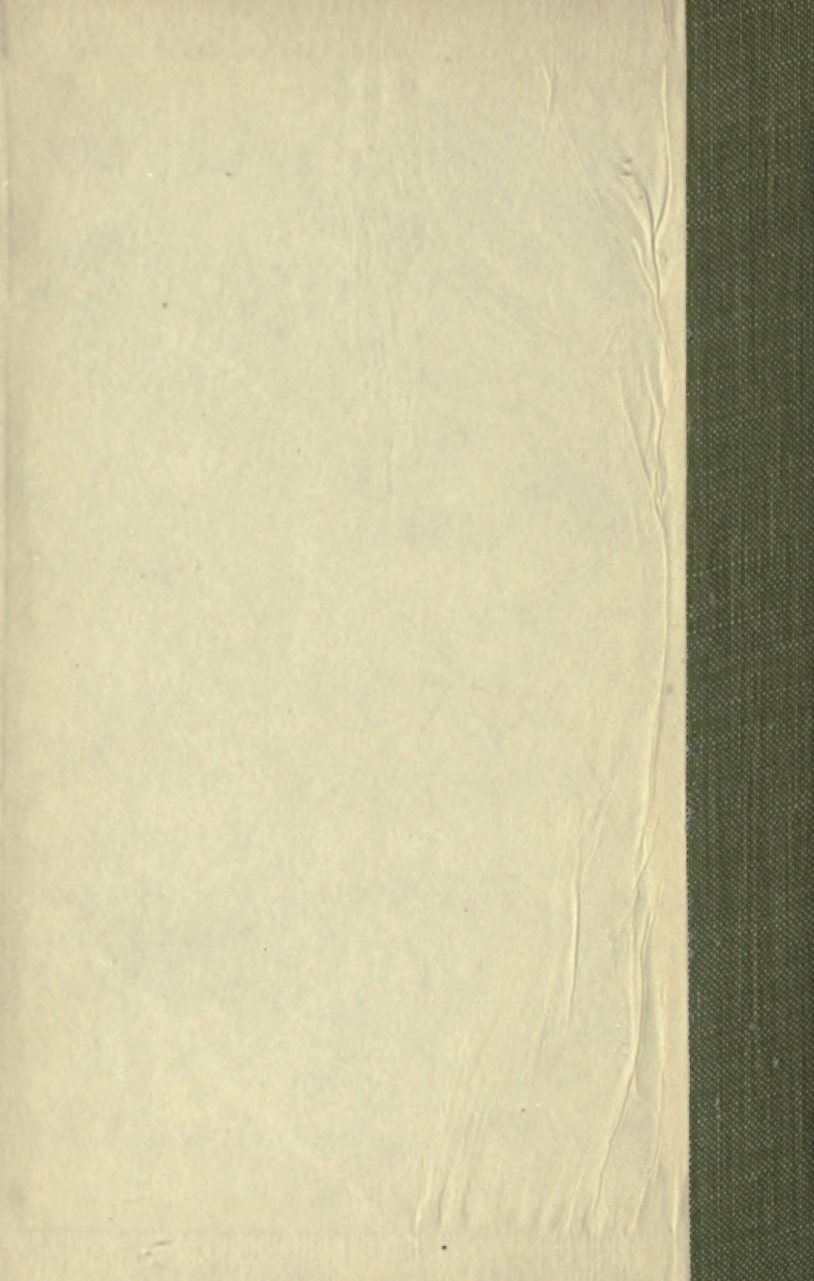
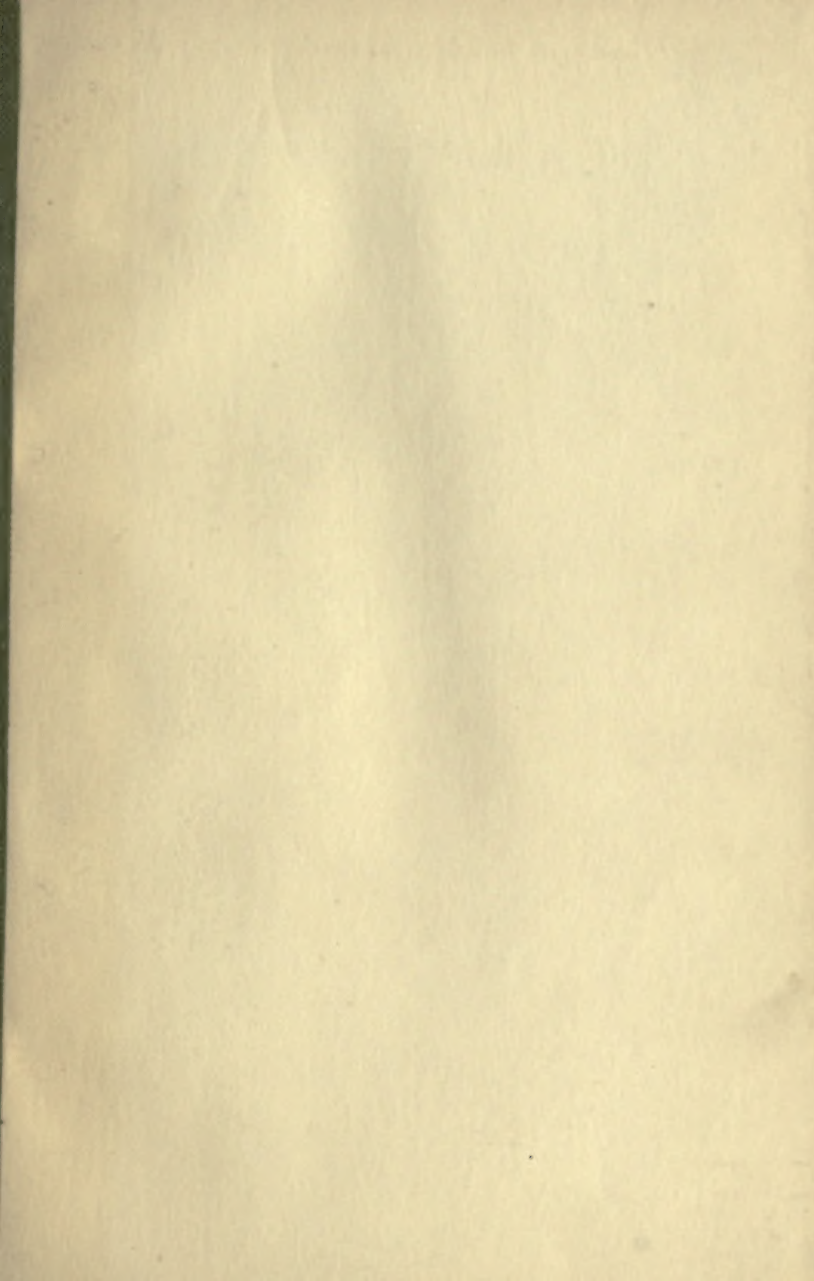


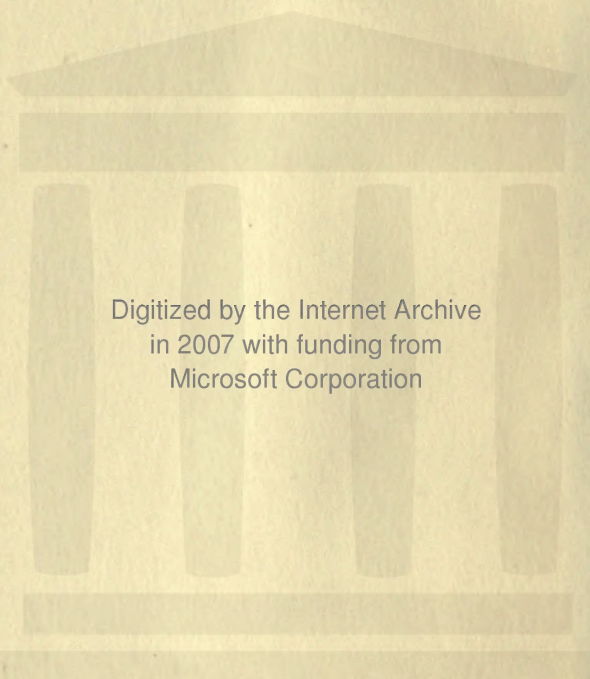


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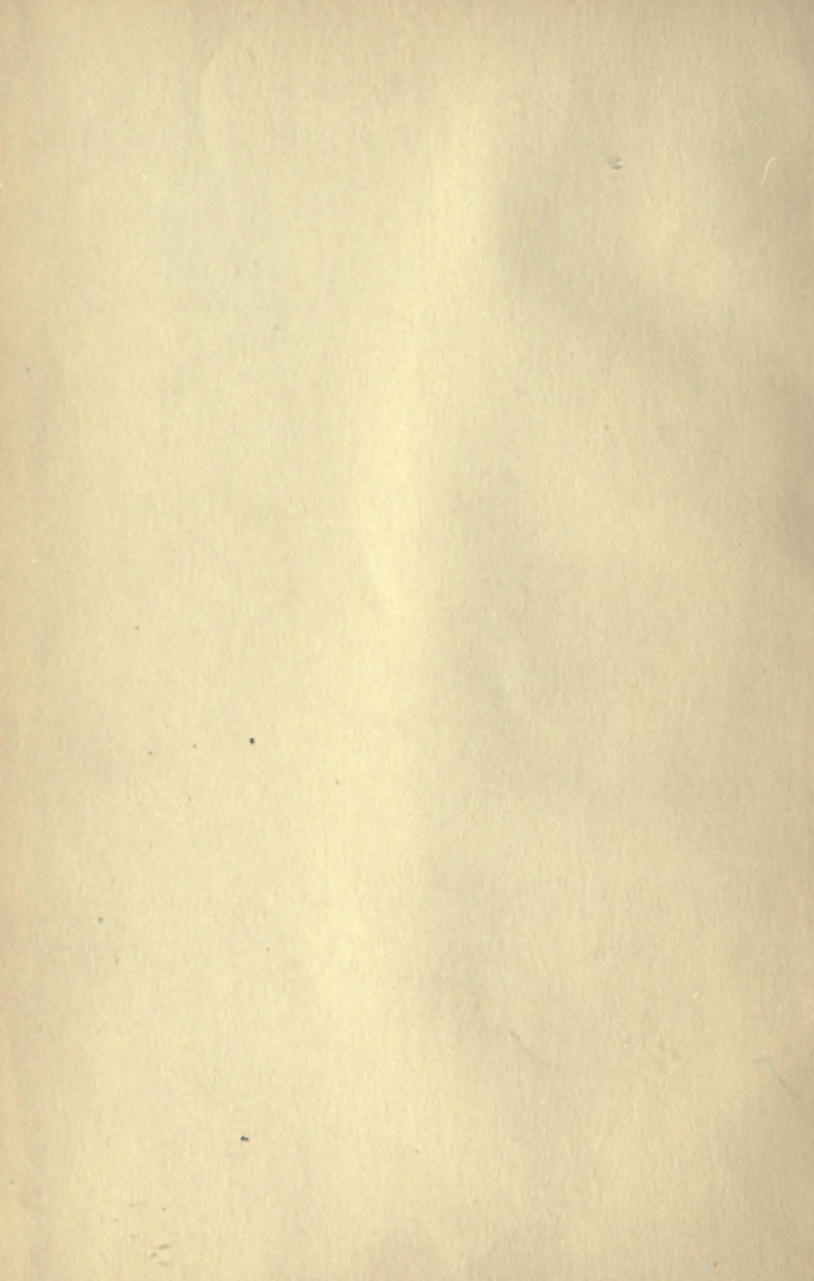
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THE
FUNDAMENTAL FALLACIES
OF FREE TRADE

