This shows that we have been buying in cheap markets, which will be satisfactory, save to the “fair traders” who wish to stop such trade by artificial means.

The increase of imports may be analyzed in round numbers, thus—

| | | | |
|---------------------------------------|-----|-----|----------------|
| Food, | ... | ... | £38½ millions. |
| Manufactures, | ... | ... | 11 „ |
| Unspecified articles, | ... | ... | 12 „ |
| | | | £61½ „ |
| Less raw materials and crude products | | | |
| decreased, | ... | ... | 5 „ |
| | | | £56½ „ |

Although the value of our imports of raw materials has declined, we have imported much larger quantities. We have got 16 per cent. more cotton for 20 per cent. less money; 12 per cent. more hemp for 15 per cent. less money; 15 per cent. more jute for just the same money. For 40 per cent. more money we have got 50 per cent. more wool. Silk and flax have also fallen in price. Almost all kinds of animal food have risen in price, whilst grain, sugar, and tea have fallen.

Bad harvests a chief cause of bad trade.

But the great cause of our bad trade in the past few years has not been the falling off in foreign demand, but the falling off in home demand, owing to bad harvests. The harvest of 1879 was the worst we have known for many years. The total loss to the United Kingdom from the bad harvests of 1877-'8 and '9 is estimated at £150 millions. Such an enormous loss of food could not take place without producing a serious falling off in the home demand for home manufactures, as well as a great increase in the demand for foreign food.

Advantage of free trade when harvests are bad.

Neither free trade nor fair trade can control or modify the seasons; and although import duties on foreign food might, at the expense of the people as a whole, enable landlords to extract higher rents from agricultural land, they could not permanently enrich the farmers, and would certainly impoverish the traders and manufacturers. Free trade has enabled us to live through three of the worst harvests of the century, with but little suffering and but little increase of pauperism. Had our ports not been open to the abundant supply of foreign grown food in 1880, starvation would have been the result. If, in opposition to his own original opinions, Sir Robert Peel was constrained by the bad harvests of 1845 and 1846 to abolish the Corn Laws, when our population was 28 millions, how much more necessary was it for us to have our ports open in 1880, when our population had increased to 34½ millions. Instead of being terrified by the enormous total of our imports in 1880 we ought to be thankful for it. The abundance of the American food supplies in the past few years has been providential. Never has the want of one country been so easily and so cheaply supplied by the surplus of another. The abundant supply of cheap food from abroad, while it has no doubt made the loss from bad harvests fall heavily on the farmers, has enabled our manufacturing classes to make progress during a period of depression. Our position as exporters of manufactured goods is dependent on our free imports of food. If the Protectionist party should succeed in reviving import duties on food, it will be impossible for us to maintain a population of 35 millions, and our mercantile position will be sapped from within. It is scarcely possible to believe that our trading classes will ever again permit their food to be taxed for the supposed benefit of the agricultural classes.

Protection for all or for none.

If the farmers are not to be protected, why should the manufacturers be protected from foreign competition? If the manufacturers' woollens are to be protected, why should not the farmers' wool be protected? A little leaflet has recently been issued, dating from Bradford, showing that one great cause of agricultural depression is the substitution of foreign for British wool. This substitution has led to a fall in the price of English wool of 1 *d.* per lb., involving a loss to British farmers of over £6 millions a year, and a reduction of over 4 millions in the stock of sheep in the country. Can there be a clearer case for protection? Unless you protect every interest, it will not be found easy to protect any; and unless all interests are protected, how can Mr. Ecroyd or any other "fair trader" say that we have "fair trade?"

The balance of trade delusion.

But the great object of the fair traders is to redress the adverse "balance of trade." We imported in 1880 £124,815,000 more than we exported, and therefore they say we must be going to ruin; and they never can be happy until they have got the balance the other way—until the country sends away more value than it gets back. How this will make the country richer is more than any fair trader is able to explain. The statistical tables which inform us as to the balance between the value of imports and exports only date back to 1855; but in that year, and in every year since, our imports have largely exceeded our exports, and therefore there has been a balance of trade against us every year. For a quarter of a century, according to the argument of the fair traders, we have been going to ruin, in some years more rapidly than in other years. That the country should have remained in ignorance of this important fact, until quite recently, is certainly remarkable. So dense has its ignorance been of its real financial condition, that the income-tax payers have been willing to pay tax in 1879 on a presumed income of £578 millions, whereas they paid on only £308 millions in 1855.

But how will the imposition of import duties on foreign productions turn the balance of trade the other way? Do the fair traders expect that foreign countries will continue to buy as much of our productions after we have ceased to buy their productions? Do they expect us to continue to send as much value out of the country when we are getting a much smaller value into the country?

It appears that this is what the fair traders expect and desire, for here is the answer of Sir Edward Sullivan (see his article on "Isolated Free Trade" in the *Nineteenth Century* for August) to the question. He says that when we put import duties on foreign goods, foreign nations "will continue to buy from us just what they do now, neither more nor less, what they cannot make themselves, and what they cannot buy elsewhere." Sir Edward Sullivan does not seem to think it a matter of any importance that we should get paid by the foreigner for the goods that we sell, for he goes on to add:—"But, on the other hand, we should buy £40 millions or £50 millions less of foreign goods, and consume £40 millions or £50 millions more of our own goods." There is a charming simplicity about this mode of trading to a profit, which consists in sending the foreigner as much of our goods as he is willing to take, and getting back from him as little as possible. Although Sir Edward Sullivan says nothing about payment from the foreigner for the goods he is to continue to buy from us, I suppose that he expects that instead of getting back £50 millions of goods we shall get back £50 millions in gold every year. If we do, at the end of a decade we shall be in the happy position of owning all the gold coin in the world. What shall we do with it? Shall we be able to eat it or drink it, or make clothing of it, or build houses with it? After we have satisfied our craving for ornament, the only thing we can do with gold is to go out and buy something with it; but this is what Sir Edward Sullivan and his friends object to our doing. This idea that importations of gold are always to be preferred to importations of all other articles, is one of the worst delusions that can affect the fiscal policy of a nation. It has taken possession of the people of the United States, and they, like our own fair traders, are always glad when they have a large balance of trade in their favour, and are importing gold. Gold is a commodity as much as any other natural or manufactured article. Society has adopted it for coinage as a standard of value and a medium of exchange; and for this purpose it is undoubtedly the best substance we can find. But the moment we import more gold than we require for purposes of currency or in the arts, that moment we lower its position in relation to other commodities as a standard of value and a medium of exchange. To import gold from food-producing countries, when what we want is food, is folly. We naturally import gold from gold-producing countries. Then if we want food from food-producing countries, and they will give us more of their food for our gold than for an equal value in our markets of our other

commodities, we send them gold in payment for their food. But if they will give more food for an equal value in our markets of linen, cotton, or other goods, then we send them goods in payment for their food. It is a simple matter of barter, in which the two parties to the exchange may be trusted to take care of themselves. This balance of trade, adverse or favourable, which troubles so many men, and which they are longing to set right by state intervention, is a financial illusion. It has only an apparent, not a real, existence.

The trading operations of the nation are only the aggregate of the operations of individual traders. Each individual will take care of himself, and will see that he gives and gets what will make the exchange equal, with a fair margin of profit to himself. He will not continue a profitless or losing trade. The nation may be equally trusted with its affairs in the aggregate. Although the exchange, as expressed in the Board of Trade Returns, may appear to us unfair, we may be perfectly confident that it is not so in reality. Other nations will not send us more of their productions than what they consider a fair exchange for what we do for them, and we will not send our productions abroad without taking care to get back an adequate compensation. The more we can get back, the greater our profit on the exchange.

The excess of imports.

Having on a previous occasion explained why there is the apparent excess of imports over exports, I need not say more than that it is due to the fact, that we are paid in imports, interest on foreign investments, profit on foreign enterprises, and freight on about three-fourths of both our exports and imports. These and other minor items are quite sufficient to account for an excess of £120 millions in imports. The greater our profits on foreign investments and enterprise, and the greater our command of the ocean carrying trade of the world, the greater will be the excess of our imports. Our imports are the payment we receive from the world for its indebtedness to us. When we invest money abroad, we increase that indebtedness, and the annual profits come back to us in imports. But the immediate effect of lending or investing abroad is to increase our exports, because we make the loan or investment in goods in preference to money. When our foreign loans or investments are redeemed or sold abroad, we receive payment in goods in preference to gold, and our imports are thereby increased. Many persons say that we have paid for our recent large importations by the sale of

foreign investments. Whether this is so or not, we have no means of discovering accurately, but stockbrokers could guide our opinion by telling us whether during the past two or three years they have purchased or sold more securities from or to foreigners.