FOUR ADDRESSES ON THE LOGICAL
GROUNDWORK OF THE FREE
TRADE THEORY

BY
L. S. AMERY
L. S. AMERY

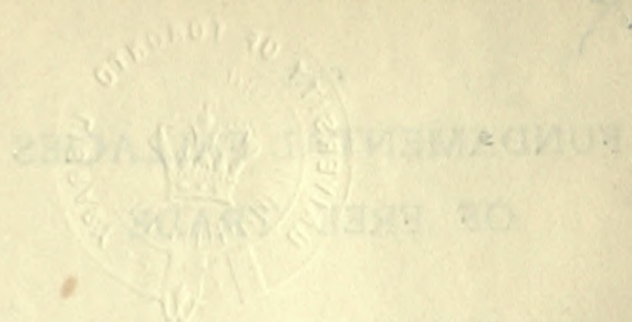
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PREFACE

THE
FUNDAMENTAL FALLACIES
OF FREE TRADE

THE

STANDARDS, REGULATIONS

OF THE TRADE

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PREFACE

THE four addresses reproduced in this volume were delivered under the auspices of the Com-patriots' Club in the course of the last month. With the exception of the third address, the latter part of which I have since somewhat expanded, they are substantially in the form in which they were first given. I am fully conscious of the defects of that form, of the inevitable repetition and diffuseness involved. But I felt that any attempt to rearrange my notes and to deal more systematically and fully with the great economic problems of which these addresses only touch the fringe, would mean launching out upon a voyage of months, perhaps of years. That some one should make that voyage is, indeed, a pressing need of the time. We shall arrive at no good constructive work until we have armed ourselves with sound constructive theory. Scattered elements of such a theory may, perhaps, be found in the following pages, whose primary object, however, has been to help

to clear the field of that great edifice of false and sophistical theory which, seriously dilapidated though it be, still cumpers the ground, obscures our vision, and paralyses our constructive efforts.

L. S. A.

THE TEMPLE,

June 17, 1906.

MORE than two years have passed since the above was written. In that time the movement for a reform of our absurd fiscal system has made prodigious strides in popular favour. But the need for basing the policy of Tariff Reform broadly and permanently on a sound foundation of economic theory still remains unsatisfied. Under the circumstances I feel less hesitation than I should otherwise have done in issuing a new edition of a work which, however imperfect, may yet in some small measure supply that deficiency. I realise more than ever the shortcomings of this little volume, its diffuseness on some points and excessive compression on others, its alternate triteness and obscurity. But, except for bringing a few figures up to date, I have not attempted

to rewrite it, and prefer to trust to the kindness of my readers to disentangle for themselves from this very inadequate presentment the main ideas which I have endeavoured to bring out, and which must, I believe, underlie any sound theory of national economics.

L. S. A.

THE TEMPLE,
Nov. 4th, 1908.

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THE FUNDAMENTAL FALLACIES OF FREE TRADE.

THE INDIVIDUALIST FALLACY.

BEFORE entering upon the actual discussion of the matters which will form the subject of the four addresses I have undertaken to deliver I ought perhaps to explain the reasons which led me to select the somewhat abstract and theoretical topic indicated by my title. I think that is all the more necessary as I may be thought guilty of unwarranted presumption in intruding upon the hallowed domain of the professional—and professorial—economists of the orthodox school. To justify myself to you I want to make it clear that in venturing to examine and criticise the theoretical foundations on which Free Trade rests and to prove their weakness, I do not wish to set myself up as a professional economist, but have a purely practical end in view, namely, the helping forward of the great causes of Imperial unity and social reform which the Compatriots' Club exists to further. In fact, I must avow that my object in asking you to rise with me to the higher regions of pure theory is not only to improve and elevate your minds, but also to encourage you, if I can, to plunge with renewed

conviction and increased effectiveness into the fray of everyday politics.

Nothing has struck me more in the course of the fiscal controversy than the failure of the majority of Tariff Reformers, even the most eminent, to "corner" their adversaries to any real effect. We have produced enormous quantities of facts and figures, which we no doubt consider should prove with absolute conviction to any unprejudiced mind that the present economic condition of the country under Free Trade is thoroughly unsound, and that a change on the lines we advocate could only be beneficial. Nevertheless we have failed to produce the impression we ought to have produced. The reason is that we have not sufficiently realised that the mind of the public, especially of the educated public, is not unprejudiced. We have got to remember that the mind of the ordinary educated Englishman is dominated by certain theoretical assumptions and arguments which have become ingrained in it as the result of generations of repetition. These constitute a powerful barrier against conversion, and it is to these that the Free Trade orator appeals with a force that no mere facts or statistics can shake. Unless we can tackle those prejudices and expose their emptiness, unless we can meet false theory with true theory, we shall make no real progress.

Hitherto we have done very little to expose the fundamental fallacies on which all our opponents' arguments are based. Indeed, so ingrained are these fallacies amongst us that Tariff Reformers often base their own arguments upon them, and habitually allow their opponents to use them unchallenged. Even our most distinguished leaders

go out of their way to pay lip-service to the theory of Free Trade. They declare Free Trade to be ideally desirable, though perhaps impracticable in the present state of the world; they profess a vague aspiration for universal Free Trade; they deem Free Trade to be right in theory but unworkable in practice. That to my mind is a fatal attitude. Free Trade sixty years ago may have been a successful practical policy, at any rate from the narrowly commercial point of view; we may even admit that it was not very far removed from being a sound policy. But Free Trade was then, as it was in Adam Smith's time seventy years before, and is to-day, fundamentally unsound as a theory. It is based upon assumptions contradicted by all the teachings of history, by the whole nature of man, and by the structure of human society. It is demonstrated by arguments arising largely from a confusion of ideas, and sometimes from nothing less than sheer verbal quibbling. Its logic, its psychology, its sociology, its history, are all equally fallacious and absurd.

This may seem a bold assertion in view of the unquestioned authority which the exponents of the orthodox school of economics have held—in this country at least—for over a century, of the assurance with which they have treated their shallow generalisations as the last word of abstract science, and of the autocratic arrogance, unquestioning and unquestioned, with which they not only trampled upon all opposition, but silenced the voice of criticism so completely that the great majority of Englishmen to this day have scarcely realised that the Free Trade theory has ever been criticised at all. I speak from

my own experience when I say that only a few years ago in our schools and universities the young idea was as effectually sheltered from the blasts of economic heresy as is the mind of any young Catholic priest in his seminary from heresy in matters of religion.

Nor has the raising of the practical issue of Tariff Reform seriously affected the attitude of the theorists. The manifesto issued by fourteen professors against Mr. Chamberlain in the early days of the present controversy was in its pontifical arrogance a worthy example of the palmiest days of Ricardo and MacCulloch. As a typical instance of the orthodox attitude, I should like to quote to you a short passage from a little book on the Free Trade movement recently published by Mr. Armitage-Smith, one of the illustrious fourteen, a volume which has, I believe, afforded consolation and furnished helpful instance to many a doubting Free Trader:

The doctrine of Free Trade is a principle which is as incontrovertible as the law of division of industry of which it is an example; it stands, when understood, a truth like those of physical science, on the solid basis of established fact. There is no room for doubt or suspended conviction on the point that a nation, like an individual, grows richer by producing the commodities which it is best qualified to produce and by purchasing with these what it is less able to produce.

What I shall endeavour to show is that the Free Trade theory is neither true, nor scientific, nor based upon solid facts, nor even logically derived from its own premises.

To begin with, the historical circumstances attending its origin are such as to cast considerable suspicion on its scientific character. Great

as were the abilities and insight of the author of the "Wealth of Nations," no one could honestly describe Adam Smith as an impartial scientist. He was emphatically a partisan and an advocate, and his whole work is instinct with the spirit of political controversy. The principles of Free Trade, which he was the first to expound—at least on the lines that secured such world-wide adherence—were not deductions derived naturally, and as it were incidentally, from his unbiassed researches; on the contrary, it would be much nearer the truth to say that the "Wealth of Nations" was written, and classical political economy invented, with the express object of proving Free Trade. Adam Smith's work was an attempt to justify in the domain of economics, which had hitherto seemed to contradict it, the fashionable political philosophy of the day, the philosophy best known as that of *laissez faire* individualism. Quesnay and the French physiocrats had already attempted to do so, but Adam Smith realised the inadequacy of their effort and set himself to better it. The "Wealth of Nations" was, one might almost say, a definite attempt to meet a pre-existing demand, and the enormous success which it attained forthwith all over Europe shows how well it met that demand.

The theory of *laissez faire* individualism as the guiding principle of statecraft has long since fallen into discredit. As long as it remained a mere protest against the mis-government and regimentation of the *ancien régime* in the country of its origin it wore a certain air of plausibility. But viewed as a positive principle its absurdity is at once manifest. It is contrary to the whole teaching of history, it is the negation of the

whole meaning and essence of human society, the denial of all law and all morality. Anarchy is its only logical conclusion. Even in the sphere of economics the principle of *laissez faire* and of unrestricted individualism has largely been thrown by the board where social questions or the relations of employer and employed are concerned. It is only in matters of international trade and the State encouragement of industry that it has—in this country at least—survived in its full vigour.

This connection with an otherwise discredited theory does not in itself prove Free Trade to be wrong. But it does warrant our scrutinising it carefully, and asking if it is adequately supported either by concrete historical evidence or by abstract arguments absolutely conclusive in themselves apart from particular prepossessions in favour of a general theory.

In the domain of sociological activity historical inquiry plays the part that experiment and verification do in that of physical science. The orthodox political economy was, and is, frankly and wholly unhistorical. In the eyes of many modern thinkers that fact alone would be sufficient to invalidate its conclusions. Adam Smith did indeed make occasional references to the past in support of his views; their inaccuracy and disregard of facts were long ago exposed most convincingly by List. In a subsequent address I shall endeavour to show how completely the lessons of history, and of English history in particular, contradict the conclusions derived by Free Traders from their abstract analysis of economic processes. For the present it will be more consistent to follow Adam Smith and his

disciples on their own lines, and to test the validity of their analysis and of their logic.

The striking thing about the orthodox analysis of the economic process is that it is almost wholly an analysis of industrial or commercial operations from the point of view of the individual. Nowhere is there any consistent attempt to analyse these operations viewed collectively or in the mass. The charge has often been brought against the classical school by the Protectionists, from List downwards, that theirs was no political economy but a cosmopolitan economy; that they ignored the existence of nations and national rivalry, and that, by implying universal Free Trade and permanent peace in their preliminary assumptions, they had practically begged the question they professed to be proving. There is considerable force in the charge, but I would prefer to say that the logical defect of the school lay not so much in ignoring the existence of nations in their analysis as in ignoring the existence of the community, whether that community be a state or even the whole of mankind regarded as an ideal republic. In other words their analysis regarded the actions of men as unrelated individuals only, and disregarded their aspect as the actions of component and mutually interacting elements in a community whether large or small. This would not have signified if they had also confined the conclusions drawn from their analysis to individuals; and, indeed, as far as their conclusions have an individual bearing, they are often interesting and suggestive. The text-books of the orthodox political economy ought certainly to prove a profitable study for any business man as long as he applies their

conclusions to his business or to private business in general.