“One-sided free trade.”

The great argument of the fair traders is that so long as trade is not internationally free, it is not internationally fair—that the nation that admits foreign goods free of duty is at a disadvantage as compared with the nation that levies duties, and, therefore, that trade between two nations so circumstanced towards each other is unfair. This is an indirect denial of the principle of free trade. It rests upon the assumption which pervades all their arguments, that buying and selling are not convertible terms—that trade is not a process of exchange of commodities, and that selling is an advantageous proceeding, and buying a disadvantageous one. The law does not compel a man to buy, any more than it compels him to sell. A man buys because he thinks it to his advantage to buy, and he sells because he thinks it to his advantage to sell. He exchanges something of which he has more than he wants, for something of which he has less than he wants. It is true that the exchange of goods for goods is in retail trade made through the medium of a third party, and a third commodity—gold. But to say that in exchanging goods for gold a man is always doing well for himself, and in exchanging gold for goods is doing ill for himself, is to say that the individuals who compose the nation are not fit to perform the simplest transaction in life. The fact that the two parties to the exchange live in different countries will not affect the judgment of each as to what is best for his own interest; and self-interest will govern each man's action—whether the import trade of his country be subject to duties or not. It is true that if either country exacts a duty on its imports, the exchange will be made at a disadvantage; but both parties to the exchange will suffer from the disadvantage equally; for if the exchange be not equal, being a voluntary act on both sides, it will not be made. The disadvantage of the import duty will reduce the number and extent of individual exchanges, and, consequently, the total amount of the international trade—but the trade will be fair, though not free.

Retaliation.

The remedy proposed by the fair traders—of retaliatory duties—will put each exchange at a double disadvantage, and, consequently,

still further reduce the total amount of international trade without making it in the least degree more fair. Nothing can be clearer than that the country which restricts its imports by the exaction of a duty must *pari passu* restrict its exports. The two parties to the exchange of commodities will take care that the exchange is made on terms of equality of value. If they cannot trade on equal terms they will cease from trading.

Even if, for the sake of argument, we grant the proposition of the fair traders—that in order to make international trade fair we must levy retaliatory duties upon the goods of countries that tax our goods, we shall find it impossible to put it into practice. In order to do so we must have a special customs tariff for each country, and every time any country modifies its tariff we must modify our tariff to correspond with it. France levies, say, an average of 15 per cent. on our productions, and the United States an average of about 45 per cent., or three times as much. Are we then to levy duty on imports from the United States at three times the rate on goods from France? If not, where is the fairness about this system of retaliatory duties? Then we import some £40 millions of manufactured articles and luxuries from France, which takes chiefly manufactured articles from us at comparatively low duties; whereas we import some £100 millions of food and raw materials from the United States, and only £2 millions or £3 millions of manufactured articles, and we export chiefly manufactured articles to the United States, which taxes them at a very high rate of duty. Are we then to make trade fair with France by levying a low scale of duties on her luxuries and manufactures, and trade fair with the United States by levying a high scale of duties on her food and raw materials? Or are we to retaliate on the United States only by taxing the bagatelle of manufactured articles we get from her? If so we shall not do much to benefit our own manufacturers, nor much to hurt the manufacturers of the United States.

Then we are told that we are to tax only manufactured articles, and to let raw materials in free. But the finished article of one industry is the raw material of the next. Food is raw material to the artisan, but it is a finished article with the farmer. Clothing is raw material to the farmer, but it is a finished article with the manufacturer. Dye stuffs and bleaching powder are raw materials to the dyer and bleacher, but they are finished articles with the chemical manufacturer. A needle, a sewing machine, or a locomotive is a finished article with the mechanic, but raw material to the sempstress,

the apparel maker, and the railway shareholder. Once you begin there is no stopping place, on logical grounds, between absolute free trade and universal protection.

A war of tariffs.