But unfortunately a leading object of the classical economists was to influence national policy in certain directions, and consequently they were continually framing conclusions as to the right course of action for the community or the Government. These conclusions were almost invariably based on the assumption that the economic activities and interests of the community are simply the sum of the activities and interests of the individuals, or, at least, that what is true of the one is true of the other. They entirely ignored the vital fact that, owing to the interaction of individuals within the community, the activities and interests of communities have a quite different character from those of the individuals composing them, and that the same object or the same action has an entirely different value and significance according as it is regarded from the individual or from the public standpoint. This, indeed, is the fundamental fallacy which in many forms and many aspects pervades almost every one of their arguments.

X
I am afraid I may have failed to make my meaning perfectly clear, but I am very anxious that I should be clear, because the point is one essential to the comprehension of the subject. Perhaps the best thing I can do is to illustrate it by one or two simple instances. Supposing A steals a sovereign from B. From the point of view of A that is pure gain, a direct addition of material wealth. From the point of view of the community, of which they are both members, it is merely a question of the transference of a token of value from one pocket to another.

There is no direct gain of any sort, and no doubt an indirect loss in so far as stealing discourages industry. Or take another instance—if A produces an article of, say, 10s. value, and sells it to B for £10; from the individual point of view of A there is £9 10s. clear profit. B, too, has *ex hypothesi* got what he wanted, and is therefore also the gainer. But it does not follow that the community has made a profit of £9 10s. and more. From the public point of view the only gain lies in the production of the article itself, and A's profit is simply a matter of transfer between one member of the community and another.

Now if I were to maintain that a community in which each man lived by picking his neighbour's pockets or by swindling him handsomely was in a flourishing condition, the absurdity would be manifest at once. Yet—owing to its failure to distinguish between the individual and public aspect of economic activities, to the assumption that the individual profit is the public profit and the individual loss the public loss—a very great part, if not the whole, of the reasoning of the orthodox political economy is based on no better logic than this, though perhaps not so crudely expressed.*

* A physical parallel to the error of practical logic which underlies most of the orthodox economics would be some such conclusion as that the motion of a mass is the sum of the motion of its particles, without regard to the inter-action of the particles. Or to take an instance where the fallacy is conveyed in the use of words whose signification in individual cases is not the same as their signification when looked at from a wider point of view: "a man can stand equally upright on his feet in any part of the world; therefore the earth must be flat, for if it were a sphere people in New Zealand would

In the light of the distinction between the public and individual aspects of any action let us now look at the general argument for *laissez faire* in economic matters as expounded by the orthodox school. Their argument runs roughly thus: "The individual must understand his own interest better than any Government can understand it for him—especially in so complicated a matter as commerce or industry. Therefore"—I am largely using Adam Smith's own language—"in the obvious and simple system of natural liberty every man is left perfectly free to pursue his own interest in his own way—as long as he does not violate the laws of justice—and the result of his actions will be for the greatest good of the public. He is led by an invisible hand to promote an end which was not part of his intention. The sovereign on the other hand is completely discharged from a duty in attempting to perform which he must always be exposed to innumerable delusions and for the proper performance of which no human wisdom or knowledge can ever be sufficient, the duty of superintending the industry of private people."

But is the sum of individual interests really identical with the public interest? Adam Smith presumably tries to cover such an instance as that of theft which I gave just now by saying

be walking about like flies with their feet up and their heads hanging down." The key to the fallacy of course is that the "upright" position of man means two entirely different things according as it is regarded from the point of view of every-day life and of the particular instance, or from the point of view of the earth as a whole and of the theory of gravitation. Free Trade economics and flat-earthism are both types of the same primitive form of thought.

that there must be no violation of the laws of justice. But the qualification is quite illogical, and indeed on a wide interpretation—i.e., by labelling every action as unjust which is against the public interest—might suffice to upset the whole *laissez faire* system. X

But, apart from this, let us take an example which a good many of us may perhaps have come across. There can be no doubt that in a sort of way it is the individual workman's interest to make the best possible bargain with his employer, to get the highest possible wages and to do the least possible amount of work in return. But when it is asserted that the last named line of action is in the interest of labour generally (as it sometimes is, directly or indirectly, by those who speak on behalf of labour), the fallacy at once becomes obvious. For what labour collectively depends on is not wages but the product of its own industry. The less the community produces in consequence of any limitation of output, the less the quantity of goods available for distribution among its members, and the less the real wage of the individual. The same arguments hold good of the employer. His individual interest is to buy in the cheapest and sell in the dearest market, so as to make the largest profit. But the public interest in industry does not lie in the individual's profit—which viewed nationally is a mere matter of transfer, as in the instance suggested of the man who sold a 10s. article for £10—but in the total production, and in the efficiency of that production upon which depends the employment and well-being of its citizens, manufacturers as well as workmen. X

FALLACIES OF FREE TRADE

The bearing of this on the practical Free Trade issue is obvious. A system of trade may be one which at any one moment offers the largest and most varied opportunities for profit-making to the individual, and yet may discourage national industry and in the long run injure the very individuals who may fancy that they profit by it. Legislation in the direction of putting pressure upon the individual, in order to make his interest coincide more nearly with the public interest, is, therefore, perfectly justifiable alike in the public interest and in the ultimate interest of the individuals who compose the public. It is that bringing into line of public and private interest which is indeed the object of all legislation, economic or otherwise, and the foundation of morality and of public life. That honesty is desirable from the public point of view we all admit. But that it is also the best policy for the individual is solely due to the "artificial system" of restraints, penalties and preferences imposed by law or custom upon what in *laissez faire* language we might call the exercise of the "simple and obvious principle of natural liberty" in matters of *meum et tuum*.

Now let us take the other half of the *laissez faire* conclusion: that in the complicated conditions of commerce no human knowledge or wisdom on the part of the State can ever be sufficient for the task of interfering to any good purpose in the industry of private people. Apart from the entirely unwarranted assumption that, at all times and in all places, the business ability and insight of rulers is inferior to that of the ruled, the conclusion is based on the same individualist fallacy. We may allow for the moment that

the individual in any particular set of circumstances knows his own interest best *under those circumstances*. But the circumstances may be by no means favourable to him, and he has no power of altering them. The most he can do is to make the best of them. Now the State cannot perhaps improve upon his perception of what is best at the moment and under the particular circumstances. But it can alter these circumstances, in so far at least as they depend on the mutual relation and inter-action of its members.

Let me give another of my crude instances. A wayfarer meets a highwayman, and is faced with the unpleasant alternative of "Your money or your life." After debating a moment whether he shall risk a sudden rush at the man the cold feeling of the pistol against his forehead makes him decide hastily that it is in his interest to pay up. It is a decision which he is much more competent to make than any public authority. He has done the best for himself and has benefited by saving his skin. The highwayman has also gained, for he has got the money without the inconveniences attending a murder (or possibly, on another assumption, his pistol may never have been loaded). On *laissez faire* principles we ought to object to any legislation that would attempt to interfere with such a mutually beneficial economic transaction. None the less we all agree that the effective suppression of highway robbery by the State is a benefit to wayfarers and to the public generally, and perhaps even to those who are restrained from taking to so precarious and speculative a trade as that of a highwayman.

To apply this conclusion to the practical issue

of Free Trade or Tariff Reform we may admit that the legislature cannot determine for a particular trader at any one moment which is the most profitable market for him to buy in—home, Imperial, or foreign—nor what goods it is most profitable for him to buy—raw materials or manufactured goods. But that does not make it impossible or necessarily unwise for the State to impose restrictive or preferential legislation for the benefit of trade as a whole.

So far I have dealt with the general *laissez faire* argument in economics which runs through and underlies all the other arguments of the orthodox school, and have endeavoured to show that it is simply the result of ignoring the inter-relation of individuals within the community, and of arguing from the individual to the community without regard to the difference between the public and the private point of view which results from this inter-relation. But the same fallacy will on examination be found to vitiate almost the whole of the more specific and concrete arguments on which the case for Free Trade is founded.

The whole of the orthodox analysis of the industrial process, as I have said before, is an analysis of the action of individuals without regard to their relation to the community. The different factors in industry are consequently treated by the writers of the orthodox school solely from the individual point of view, and the part assigned to them in the chain of industrial causation is determined by the extent to which they bulk in the individual merchant's or manufacturer's eyes. But what is important in the individual's eyes is often comparatively unim-

portant from the public point of view, and what with the individual is the prime and moving cause may from the public point of view be a mere attendant circumstance. Consequently the method which attempts to explain things from the individual's point of view must fail wholly to give an adequate or intelligible explanation for any national or political purpose.

For instance, the central and supreme factor in industry and commerce from the point of view of the individual in a commercially developed community is exchange—buying and selling. The whole motive, object, and end of his activities is the selling of his wares or services at the highest possible price, in order to buy at the lowest possible price the commodities he wishes to consume for his own pleasure, or the materials and labour that he requires for the carrying on of his business. Exchange consequently bulks as the central and supreme factor in the whole orthodox treatment of economics. It is the solid earth of their economic system round which the sun and all the lesser lights of the firmament revolve. But from the national point of view exchange is a purely subordinate adjustment in the great process of production and consumption, advantageous, no doubt, but yet one which could conceivably be dispensed with altogether. The difference between the two points of view is as wide as that between the Ptolemaic conception of astronomy which makes the earth the fixed centre of the universe, and the Copernican conception which reduces the earth to its proper place in the solar system.

Again, from the individual manufacturer's point of view, capital is the mainspring of in-

B. S.

dustry, the starting-point of all things. It supports the labour employed, and the quantity of that labour depends on the quantity of the capital and on the rapidity of its replacement in exchange; it can only grow by saving out of revenue. Next to exchange capital therefore figures with the orthodox school as the great engine which starts production, as the great store-house which feeds labour, as the great reservoir whose capacity limits the possibilities of industrial development. But from the national point of view capital is mainly, as it were, a starting and lubricating device, an established and efficient means of oiling the wheels of production. It is only so much circulating medium or credit which gives to an individual power to summon the energies and technical activities of other men to co-operate under the guidance of his own organising ability. That power is purely relative as between members of the community; the real capital from the national point of view are those energies and technical activities and that organising ability together with the existing stock of materials and buildings in the country. That national capital grows in the main, not by saving but by exercising. It feeds employer and employed alike, not from any fund, but from the production which that exercise creates. The capital of the individual is accumulated wealth. The capital of the community is the accumulated knowledge, acquired skill, and perfected organisation of its citizens, and the full development through them of all the productive capacities of its territory.

I have given these two instances because they are by far the most important. Practically the

whole of the concrete argument for Free Trade, the argument that was used by Adam Smith and by Cobden in the past and that is used by Mr. Asquith or Lord Avebury to-day, is based upon the fallacies which arise from these two false conceptions of capital and of exchange. It is with these fallacies and their bearing on the practical questions before us that I intend to deal in the next two addresses.

THE CAPITALIST FALLACY.

LAST time I dwelt at considerable length upon the fundamental error which vitiates the whole conception on which the classical or orthodox school of political economy is based, the error, I mean, of assuming that the interest of the individual necessarily coincides with the interests of the community. The source of the error is the narrow and short-sighted individualism which looks upon the community as a mere numerical aggregate and not as a dynamic complex; which forgets that a summation of interacting forces or of conflicting interests is not the same thing as their resultant; which fails to realise that the very meaning and signification of terms change when applied from the individual to the community. It is upon that error that the broad general argument of *laissez faire*, which underlies and runs through the whole advocacy of Free Trade, is based. With that general argument for *laissez faire* I dealt last time. I need not go over the ground again, and indeed it would be merely forcing an open door. The "let-alone" policy as a general theory was long ago exploded, and even the most ardent Free Traders of to-day protest that it is not on the grounds of that general principle, but for quite specific economic reasons that they oppose any restrictions upon the free course of trade between this country and the outside world.

It is with those specific reasons that I now propose to deal, and to show that they too are in reality based upon exactly the same fallacy, though in a more subtly veiled form. The whole of the orthodox political economy, indeed, whether it deals with Free Trade or with any other economic question, is tainted through and through with this fallacy. Though a century and more has passed since Adam Smith's time it has made no real attempt to get rid of the taint. The reason is simple. By making the factors that bulk largely in the individual's eyes—exchange, capital, wages, profit—the starting-point of its investigation instead of the factors that really matter from the public point of view—the natural resources, the human energies and the social organisation—it took hold of the wrong end of the stick and condemned itself from the start to lasting futility. The whole of its terminology is based upon the use of words current in private business whose application to public affairs—unless most jealously scrutinised and qualified—is bound to be misleading and fallacious. To borrow a phrase from that eminent statesman, Mr. Winston Churchill, I will venture to say that from Adam Smith's day down to the late general election the strength of the case for Free Trade has lain in its solid groundwork of "terminological inexactitude."

It is one of the most typical and perhaps the most mischievous of all these terminological inexactitudes which I propose to examine to-day. It is the one in which the term "capital" plays the leading part, and on which I have already touched.

Capital—I am afraid I must to some extent repeat myself—is from the individual manufacturer's point of view, the central factor in industrial production. For him it is the first essential, the starting-point of all things. Till he can acquire it by saving or borrowing he can neither secure works, build a factory, purchase materials, or attract labour. By selling his goods he replaces that capital and is able to purchase more materials and to go on employing labour. That sale also creates his profits, and if he wants to enlarge his capital he must add these profits to his capital instead of spending them on himself. That at least was the rule in Adam Smith's day; nowadays, the more customary method is to publish a highly coloured statement of those profits and float a new issue of shares on the strength of it. The individual cannot use the same capital for two purposes at one and the same time. If he wants to start a new and entirely different industry he can only find capital for it by giving up the old industry, or, at any rate, by diverting from it part of his capital. In other words, from the individual's point of view, capital is obviously inelastic and definitely limited in quantity.

But now let us consider the meaning of the term capital from the point of view of the community. What is the capital of the community, and how far is it the same thing as the capital of the individual? The individual's capital consists, in the main, of money or of credit, in either case very real concrete things to him. But money, from the public point of view is, as Adam Smith himself pointed out, not a concrete article of value at all—except when exported out

of the country—but simply a recognised agreement or convention for the purpose of facilitating exchange. Credit is even less concrete. Regarded nationally it is merely an attitude of mind on the part of the community towards individual undertakings, an attitude which, according to the nature of those undertakings, may be qualified as business-like enterprise or as mere gullibility. In either case, whether in the shape of money or of credit, the individual's capital when looked at from the national point of view ceases to be an actual substantial thing, and becomes something purely relative. It is merely a power which one member of the community happens to possess at the moment—in virtue of certain universally accepted conventions or of a certain trustful disposition of others towards him—of summoning the technical skill and bodily energy of a number of his fellow citizens to co-operate with his own organising ability in the task of production. It may, no doubt, be a desirable thing in the national interest that enterprising individuals should possess this power. Its existence, the existence I mean of capital in the individual sense of the term, serves a useful purpose in organising the producers and in bringing them into touch with purchasers. It constitutes an almost indispensable lubricant to the wheels of industry. But it is not the national capital. It is not the prime motive power, the starting-point or the source of production from the national point of view. That source must be sought to some extent in the natural conditions, and the existing "stock" (to use Adam Smith's word) of buildings, materials in hand, &c., but far more in

the human powers and faculties working upon them. The territory of the nation with its resources, natural or developed, the skilled energy, moral character, industrial and political organisation of its citizens—in fact, the nation itself, as a working and going concern—these constitute the real national capital. Of this national capital, capital in the individual sense is merely one element, one incidental by-product of the industrial process.

This distinction between capital in the national and in the individual sense of the term is a far-reaching one. The two are essentially disparate in character, and obey entirely different laws. The individual capital is the result of saving, and grows by saving from profits or by credit based on profits; in other words, the possibilities of its growth are determined by the amount of profits. The national capital grows by the exercise of the qualities and energies of which it consists. Any one of these may be enormously enhanced at any moment by legislative reform, by an improvement in morals, by the development of some fresh industrial skill. There is no rigid limit to the rate of its growth. The individual capital is quantitatively fixed and inelastic; it can only be applied to a new industry in so far as its possessor diverts it from the industry in which he has hitherto been employing it. The national capital has none of this inelasticity. An acquisition of knowledge, an improvement in morals, a beneficial law involve no corresponding reduction of some other form of knowledge, no abatement of the moral standard in some other direction, no jettisoning of some other legislative achievement.

Nevertheless, the existence of this distinction and the consequences that flow from it have, for all practical purposes, been ignored by the orthodox school. It is true that there are passages in Adam Smith, as also in the works of his followers, which acknowledge the difference between capital in the individual and capital in the national sense.* But as a rule, and especially when arguing against social legislation or industrial protection, they omit these qualifications, and, in the discussion of national affairs, treat Capital—with a capital "C"—as merely a glorified form of the individual or business capital, partaking of all its qualities and all its limitations. It is upon this confusion, upon this terminological inexactitude, that they have based their exposition of many a plausible and mis-

* In the earlier part of his work, where he is analysing the nature of capital, Adam Smith points out the distinction between the capital which consists of money and is a mere instrument of production, and the accumulated "stock" of food-stuffs, materials, buildings, &c., which, according to him, is the national capital. But the distinction is not kept in mind in the later passages where his main argument against protection is developed, and in any case the omission of the most important factor of all from the public point of view—the factor of human energy and capacity—would vitiate the whole argument even if he expressly and consistently limited capital to the mere accumulated stock of goods. The accumulated stock of England might be almost destroyed, and yet a comparatively short period would witness a complete renewal of it by an extra effort on the part of its forty million civilised and industrially organised inhabitants—for an actual example I might quote the rapid recovery of France after the war of 1870. On the other hand, the whole of the same stock would not support a million savages for many months and would then be consumed beyond hope of renewal.

chievous fallacy—the long since exploded “wages fund” theory for instance, with its enduring legacy of class hatred, and with its daughter fallacy, the restriction of output, a fallacy involving most harmful consequences to the prosperity of the working man—and in particular of the most plausible and by no means the least mischievous of their fallacies, the Free Trade fallacy.

I am afraid some of you will think that I have wasted too much of your time in tiresome repetition of a very obvious point. But I have done so with a very definite purpose. Those of you who heard me last week may remember that I spoke of the effect of the ceaseless repetition of current fallacies in rendering the ordinary person impervious to the practical arguments of Tariff Reformers. My object has been by a similar repetition to create in your minds not so much a prejudice as a watchful and critical attitude towards the particular fallacy or terminological inexactitude involved in the confusion of the national and individual point of view, before bringing you face to face with the actual Free Trade arguments. The mind of the jury having been rendered sufficiently suspicious, I think I may now safely call upon the witnesses for Free Trade.

No one has ever stated the case for Free Trade more tellingly than the founder of the doctrine, and with your consent I now propose to read out to you one or two passages from the “Wealth of Nations.” In the first passage which I shall read, Adam Smith points out that no tariff measures can possibly increase the sum of the national industry.

The general industry of the society never can exceed what the capital of the society can employ. As the number of workmen that can be kept in employment by any particular person must bear a certain proportion to his capital, so the number of those that can be continually employed by all the members of a great society must bear a certain proportion to the whole capital of that society, and never can exceed that proportion. No regulation of commerce can increase the quantity of industry in any society beyond what its capital can maintain. It can only divert a part of it into a direction into which it might not otherwise have gone; and it is by no means certain that this artificial direction is going to be more advantageous to the society than that into which it would have gone of its own accord By means of such regulations, indeed, a particular manufacture may sometimes be acquired sooner than it could have been otherwise, and after a certain time may be made at home as cheap or cheaper than in the foreign country. But though the industry of the society may be thus carried with advantage into a particular channel sooner than it could have been otherwise, it will by no means follow that the sum total, either of its industry or of its revenue, can ever be augmented by any such regulation. The industry of the society can augment only in proportion as its capital augments, and its capital can augment only in proportion to what can be gradually saved out of its revenue. But the immediate effect of every such regulation is to diminish its revenue, and what diminishes its revenue is certainly not very likely to augment its capital faster than it would have augmented of its own accord had both capital and industry been left to find out their natural employments.

In the following passage he urges that free markets cannot possibly diminish domestic industry.

It is a maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. . . . What is prudent in the conduct of every private family can scarce be folly in that of a

great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. The general industry of the country being always in proportion to the capital which employs it, will not thereby be diminished . . . but only left to find out the way in which it can be employed, with the greatest advantage.

Nor, according to Adam Smith, does the displacement of an existing industry reduce the amount of employment in the country.

Though a great number of people should, by thus restoring the freedom of trade, be thrown out of their ordinary employment and common method of subsistence, it would by no means follow that they would thereby be deprived either of employment or subsistence . . . there are other collateral manufactures of so similar a nature that a workman can easily transfer his industry from one of them to another. . . . The stock which employed them in a particular manufacture before, will still remain in the country to employ an equal number of people in some other way. The capital of the country remaining the same, the demand for labour will likewise be the same, or very nearly the same, though it may be exercised in different places and for different occupations. Soldiers and seamen, indeed, when discharged from the King's service are at liberty to exercise any trade within any town or place in Great Britain or Ireland. Let the same natural liberty of exercising what species of industry they please be restored to all his Majesty's subjects . . . and neither the public nor the individuals will suffer much more from the occasional disbanding some particular class of manufacturers than from that of soldiers.

That is the Free Trade argument as originally expounded by Adam Smith and repeated unquestioningly by his followers ever since. I will only quote one other passage to show how slight has been the change; the passage is one from Mr. Armitage-Smith's book.

The general effect of duties imposed for the purpose of regulating trade will be to divert the labour and the capital from more productive to less productive industries. . . . The effect of a duty is to divert industry from a more profitable to a less profitable channel; it creates no new capital and does not add to production, but it displaces both capital and labour, and it does not therefore tend to increase employment, but rather to diminish employment.

You will want no more quotations, but if you care to look back at the Free Trade speeches made during the last three years or to examine the speeches that you will come across in the future developments of this controversy, you will find this general argument about the impossibility of increasing the amount of capital by artificial regulations, and about the diverting of capital from profitable to less profitable industries, in a score of protean forms.