The fair traders, however, have another argument or scheme of action. They admit that absolute free trade is the right thing, and that it ought to be adopted by all countries ; but as other countries cannot be induced or persuaded by argument to adopt it, they propose to drive them into it by a war of tariffs. As Professor Bonamy Price has said—a war of tariffs is a question for statesmen and politicians, not for economists. Economists must on principle condemn all wars. Before going to war it would, however, be well to consider the probable cost and the chances of success. Seeing that our foreign trade is already vastly greater than that of any other nation, we have much more to lose and less to gain in such a struggle than our competitors. We import less than £50 millions of manufactured articles, and we export over £200 millions of our own productions. It will be observed that I leave out of the imports food and raw materials, because nothing is so fatal in a campaign as deficiency in the commissariat and ammunition departments, and therefore I suppose we shall not cripple our resources by taxing food and raw materials. In the war then we should expose our £200 millions of exports to the attacks of the world, and have only £50 millions open to our attack. Under such circumstances success is not very probable, and I do not see how a prudent statesman can recommend it any more than a rigid economist. At the end of the war we should very likely find ourselves about where we were thirty years ago, before the free trade era began, and fairly able to support a population of say 25 millions, instead of 35 millions. It is much easier to pull down a house than to build it up. The prosperity built up during the free trade era may be on the wane as some people suppose ; but stimulants such as those recommended by the fair traders will not sustain it.

Mr. Ecroyd's "fair trade" scheme.

The great difficulty free traders have in dealing with the fair trade policy, is in knowing what that policy consists in. No two of its advocates appear to agree in opinion, and the name fair trader, which was, I believe, invented by Mr. Ecroyd, the recently-elected Member for Preston, is assumed by persons holding the most heterogeneous opinions.

Mr. Ecroyd has himself put forward a scheme, with considerable definiteness, in a recent number of the *Nineteenth Century*. His scheme, if I understand it aright, may be shortly stated as follows:— He proposes to admit raw materials free of duty from all quarters, to admit food and manufactures free from all British possessions, and to charge a duty of 10 per cent. on food and manufactures coming from all foreign countries that will not free our trade with them.

How such a trade policy can be called specially *fair* is hard to understand, seeing that while it protects our home producers of food and manufactures, it does not protect our producers of raw materials; and seeing further that it imposes the same penalty on all foreign countries alike, without regard to their relative rates of duties on our goods, and without regard to the extent to which they succeed in competing for our custom, or favour us with theirs.

This new fiscal policy is to benefit us in three ways. It is to compel foreign countries to admit our productions free; it is to supply a revenue to the state which will admit of large reductions in the rate of local taxation at home; and it is to stimulate the prosperity of our colonies, by transferring to them a large proportion of the business we now do with foreign countries in the purchase of food supplies, and, therefore, to stimulate our colonies to buy more largely from us the supplies they need of manufactured goods.

It is evident that according as this policy succeeds in its first aim—viz., the compelling foreign countries to admit our productions free, it will proportionately fail in its second and third aims—the production of revenue, and acting as a stimulus to our colonies; and according as it succeeds in its third aim—viz., the transfer of our custom from foreign countries to our colonies, it will fail in its second aim—the production of revenue from import duties. Seeing that our colonies levy duties on their imports from us at very varying rates, according to their financial necessities, and their views as to the relative merits of free trade and protection, in order to make this new system fair as between one colony and another, we must insist on all our colonies revising their tariffs, and for the future levying similar duties or no duties on their importations from us. But if we attempt to control the financial policy of our colonies for our own purposes, we may be quite sure that we shall reduce the number of our affiliated colonies by driving them into separation. Then if we succeed in transferring business from foreign countries to our colonies, and subsequently foreign countries, by adopting a free trade policy, call on us, in accordance with the rules of the game, to remove the embargo

of ten per cent. duties, and they by so doing regain our custom, we shall have led our colonies into a trap, and shall have so arranged matters, that their interests and ours will be adverse. Mr. Ecroyd shows how much the English iron trade suffers from "sudden impulses of prosperity" followed by sudden collapses, owing to the fitful nature of American demand. Yet he proposes deliberately to induce our colonies by the artificial stimulus of his bonus system to invest capital in agricultural and other forms of enterprise, while, at the same time, he reserves to himself the right of withdrawing the bonus at any moment, not on condition of misconduct on the part of our colonies, but on condition of good conduct on the part of foreign countries.

If we wish to preserve the British Empire from premature disruption, it appears to me that it will be safer for us not to employ our colonies to pull our chesnuts out of the fire of foreign protective tariffs.

Cost of levying import duties.

All these artificial systems for modifying or creating trade leave out of consideration the element of friction. Every tax involves friction, and consequently checks commerce. Additional import duties will render it necessary to increase the number of tax collectors, will withdraw a number of men from the ranks of the producers to the ranks of the consumers of wealth, and will add to the expenses of the State while diminishing the real income of the people. To collect duties amounting to only 10 per cent. on the value of imports will cost as much as if they amounted to 50 or 100 per cent. on values. Discriminating duties levied only on goods coming from particular countries will give more trouble to the collectors than duties universally levied, and will be a fruitful source of dishonesty. Every effort will be made to defraud the Custom House by transshipments and deception as to the place of origin. The cost to the consumer will be enhanced by much more than the per-centage of duty; and by artificially raising the prices of commodities more capital will be required for the movement of the same quantity of goods, and by so much will the poorer trader be placed at a disadvantage and the capitalist benefited in the competition of life.

The total abolition of import duties as a source of revenue.

If then free trade be an absolute truth, and all duties involve friction to commerce, we are asked why we do not advocate the

total abolition of all import duties? Some economists do; and this policy has been persistently advocated for many years past by the Financial Reform Association of Liverpool. I cannot go so far. All taxation, whether direct or indirect, whether levied on property or charged on imports, causes friction. It is a question of degree, and involves considerations political and social, as well as economic.

For a return to Protection in any shape or form those who now attack our free trade policy on economic grounds have failed to produce any valid argument. Much may, however, be said in favour of maintaining some of our existing import and excise duties as a source of revenue, in preference to a resort to a tax on property and income as the only mode of obtaining funds for purposes of State. It is an absolute truth that in proportion as we reduce imports by levying duties we correspondingly check our exports. Therefore, when we tax tea, and wine, and tobacco, we curtail our exports to the countries from which we import those articles. But we must raise a revenue of £80 millions a year, and how are we to obtain it with the least cost to the community and the least risk of disturbance to our social and political equilibrium? The question is one rather of expediency than of principle, for it cannot be said that we tax any of these articles with a view to protect home productions, seeing that we tax the home productions of beer and spirits with which they compete.

The substitute proposed for these import duties is a heavy income tax. The income tax as at present levied is unjust in its incidence, and is paid with too little regard to honesty. No scheme has yet been devised for securing the just assessment and the honest payment of income tax. Only a small proportion of the nation or of the electors are subject to it, and no tax can be considered theoretically a good tax which does not apply universally. To place the electoral power in the hands of men who are free from taxation, or to free from taxation the men in whose hands the electoral power rests, is unsound economically, as well as socially and politically. Nothing could be simpler but nothing could be more dangerous than to push forward step by step the financial policy of the late government, by which the rate of income tax was increased, whilst the number of payers was diminished. The rate having been raised by 1d. in the pound, and the limit of exemption raised from £100 to £150 a year of income. If such a fiscal policy should be accompanied by a lavish expenditure of public money, its popularity with the masses may be anticipated, however dangerous it may be for the State.

Such a mixed method of taxation as we now possess is in my opinion the safest and the best. It would, however, be desirable to get rid of the taxes on dried fruits and on tea and coffee, and this will be possible ere long, if the nation can be preserved from wars in pursuit of foreign prestige.

INDICATIONS OF PROGRESS.

Customs revenue.

From 1845 to 1880 customs duties producing revenue to the amount of £25 millions have been remitted; nevertheless the revenue from the customs, which in 1845 was £24 millions, amounted in 1880 to over £19 millions.

Shipping.

Although according to fair traders we have been ruining ourselves for some years past by our mistaken fiscal policy, we find on looking into the official figures that in some directions we have been making remarkably rapid progress. In the seven lean years ending in 1880 we have added just half a million more tons of steam vessels to our mercantile marine than in the seven fat years ending in 1872—the figures being, for the seven years ending in 1880, 1,788,761 tons of steam vessels, built and registered, against 1,291,607 tons for the seven years ending in 1872. The total tonnage of steam vessels registered as belonging to the United Kingdom has increased from 1,112,934 tons in 1870, to 2,723,468 tons in 1880; and the increase, which in the seven years ending in 1872 was 714,500 tons, was 1,009,600 tons in the seven years ending in 1880. The total tonnage of shipping frequenting our ports and engaged in the foreign trade has risen from 36,640,182 in 1870, to 58,736,063 in 1880.