Perhaps you will now forgive me for the laborious iteration with which I led you on through the whole of the last lecture, and a great part of this one, before thus suddenly bringing you face to face with the Free Trade argument in all its simple beauty.

I wonder how many of you had realised before how transparent and palpable is the verbal fallacy on which it depends. The whole case rests — most of you I am sure have already seized upon the point—upon the disastrous confusion between the different senses of the word capital. All that Adam Smith says is perfectly true and applicable when it is a case of the individual's capital. If an individual buys a thing cheaper than he can make it his capital is undoubtedly freed for more lucrative pursuits. If the tailor diverts his capital by setting up a small boot factory for

himself he undoubtedly loses. That is because the individual capital is, in the main, a sum of money, fixed and inelastic, and because the individual energy in such a case is, as a rule, already fully developed and not capable of much increase by diversification of occupation. But to apply this to the national capital is a fallacy which is only made plausible by the fact that the word capital usually suggests to the ordinary person, individual capital with all its characteristics. Instead of using the misleading word capital, let me simply substitute for it in each case the thing that, in the main, it really stands for, ready money or credit in the case of industrial or business capital, skilled knowledge and industrial organisation in the case of national capital, and then see what the arguments look like.*

* To bring out the contrast more clearly, I have in the following analysis of Adam Smith's argument left out the consideration of capital as a stock of national goods in hand, in which sense it is no doubt to a certain extent common both to the individual and the national capital. To have introduced that further consideration would have complicated the exposition of my point without materially modifying the argument. The volume of national production is no more determined by the stock of goods in hand than by the money in circulation. In any case the essential and characteristic element in the national capital is the human and social factor—the energy, skill and organisation of the citizens—the essential and characteristic element of capital from the individual point of view is money or credit. And though in places Adam Smith does distinguish between the individual's money and capital and the national "stock," yet it is quite clear that in passages like those analysed above his use of the term capital for national purposes is coloured through and through by the associations connected with the characteristics of the individual's capital.

No regulation of commerce can increase the quantity of industry in any society beyond what its [circulating coin or existing credit] can maintain.

Does that sound plausible? Has the quantity of coin in circulation in the country any fixed relation to the amount of its industry? Obviously not. And as for credit, the volume of industry does not depend on the existing volume of credit, but, on the contrary, the amount of credit in a country depends, broadly speaking, on the amount of its industry. I have here assumed that Adam Smith meant capital in the individual sense. Suppose he meant it in the national sense, how will the sentence then read?

No regulation of commerce can increase the quantity of industry beyond what [the capacity or the aptitudes of its citizens] can maintain.

That is a truism, but no argument. It in no sense proves that State regulation cannot add to the aptitudes or capacities of a people.

Now let us paraphrase another passage:—

The industry of the society can only augment in proportion as its [knowledge, technical skill and organisation] augment, and [these qualities] can only augment in proportion to what can be saved out of revenue.

Here Adam Smith has plainly been using capital in two different senses in the two parts of one sentence; by translating the word into its equivalent and using it in the same sense in both halves of the same sentence we get the meaningless and absurd conclusion, that economy is the only method of securing an expansion of the national energies.

I have called the conclusion an absurd one, though as a matter of fact, owing to the great

influence of the orthodox economics, it became the groundwork of the great Liberal principle of retrenchment "in order to let money fructify in the pockets of the people," one of the most mischievous pleas for the abandonment of public duty ever invented by politicians.

Again, when Mr. Armitage-Smith says that a duty cannot increase capital, what does he mean? Does he mean that the imposition of a duty does not *ipso facto* increase the currency? That may be true, but it is quite fatuous. Or does he assert that a duty cannot stimulate new energies, cause new forms of skill to be practised and developed into national aptitudes? The latter assertion is obviously false.

Now let us paraphrase Adam Smith's argument that free imports cannot diminish the volume of industry or deprive men of employment:

The general industry of a country being always in proportion to [the energies and skilled aptitudes of its population], will not be diminished by abandoning one or many of its aptitudes for the sake of momentary cheapness to the individual purchaser.

Does that sound convincing? It is, at any rate, quite as convincing as the following:

The [ready money] of the country remaining the same the demand for labour will likewise be the same, however many manufacturers may have been disbanded, however much accumulated skill, experience, and special knowledge may have been allowed to perish.

Adam Smith's comparison of manufacturers and workmen dependent upon industry to soldiers is, indeed, thoroughly typical of the extent of his misconception of the nature of industry. The

Army, it is true, is maintained out of a very definite capital, that of the National Exchequer, and its reduction would set money free for some other, possibly more beneficial, purpose, *e.g.*, for undenominationalising church schools, or else for subventioning some specially deserving class of his Majesty's subjects, *e.g.*, Members of Parliament. But manufacturers and workmen engaged in productive industry themselves create the capital which supports them, or rather, with their skilled knowledge and habits of association, are themselves the real capital of the industry in which they are engaged. Their disbandment and disassociation involves *ipso facto* the annihilation of the greater part of the capital which they represent. If in time they find new occupations, acquire new aptitudes, and develop a new organisation, then, of course, a new capital is created in the place of that which was lost. If the skill is a higher one there may be an eventual gain. But if, as is only too often the case, the disbanded men take to a less skilled form of work, there is a final loss of national capital. Every skilled trade that is reduced or abandoned in consequence of foreign competition, every manufacturer who becomes a mere trader, every skilled workman who is driven to the ranks of unskilled and casual labour, every man who is unemployed, and is becoming, or has become, unemployable—each and all of these represent a destruction of national capital which no aggregation of money-capital seeking investment, no swollen totals of unanalysed trade returns can counterbalance.

So completely hypnotised was Adam Smith by this confusion of his own creating with regard

to the meaning of capital that he denied with the most dogmatic certitude the plainest facts of his own time. According to the conception of capital as an inelastic fixed quantity it obviously follows that the encouragement of industry must draw away capital from agriculture. That British agriculture had expanded consistently with each stage in the expansion of British industry and oversea trade—and, indeed, as a necessary consequence of that expansion, because the growth of the manufacturing class provided fresh markets for agriculture, while the aggregation of money capital and the growth of credit facilitated agricultural improvements—all this was nothing to the hapless victim of his own terminological inexactitude. Himself a witness of the enormous expansion of English wealth and power in the eighteenth century, he yet cheerfully declared that neither the colonial system nor the Methuen treaty had done anything but hinder that expansion. Whence otherwise that expansion could have come he does not indicate, unless, indeed, we are to understand that it was the natural and inevitable result of saving on the part of what is, and has always been, one of the least thrifty nations in Europe.

His successors are every whit as blinded by the mist of their own sophistry. Look at the capital of modern industrial Germany—immense, if we think of its capital in the national sense, very respectable, and growing enormously, if we refer to capital in the individual or ordinary business meaning of the term. If the Free Trade argument is true, then that capital has been diverted by tariffs from the more profitable agricultural pursuits in which it would otherwise have been

employed. But where was that capital a generation ago, before it was diverted? It certainly was not in Germany. Again, has Germany's agriculture dwindled or, indeed, vanished into a minus quantity, as it ought to have done if there were any truth in the Free Trade argument? On the contrary, it is actually greater than it ever was, and supports as large and much more prosperous a population. Has there, then, been some miraculous increase of the saving tendency in Germany? Any one who knows Germany will tell you that the Germans, as was only to be expected, have become less thrifty as their prosperity has increased. Take that immense body of sagacious enterprise, of technical knowledge, of commercial adaptability represented in the manufacturers and merchants of Germany. Take the ever growing skill, efficiency and discipline of their great army of workmen. Take the whole of that great industrial life which creates so deep an impression, so sincere an admiration, and so profound a sense of disquiet in any one who has had the opportunity of comparing the Germany of to-day with that of even twenty years ago. From what vacant plot of farming land, I wonder, has all that capital, that immense national power been diverted by the German tariff? It is a plot I have not seen in my wanderings through Germany. What I have seen is a country where, in spite of light soils and many other disadvantages, agriculture has steadily grown and prospered, during a period in which English agriculture, with every natural advantage on its side, has steadily declined.

I had occasion to travel a few days ago from London to a point in Western Germany. Kent,

the Garden of England, was at its greenest. Looking out of the windows I saw occasional sheep and lambs, still fewer cattle. Rarely, except when passing through a town, did I see an occasional human being. On the other side, in Belgium and Germany, it seemed to me as if the whole population of the country were out in the closely cultivated fields, working away for dear life to make use of the warm spring weather. There was scarcely a five-acre field within sight of the railway without some one—more often a whole family—at work upon it, and, presumably, living by that work. And these are the disastrous results of diverting capital and labour from agriculture to industries by means of tariffs!

So much for the actual pillar of the Free Trade edifice. The wonder is that so elementary a piece of sophistry should have maintained itself so long. That it was shown up by List over sixty years ago seems to have made no impression in England whatever. Possibly the cause may have lain in the fact that List failed to explain the formal origin of the classical fallacies, and therefore seemed to the crude and narrow intellects of the classical economists to be asserting a mere nebulous counter-theory based on no convenient quasi-tangible abstractions, like "value in exchange." In any case the almost unimpaired survival of the classical economy in England furnishes an interesting example of the fact that even abstract or comparatively abstract thought is not individual but traditional, collective, national; that religion is not the only sphere in which a man or a nation may be wholly unmoved

by the arguments or by the example of those whose view is different. In fact, till the present controversy, outside reasoning has had as little influence upon English economic thought as European rationalism has had upon Mahomedan theology.

The consideration of the great capital fallacy brings me to another fallacy intimately connected with it, and largely based on the same fundamental vice of the atomic individualist conception. In the passages I have quoted mention is made not only of the effect of artificial regulations in diverting capital, but also in diverting labour. And in Free Trade platform oratory nowadays the diversion of labour or of population, as the only result of tariff measures, is spoken of almost more freely than the diversion of capital. The fallacy in this case consists partly in the assumption that all the existing labour or population is already fully occupied and in the most profitable way, but still more in the supposition that population is an inelastic numerical aggregate of individuals regarded either as constant, or else as increasing upon some ratio or other dependent on factors which lie outside the scope of fiscal discussion and can therefore be neglected. That supposition is due to the individualist and subjective bias, and to the disregard of the time factor which is the natural consequence of that bias. But if we look at population in the mass, and call time to our counsels, we see that population is something living, elastic, expansive, and we see that its possibilities of expansion are determined by its economic development. Man, from the in-

dividualist point of view, is regarded solely as the agent in the economic process. From the broader collective point of view he appears not only as the agent of the process but as its product. The individualist subjective conception regards industry as a means of occupying an existing number of persons. The broader scientific and objective conception looks upon population as the product and result as well as the cause of the industry in which it is engaged.

From the Free Trade point of view, fostering a new industry means diverting population from an old industry; encouraging manufactures necessitates withdrawing people from the fields; reviving agriculture implies emptying the towns back upon the land. From the constructive point of view, fostering a new industry means ^a creating a new population and adding a new market; flourishing manufactures mean a growing town population, and an agricultural population growing together with it, in virtue of the increased market offered to its products; flourishing agriculture implies busy factories and crowded streets.

It is true that the nucleus of the population for a new industry must come from the old industries. But unless the portion diverted is so large as to paralyse the old industries, the deficiency will be almost immediately made good. An existing orchard is not permanently diminished by taking cuttings in order to start a new orchard. The flocks of this country have not been reduced because some sheep were once diverted to form the nucleus of the flocks of Australia. Yet the current Free Trade argument about diverting labour and population

should apply with equal force to diverting sheep or diverting fruit-bearing twigs.*

We have only to consider the history of our own or any other country. We have no statistics of the population of Britain before the Roman Conquest. But it was undoubtedly very small indeed. The Romans killed off an appreciable portion of it; yet before long Britain became, as all the evidence indicates, a fairly populous country, not by immigration, but as the result of the introduction of Roman civilisation, in other words the introduction of the different industrial arts known to the Romans and the enforcement of Roman law and order. After that it dwindled away again, devoured not so much by the sword of the Saxons as by their destruction of the economic organisation of the country. Through long periods of the dark and middle ages, England's population was almost stationary. It increased more rapidly with the fostering of industry in the Tudor times. But its growth was most rapid during those periods of the eighteenth and nineteenth centuries when the introduction of new industries or the increased output of existing ones encouraged that growth. For the last thirty years the rate of increase has been slowing down. And not only has the rate of increase varied with the

* One might almost say that the real failure of the classical economists in dealing with this and kindred questions was due to the fact that owing to their individualist subjective method they always treated man as outside the ordinary course of nature; instead of regarding him objectively as so much living organic matter, of a specially developed kind, no doubt, but obeying broadly the same economic laws as govern the existence of other animals or other organic tissues,

rate of economic development generally, but the population of particular portions of the country has increased out of all proportion to others by the local development of industry. The population of Lancashire is the by-product of the cotton industry. It is as much an artificial creation as the cotton industry itself. Cobden and Bright and all their associates were the direct offspring of the tariffs which they swept away.

So too the dense population of the towns and industrial districts of modern Germany is the direct offspring of Bismarck's policy. The Germans are not by nature more prolific than we are. Their rate of increase through the greater part of the nineteenth century was far slower than ours. Even so the emigration from Germany was enormous. Since the economic development of Germany and our economic decline the position has changed entirely as regards the birth-rate, and the German increase is almost double ours. As for emigration, Germany nowadays actually has an excess of immigrants. Nor has the growth of the towns been at the expense of the country, though it, no doubt, would have been but for the measures deliberately taken to maintain the country population. Barely twenty-five years ago, within my own recollection, Cologne still stood within the old city walls that had marked its confines for centuries. To-day those confines are represented by a circular boulevard separating the inner city from the great new city which has sprung up beyond. But the fields and vineyards of the Rhineland have not been deserted to fill the streets and houses of the new Cologne. The inhabitants of that city, and of many another German city, are a new people, the children of

Bismarck's statesmanship, the grandchildren of List's far-seeing genius.

Would a purely agricultural Germany be capable of supporting her present population, or be growing at the rate of a million souls a year? Would a purely agricultural United States have found room for the vast swarms that have poured into their territory during the last century, and are still pouring in in undiminished volume? Free Traders habitually retort upon any attempt to draw comparisons between our industrial progress and that of Germany or the United States, by saying: "Yes, but look at their *population*." I would reply: "Yes, *look* at their population, and *think* what it means; there is the simple and direct test of their economic policy!" And I would add further: "Look at the British Empire; think of the vast and prosperous population it might support if it had been developed like the United States; consider the comparatively small population it does support, and judge Cobdenism by its fruits."

Not that mere numbers are the sole test of national well-being or the sole object of statesmanship. The physical and moral well-being and efficiency of the individual and the effective organisation of the whole are no less important objects. Indeed, the real national object may be said to be that resultant of all these factors—numbers, individual efficiency and national organisation—which has been termed "man-power." Each of these factors of man-power is complementary to the other and each stimulates the other. To raise and improve the standard of the individual increases alike his productive efficiency and his capacity for organi-

sation, and consequently will in the sequel lead to an increase in the number of such individuals which the national industries can support. Effective national organisation will raise both the total numbers and the individual well-being. A broad basis of numbers is essential whether to allow the full development of natural resources or to furnish the strength without which the national organisation cannot protect the well-being of the individual against the encroachment of more powerful national organisms without.

Where then are we left by clearing the ground of the Capital fallacy and the kindred Population fallacy? Simply at this point, that the statesman (and in a democratic country every voter has to essay the part of a statesman) need no longer be paralysed by the sophism that all efforts to improve the total economic welfare or the total strength of his country must be a mere labour of Sisyphus—with its mischievous logical consequence that the only way of raising the welfare of the less prosperous lies in despoiling the more prosperous—but can set to work courageously at any and every means that may come to his hands for increasing the national capital or adding to the nation's "man-power," whether by teaching new knowledge, by stimulating new industries, by raising the moral, intellectual and physical welfare of each individual citizen, or by strengthening the effective organisation and defensive power of the whole State. Free Trade, *laissez faire*, stands for an atrophied, and consequently timid and unintelligent Government, for a hopeless, mechanical theory of statecraft which can see no other way of increasing the national welfare of the citizens as a whole than the reduc-

tion of the national defensive strength, which knows no other type of reform than class legislation. A constructive theory must recognise that statecraft deals with living tissue; that the well-being of each individual is to be attained through the well-being of the whole; that social reform and national strength are, not mutually destructive, but essentially complementary; that the redress of one social injustice does not require the infliction of another. It must insist upon the importance of the duties of citizenship and of the duties of statesmanship, or citizenship raised to a higher denomination. Not *laissez faire* must be its guiding principle, but *vouloir faire* and *savoir faire*—the will to act, without which everything else is worthless, the skill to act effectively, which can only be attained in action.

THE TRADE FALLACY.

IN the first of these addresses I endeavoured to bring out the essential difference between the individual and the public point of view in economics—a difference as profound, I suggested, as that between the old Ptolemaic system of astronomy, which regarded the earth as the fixed centre of the universe, and the Copernican, which fixed the centre, at any rate of our planetary system, in the sun—and to show that the recognition of this distinction at once destroys the whole general argument in favour of *laissez faire* in economics as in any other department of human activity. Last time I examined the Free Trade or Orthodox theory of production and the arguments against interference, by tariff or otherwise, based upon it, and showed how the same fallacy of mixing up the individual and public aspect of economic issues underlay it. But in this case the fallacy was not so easy to detect, as it lay, not so much in the argument itself as in the use of the terms employed, especially in the use of the word “capital.” I devoted some time to analysing the “terminological inexactitude” of Adam Smith, and of his school, and to showing that the whole of their main argument against protective regulations is based on the assumption that the volume of the national industry is determined by a fixed

inelastic quantity of "capital" in the same way as the individual manufacturer's enterprise is limited by the fixed capital he can save or borrow. I showed, too, that the same individualist fallacy in a slightly different form underlies the Free Trade conception of population as a fixed number of individuals looking out for the most profitable employments available at the moment, instead of what it really is, when looked at broadly, an elastic quantity of living matter growing with the industries that support it, and, in a sense, created by them.

To-day I propose to deal with the orthodox economist's theory of exchange, or, to use the more common term, of trade, and to show that here again the same fallacy is largely responsible for their mistaken conclusions. Once more, too, the fallacy is imported into the argument through the employment of terms whose significance, from the public point of view, is very different from their significance to the individual.

The assumption of the Free Trade school throughout, and it is one which the very name of Free Trade conveys with it, is that trade is the economic object of the nation. Political economy is habitually spoken of by the Free Traders as a theory of trade or theory of commerce; when they have declared any regulation to be an impediment to trade they already consider that they have more than half proved the necessity for its abolition. Now to the individual in a commercially developed community, trade is undoubtedly the end and object of his productive efforts. The individual cotton-spinner produces his cotton, not for its own sake, but in order to sell it, and by the proceeds of that sale

to buy the commodities he wants. But from the national point of view the object is not trade but production. The nation produces, not so much in order that it may sell as in order that it may consume, and thereby live and multiply. Trade from the national point of view is not the end. It is a means, an incentive, an adjustment which facilitates the division of labour, but none the less a means.

Moreover, trade, from the national point of view, is not only not the object, but it is not even absolutely indispensable as a means to that object. A community may attain quite a considerable degree of economic well-being without any trade at all, as, for instance, in the case of an agricultural community with well-developed home industries. Again, take the ideal collectivist state, where all production and distribution is state organised. That would be a community practically without any trade whatever, and yet it is not inconceivable that such a community might, from the purely economic point of view, be extremely successful. In any case it is clear that trade bears no fixed relation to the economic well-being of the community, and that the total volume of trade can afford no general index of national prosperity.

If that is true of trade in general, it is still more true of foreign trade, that is to say the trade which crosses the political or fiscal boundary. That is only a part of the national trade, though it is habitually spoken of by Free Traders as the national trade without further qualification. From what has been pointed out already it is obvious that the foreign trade of a country bears no fixed proportion whatever to its

total production, or to its total prosperity. Any argument which attempts to show that one country is more prosperous than another, because its export trade, or its import trade, or that fatuous jumble of the two, its "total volume of trade," are greater, is fundamentally absurd. The greater a State and the greater the variety of the commodities which it can produce on its own territory, the smaller, as a rule, will be the proportion its foreign trade bears to its total volume of production. On the other hand, a small community favourably situated for the transportation or redistribution of goods may have an enormously disproportionate volume of foreign trade. A comparison of the foreign trade of Singapore or Hong Kong with that of the United States would suggest that the two former were economic units quite comparable in importance with the latter; whereas, of course, the real test, that of the population actually supported by their industry, shows us that neither of them is more than any one of a hundred American cities.

There is a very good general rule for the testing of any argument, that is to carry it out to its fullest extent and see if it involves an absurdity. Let us see how this applies to foreign trade as the index of prosperity. Supposing we assume the earth to be united in a common economic system, what will become of its foreign trade? It will vanish entirely. As far as I know the earth imports nothing from outside except a small quantity of shooting stars and meteoric dust, and exports nothing to space except a little heat. But will the prosperity of the earth be affected by the disappearance of its foreign trade? I trow not.

There is an even more absurd variant of the argument from foreign trade, which is so often produced by Free Traders in the present controversy that it may be worth examining, even though it is rather a digression from my main theme: I mean the argument based on figures of exports or imports per head of population. This calculation as to exports and imports per head seems to have been devised not many years ago by some official in the Board of Trade with a taste for simple division. Nowadays whenever Tariff Reform shows any signs of activity, Lord Avebury, or some other eminent Free Trader, weighs in with a letter to *The Times* to show that our exports per head are greater than those of any other country, and that, therefore, all must be well.* But if the proportion of foreign trade to total production and consequently to population bears no comparison in two countries, it is absurd to suppose that the division of one by the other should produce a conclusion of any value. A few instances are quite sufficient.

Since Federation, Australian exports per head of population have gone down from £23 to £14. What has been the cause of this disastrous decline in Australian prosperity? Nothing more than that a great deal of what was once reckoned as the foreign trade of each particular State is no longer included as the foreign trade of Australia. Supposing the whole world were to federate, and a single State, let us say Ireland, were to hold out for economic home rule, then,

* As a matter of fact the statement is incorrect in fact as well as absurd in argument. Australia, New Zealand, and Belgium, for instance, all have very much higher exports per head.

the population of the world at large, being about four hundred times that of Ireland, its foreign trade per head would be only one four-hundredth part of the foreign trade per head of Ireland. Yet I wonder whether Lord Avebury would contend that Ireland under those circumstances would necessarily be four hundred times as prosperous as the rest of mankind!