Railways.

In the ten years ending in 1880 we have added 2,400 miles to the length of our railways, and have added to our investment in them a capital of just £200 millions. Whereas in 1870 our railways carried only 21,661 passengers per mile, they carried 33,652 passengers per mile in 1880; and the gross traffic receipts, which in 1870 were just £43½ millions, rose in 1880 to just £62 millions, being an increase from £2,794 per mile in 1870, to £3,453 per mile in 1880.

Education.

The progress in education under Mr. Forster's Education Act has

been enormous. The number of primary schools in Great Britain has risen from 10,949 in 1870 to 20,670 in 1880, and the average attendance of children has risen in the same period from 1,453,531 to 3,155,534.

Savings' Banks.

The deposits in Savings Banks have risen from £53,057,653 in 1870, to £77,721,084 in 1880, and the increase in the seven years ending in 1880 was £16,053,200, against £13,726,521 in the seven years ending in 1872.

There is, in these few figures at least, no sign of the much talked of decline in British enterprise and fall in British commerce.

Comparison with the United States.

But when we point to these indications of progress under free trade, our croakers tell us to look at the prosperity of the United States under her protective system. These people are so accustomed to learn geography from atlases that show each country, regardless of its extent, on sheets of paper of the same size, that they forget that the United States is about as large as the whole of Europe. That such a territory, endowed by nature with every advantage, should make rapid progress without free trade is nothing wonderful. I say that the United States has made progress in spite of, not in consequence of, protection. She has, however, one immense advantage which is about sufficient to balance the disadvantage of her protective tariff—freedom from the incubus of a gigantic standing army, such as those which it is the pleasure and the boast of European nations to burden themselves with.

The relative merits of free trade and protection are shown in the relative power of competing for foreign trade. Our exports per head of our population are nearly double the exports of the United States. Our exports are manufactured products; their exports are food and raw materials. Whereas out of a total of 5,000,194 tons of shipping engaged in the foreign trade frequenting the United States ports in 1860, she owned 3,301,903 tons—out of the total of 15,239,534 tons for 1880 the United States owns only 3,123,374 tons. Her control over the oversea carriage of her trade has fallen from the proportion of 3-5ths to 1-5th in twenty years. In our case, whereas in 1860 we owned only 51 per cent. of the tonnage frequenting our ports engaged in the foreign trade, we now (1880) own over 70 per cent. Can the fair traders offer any explanation as to why these

things are so? Can they explain how it comes to pass that the United States exports such a very small quantity of manufactured articles?

The natural rival of the United Kingdom as a manufacturing nation is the United States; but the United States has voluntarily but unwittingly put shackles on her limbs, and by so doing, shut herself out from commerce with the world as an exporter of manufactures. If any proof be wanted of the advantages of free trade and the injurious effects of protection, can we find it anywhere more clearly than in the internal strength and external impotence of the United States as a commercial nation. Inside she has perfect free trade; outside she has the highest degree of protection. Inside she is full of mercantile and manufacturing energy and prosperity; outside she is unable to compete with even the minor European states. In spite of protection she has prospered, because of her immense natural advantages. Notwithstanding all those natural advantages, owing to protection, she is unable to stand against British competition outside her own borders. Her mercantile marine, once so famous, has dwindled away, and her multifarious manufactures are unbought by the outside world. With a vast territory of fertile land, with forests of excellent timber, with enormous supplies of coal, iron, and all other minerals, with thousands of miles of natural internal waterways, with an unlimited supply of water power, with splendid natural harbours, with fifty millions of inhabitants, the most universally educated, most energetic, inventive and enterprising on the face of the globe, it is an insult to the United States to say that she needs the tariff to protect her from foreign competition, that she is not fully able to enter the lists with Great Britain for the prize of the commerce of the world. The day will come ere long when the United States will free herself from the bondage of the tariff, and then will come the real struggle between the two great branches of the Anglo-Saxon race for mercantile pre-eminence. I have no fears as to the result. There is room in the world for both, and which shall be the greater is an idle speculation.