Or to put it in another way: the export trade per head of a country depends on the proportion of those employed in export trade to the total population. Consequently anything that diminishes the population engaged in purely home trade, at once sends up the figure for the export trade per head. To produce a really rapid and effective rise in the British export trade per head nothing would be so effective as the immediate wiping out of the remnants of our agricultural population; or indeed, if it comes to that, the immediate massacre of all women, children, and other non-exporters. Consider to what blood-thirsty conclusions even the kindest of philanthropists and lovers of nature may be led by loose reasoning! It is, perhaps, fortunate that we are not a logical nation.*

Having now cleared our minds of the fundamental misconception of the economists, and of the more elementary absurdities of the ordinary

* I do not mean to say that all calculations based on the proportion of trade to population are valueless. On the contrary, if used with proper regard to the effect of all the factors at work no calculations can be more useful. Even as regards exports per head any one who has studied the significant figures marshalled by Mr. Holt Schooling in his "British Trade Year Book" will see the value of a moderate and intelligently applied use of this sort of calculation.

Free Trade advocate, and recognising that trade, whether home or foreign, is from the public point of view purely a means and not an end, let us consider how far the greatest freedom of trade is conducive to the greatest amount of production and the greatest consequent well-being.

To begin with, let us ask the question: Would universal Free Trade be a good thing for the world at large, irrespective of the gain or loss of any particular community?

That it would be a gain is generally considered as a self-evident axiom. But a slight examination of the facts will cast considerable doubt upon it. Freedom of trade undoubtedly tends to promote industry by encouraging the division of labour. Again, by enlarging the market open to the producer it encourages him to increase his output. But it is an encouragement strictly on existing lines; it takes no regard of potentialities. It gives a tremendous advantage to those who already have a start; paralyses those who are less far advanced; prevents those who have not started from ever entering the race. Freedom of trade confers such an advantage upon the established industry that an infant industry, however favourable the natural conditions, however adaptable the people, can rarely get started in the face of it. It remorselessly destroys the weaker industry and the population and prosperity connected with it.*

* Trade has undoubtedly played an important part in encouraging human intercourse and in helping the spread of civilisation. In ancient times trade and conquest indeed were practically the only ways in which one civilisation came in contact with another. To-day the function of trade in spreading scientific or practical

This destructive feature of Free Trade, as well as its tendency to concentrate industry and commerce at points where it is already rooted and along channels that have already formed themselves, has been enormously enhanced by modern facilities of locomotion and transport. Under primitive conditions the smallest distance, especially by land, acted as a high protective duty in favour of all but easily transportable articles of luxury. Even Cobden could assert sixty years ago that British agriculture would never suffer by foreign competition, as it enjoyed a permanent protection of 10s. a quarter in the freight from America. To-day the freight from New York to Liverpool is, I believe, nearer 10d.!

knowledge has become insignificant, at least among civilised nations, and its place has been taken by travel and study. Our knowledge of German thought or German industrial methods is not derived from the epistolary intercourse between the British importer of German goods and the German manufacturer, still less from the conversation that may pass between a British sailor and the guard of the Belgian train who has brought the German trucks from the German frontier. English Free Trade has not led to the absorption of German ideas, nor has German Protection excluded free adaptation of British inventions and industrial methods. Trade still plays a part in bringing about personal intercourse, and extending the comprehension of other countries and peoples which follows from such intercourse. But here again its effect is much less between people of different languages and customs than between people of the same race, speech, habits and laws. Free Trade between England and France would probably not make any very appreciable difference to the effective intercourse between the two countries. Freer trade between England and Canada undoubtedly would. In any case the argument in the text above deals mainly with the direct effects of freedom of trade upon production.

Free Traders readily admit that universal Free Trade would lead to the destruction of many industries in many places, but declare that the loss would be more than compensated by the tremendous development in each part of the one industry for which it was most fitted. Universal Free Trade would, no doubt, lead to great industrial aggregations at certain spots of the world's surface, and to the extensive cultivation of certain favoured agricultural regions. Nevertheless it by no means follows that it would lead to the greatest total volume of production, or maintain the largest and most prosperous population on the earth.

Let us, following the example of Mr. Balfour and other eminent economists before him, conceive the case of two islands isolated from the rest of the world, the one more suited to agriculture, the other having a more industrially developed population. Let us also assume them to be inhabited by people differing sufficiently in race, speech, religion, form of government, social customs, to prevent any large proportion of the population of one migrating freely to the other. Under Free Trade conditions, favoured by cheap and easy transport, the one would be almost wholly devoted to agriculture, the other to industry. The trade between them would be very large. But the land of the industrially-favoured island would lie fallow, the mineral wealth and the industrial aptitudes of the agricultural island would remain undeveloped. The total population of the two islands together would be limited by the food-supply grown in the one island. The pressure of population on subsistence might no doubt cause some of the better

land in the industrial island to be cleared. But that pressure of population is not a constant factor, but one that rapidly accommodates itself to the economic situation.* It would not under Free Trade conditions cause new industries to spring up on the agricultural island, even if it led to some slight spread of agriculture on the other. As a second alternative, suppose the two islands absolutely separated economically, though not otherwise, by prohibitive tariffs. Each would have a population determined by its total capacities, but the agricultural island might lack many elements of industrial convenience, if it were deficient in the necessary minerals and raw materials, and the industrial island might find its industrial development hampered by the limitation of its food-supply. Thirdly, let us suppose each of the islands to have a tariff so framed as to stimulate the full development of all its resources while at the same time encouraging the interchange of surplus production. The industrialists might protect their own cattle and wheat and vegetables, but freely import their

* The orthodox economists face to face with a rapidly multiplying proletariat (the creation of previous industrial legislation), and witnessing the effects of the continuing pressure of population in periods of depression, tended to assume that pressure to be a constant factor. As a matter of fact it is a variable factor, though not a perfectly elastic one. In a non-industrial community pressure of population by itself will never create industries, especially in face of foreign competition. No degree of industrial depression and unemployment in this country will of itself create sufficient extra pressure to revive British agriculture under Free Trade conditions. The reason is that in either case the pressure automatically diminishes long before it can have its effect in transforming national conditions.

fruit and wine and oil. The agriculturists might foster their own textile industries, but give up the attempt to create a great metal industry.

Under which of the three systems should we see the largest volume of trade? Undoubtedly under the first. But under which should we see the greatest total development of prosperity? To my mind there can be little doubt that it would be under the third. As between the other two I should say it was an open question, depending on a variety of practical considerations, whether complete Free Trade or absolute prohibition of economic intercourse would create greater prosperity.

But what is true of the two imaginary islands is equally true of the world as a whole. Universal Free Trade might very possibly result in the greatest volume of international trade, but it would hardly lead, in the existing conditions of the world, to the largest total of prosperity. The case against universal Free Trade is admirably put by Sir J. Byles in the following passage:*

With a generally diffused system of protection, concentrating the industry of each country on its own soil and indigenous materials, industry flourishes, wealth increases, population multiplies throughout the globe. But without such artificial regulations, population, industry and wealth have a tendency to concentrate and confine themselves to certain favoured spots. There

* From "Sophisms of Free Trade and Popular Political Economy Examined," a remarkable work, written in the very hey-day of *laissez faire* fanaticism, in which the principles of a sound economic policy, in its bearings on the problems of British trade, of Ireland, and of the Empire, are stated with extraordinary clearness and vigour.

indeed they flourish, but over the vast area of the world at large they have a tendency to dwindle and decay. Protection, instead of being, as has been represented, a blight on universal industry, is a system of universal irrigation, diffusing industry where industry would otherwise never have flowed, and making even the desert rejoice.

Suppose France were insane enough to repeal the laws protecting the manufactures of cotton and hardware, where would be the industry of the banks of the Seine, of Rouen and Elboeuf? What would become of the thriving population of Tourcoing and Roubaix, and Mulhausen and St. Etienne? Manchester and Birmingham and Glasgow and Sheffield would prostrate all, and turn the banks of the Seine and half of the thriving towns of France into a desert. But the loss to France would be so enormous that her power of purchasing would be well nigh destroyed. We should eventually gain little, in comparison with the prodigious loss of France. Then, England might flourish; but France, except in her wine-districts, would be a desert. Now, both flourish, and industry is diffused.

Looking at the enormous industrial development of the world as a whole in the last fifty years, the growth of population and prosperity, is it conceivable that humanity at large would have been better off if Europe and America were still confined to their "proper vocation" of agriculture and the raising of raw materials, while England with a population of possibly sixty or seventy millions were producing all their manufactured goods for them?

The obvious question that will at once occur to every one is: Why then is internal Free Trade considered desirable even by the most extreme Protectionists? The answer is that it is all a matter of degree. In the first place, a certain extent of area is undoubtedly desirable in the interests of efficient production. Again, the dis-

advantages of excessive concentration and the tendency to keep in fixed grooves are much less in the case of Free Trade within the same political unit and among people of the same language and habits and on the same plane of economic development.* Advantages of situation, cheapness of labour, &c., may be quite enough to tempt industry from one part of a country to another, when they might never tempt capital and enterprise to run risks under foreign laws and with such entirely unknown elements as a foreign working population. Tariff protection is as a rule essential to tempt industry into undeveloped countries. It is less essential to tempt industry to another part of the same country. Again, inasmuch as the people of one country are usually more or less on the same plane of civilisation and economic development, the evolution of internal Free Trade tends to be not so much destructive as selective, and so provides a real incentive to enterprise. Above all, internal Free Trade by the intercourse it promotes tends to political unity and political stability, and to that it may be well worth while postponing immediate economic development of every part of the national territories.

But after noting all these qualifications we may still suggest that in a political unit of very considerable extent, comprising vast undeveloped areas, including races on very different social and economic levels, even internal Free Trade may be undesirable. Internal Free Trade in the

* Thus List expressed himself in favour of Universal Free Trade; but only when all the principal nations of the temperate zone should have reached an equal degree of industrial development.

Roman Empire—free food for the citizens of Rome—ruined Italian agriculture and thus destroyed the yeomen farmers of Italy, the foundation on which the Empire was built up. It is quite conceivable that, as far as purely economic considerations go, the United States might with advantage be divided into two or three main zones, and moderate internal tariffs introduced as between these zones. In the case of our own Empire I certainly have no hesitation myself in saying that, for the present, at least, Imperial preference with moderate internal tariffs, gradually decreasing as economic conditions are equalised, is vastly preferable to the immediate introduction of an Imperial *Zollverein* with complete internal Free Trade, and is likely to lead to a greater total development.

So far I have dealt with the desirability of Free Trade in the abstract, whether as a policy for the whole world or as an internal policy for a particular community irrespective of external conditions. Now let us consider how far universal Free Trade, apart from the question of its being good for the world as a whole or not, might be beneficial to any particular country. From what has been brought out already it is clear enough that whether good for the world as a whole or not, universal Free Trade is not necessarily good for any particular country. Universal Free Trade, as I have pointed out, tends not to the diffusion of industry and well-being but to their concentration at certain places and along certain grooves. It tends not to the development of all natural resources that are capable of development, but only of those that are in some special way superior, either generally or tem-

porarily, as the result of the particular conditions of the moment, to similar resources elsewhere. A country that possessed no special advantages or special aptitudes might thus be left out altogether and have practically no share in the material development of the world. Germany would be a typical case of that possibility. There is no single natural feature in which Germany compares favourably with other European countries. The German race is not naturally pre-eminent in any department of economic activity. Its triumphs in the past have chiefly been confined to war, philosophy, and music; and none of these could permanently support a large and flourishing population. Once again I am tempted to quote a passage of some length from Sir J. Byles, a passage which would apply very well to the Germany of his day:

There are some few countries in the world which enjoy peculiar facilities for the production of particular commodities; such as the South of France, for coals Cuba, for sugar; some districts of England, for coals and iron. But the immeasurably greater portion of the surface of the habitable globe consists of countries moderately—and but moderately—adapted for the production even of the necessaries and comforts of life, of food, clothing and lodging. These countries can, in every single article that they produce, be surpassed and undersold by some country or other.

Put the case of such a country, with moderate facilities for the production of most things, with extraordinary facilities for the production of nothing. It can grow wheat, but not so cheap as Poland; it can grow wine, but not so cheap as France or Spain; it can manufacture, but not so cheaply as England.

First imagine that country under a system of protection, so strict as to be jealous, and, if you please, injudicious. The nation cultivates the land, and works up the produce. It creates wealth at both ends of the

exchange. Its manufactures exchange with its agricultural products. Native industry can and does supply it with the necessaries and comforts of life. A numerous population may be employed, fed, clothed and lodged. Industry and plenty reign. All this may be, and is, done under great natural disadvantages both of soil and climate. Human art and industry triumph nevertheless over every obstacle, and can raise, as in the case of Holland, a great and powerful State in a morass. Foreign trade will in the end be introduced, supplying luxuries and carrying away superfluities.

Now imagine that country under a universal system of Free Trade and unrestricted imports. Except in a few favoured spots, it cannot grow wheat; for Poland will be able to undersell it, not only in foreign markets, but in its own. It cannot manufacture; for in cottons, hardware, woollens, and other products of manufacturing industry, England can undersell it abroad and at home. It cannot grow wine, for France or Spain can everywhere undersell it. Neither can it continue to import its corn, its manufactures, or its wine from abroad, for its own industry being superseded and smothered, it has nothing to give in exchange. It becomes then in this condition: it can neither grow nor make for itself, nor yet buy from abroad. It goes without, or if not entirely without, it is scantily and wretchedly supplied. A starving and ragged population derive a wretched and precarious subsistence from half-cultivated land. It has neither domestic industry nor foreign trade.

But assume that a particular nation does possess some special natural advantage or some special aptitude on the part of its people, would universal Free Trade, even so, be a good thing for it? That will depend entirely on the total population which the exercise of that aptitude might support, as compared with the population which could be supported by a development of all the resources of that country. To recall again the first passage I quoted from Byles, the very fullest development of the French wine industry would never compensate for the aban-

donment of all the other sources of well-being which the French population at present enjoys. List, in an interesting passage of his work, argues that even the French wine industry would suffer as the result of Free Trade with England, because the total market for French wine in England would not make up for the loss of the home market for French wine consequent upon the destruction of French industries by English competition. In a similar fashion he shows how the Portuguese, in accepting the Methuen treaty in 1703, sacrificed their whole industry, and unlimited possibilities of trade with the East, to a small immediate development of their vineyards.

Of course it becomes quite a different question if a nation has not only one or two special aptitudes above other countries, but a whole set of those special aptitudes. Sixty years ago England had a special aptitude or a special advantage in practically every branch of manufacture, more especially in the manufactures that were of most universal use and capable of supporting the largest population. To the England of Cobden's day universal Free Trade would undoubtedly have been an enormous benefit. It would have fastened our economic yoke upon the whole world, and made us the centre of a great trade empire, more powerful than any political empire has ever been. The Free Traders of that day fully realised this. Nor did the fulfilment of it seem to them by any means impossible. The Free Trade theories of Adam Smith and his school had captured educated thought on the Continent just as much as in England. There were distinct indications that many of the European Govern-

ments, influenced by these views, were hankering after Free Trade, but were deterred by the bad example of England in the matter of the corn laws.

In 1826, before the formation of the *Zollverein*, the Prussian Government actually made proposals for a treaty of commerce, promising to introduce no changes in its fiscal system for a period of years, and specifically not to increase its duties on English merchandise, if greater facilities were given in England to the importation of corn and timber from Prussia. The view of the House of Commons then was that a proposal from a foreign Government for altering the British corn laws was a thing that could never be entertained.

As a speculation, as a bold bid for a great prize, the introduction of Free Trade in 1846 may have been well worth the risk; indeed, it may have been a pity that it was not introduced much earlier. But it was a speculation none the less, and it ought to have been abandoned as soon as it became clear that the other side was not prepared to take up the offer, say by 1880 at the very latest.

It is an interesting thing, in this connection, to notice the tactful astuteness with which Cobden and his friends argued their case. Their real object, as those manufacturers knew quite well, was to prevent the fostering by foreign tariffs of competing industries whose future success was already then becoming apparent. But to have openly confessed this would not only have laid them open to the charge of pure selfishness and have estranged the theorists, but would also have afforded arguments for the Protection-

ists in other countries. So the Manchester men with infinite discretion devoted themselves to arguing that Free Trade would be beneficial to the world at large as well as to British industry, and to making out that these other countries were only hurting themselves by their foolish plans to promote sickly industries for which they were not fitted. Mr. Villiers, indeed, who was not a manufacturer but a simple-minded young scion of the aristocracy, stated the real facts with perfect frankness; and his early speeches, which I have lately been reading, seem to me to afford the best justification alike for the Free Trade movement of those days, and for Tariff Reform to-day. At an earlier date Lord Brougham had spoken even more frankly in Parliament of "stifling their industries in the cradle." Curiously enough, the real gist of the movement of those days has been largely forgotten, while only the outward show has survived. What Mr. Cobden and Mr. Bright said with their tongue in their cheek, and with the other eye on foreign Governments, became, a generation later, the simple faith of the whole nation.

So far I have dealt with two abstract assumptions of the Free Traders in which even staunch Tariff Reformers in this country are usually quite content to acquiesce, namely, that universal Free Trade would be a good thing for humanity at large, and that it would also necessarily be a good thing for any particular country. The first assumption is, as I have shown, in the highest degree doubtful; the second, I venture to say, is demonstrably absurd. But the Free Trade theory is far too bold to rest content with such comparatively mild assumptions as these. It

treats them as mere axioms hardly worth proving, and, going beyond them, is prepared to justify free imports as the best policy for a country which cannot secure Free Trade. And it is Free Imports, one-sided Free Trade, or whatever you like to call it, that we have in England to-day, and that, for the present, is approved of and extolled by a majority of the nation and a still greater majority of the economists. I have already quoted more than once from Mr. Armitage-Smith as a typical latter-day survival of the orthodox school. The character of his defence of free imports is fairly indicated in the following extract:

Great Britain gains by allowing foreign goods to enter without impediment, whether other nations copy her example or not. So long as Great Britain receives in return for her exports a quantity of desirable imports sufficient to cover the cost of production of her exports, she is a gainer by the trade, since she thus gets goods she requires at less cost than she could produce them herself. . . . Foreign tariffs may curtail her advantage but cannot destroy it, for if loss occurred trade would cease.

What does the argument in this passage amount to? Simply this: that the trade must be profitable and desirable because it exists, for if it were unprofitable it would cease. In its simple fatuity the argument is worthy of the best specimens of Dr. Pangloss. Nobody will dispute that there must be some element of profit somewhere if trade goes on at all. The question is, whether the system is more profitable than any other system either for the individuals or for the nation as a whole. Such trade as is carried on is presumably profitable to the individuals

concerned, at least compared with such other openings for trade as may be available under the conditions in force at the moment, but it is not necessarily the most profitable trade they might conceivably be engaged in. Still less does it follow that it is the most profitable trade for the nation, or, indeed, that it is of any profit to the nation whatever.

Mr. Armitage-Smith, it is true, in his charmingly naïve fashion, begs the question. "So long as Great Britain receives *desirable* imports . . . she is a gainer by the trade." But has he any right to beg the question? What valid ground has he for assuming that the imports in question are "desirable" from the point of view of Great Britain, or that she is a gainer by their introduction? Somebody or other in Great Britain no doubt considers them desirable, and is individually a gainer by his purchase, but that is an entirely different matter.

We come back once more to our old distinction. What is the individual's interest? It is the net profit of the trade in which he is concerned. Nothing else concerns him, neither the previous history of the goods he buys, nor the subsequent history of those he sells. The effects of his transaction upon industry at large or upon his fellow citizens have nothing to do with him. To quote List: "The trader will import poisons as readily as medicines; whether his importations give employment and subsistence to hundred thousands or throw them on the streets makes no difference to him."

The individual's profit has nothing to do with the national interest. The rate of private profit is no measure of the public gain, as for instance

in the case of a monopoly or a swindle. Indeed, when regarded from the national point of view private profit becomes merely an incentive to economic activity. Where the individual desire to make profit is an incentive to activity which is from the national point of view desirable it should be encouraged. Where, on the other hand, it is an incentive to activities that are undesirable from the public point of view, *e.g.*, highway robbery or the issuing of a fraudulent prospectus, it is better discouraged. And the question at issue is just whether the economic activities encouraged under a system of unrestricted and unregulated imports, coupled with the pressure of restrictions and regulations elsewhere, are or are not desirable from the public point of view and deserving of encouragement.

In what, on the other hand, does the national interest consist? It does not consist in the profits of individuals, nor, as I have shown earlier in the present address, in the volume of trade, internal or external. It consists in the total volume and efficiency of its production upon which the employment and well-being of the citizens depend, or, in other words, in the fullest development of all its resources, material and moral. What we have to consider, then, is to what extent that interest is affected by foreign trade. We shall not begin by assuming off-hand that foreign trade must be a benefit because it exists, but shall try and discover how and in what ways foreign trade may be beneficial or possibly even injurious to a nation.

I have already pointed out that the volume of foreign trade ~~depends entirely on its character~~ to the total production and consequent prosperity

has no hand in
whatsoever

of a country. What I now want to make clear is that the volume of foreign trade, whether export or import trade, affords no indication even of the desirability of that trade from the national point of view. There is no national advantage foreign trade bears no fixed relation whatever

Even from the individual point of view the advantage in trade does not consist in the actual process of exchange, or in the volume of goods exchanged, but in the circumstances preceding or following after the act of exchange: the previous exercise of a special skill or the enjoyment of special economic advantages on the part of the seller, in virtue of which he is able to make a profit, the subsequent utilisation of the article by the purchaser. Individuals do not exchange money for money, or boots for boots: there would be no advantage in such a transaction, however great its volume.

The same is true of the foreign trade of a nation regarded as a whole and from the national point of view, but that the national value of or disadvantage in foreign trade in the abstract, whether its volume be great or small. The advantage lies in the previous exercise of productive activity represented in the exports and in the opportunity for the future exercise of productive activity furnished by the imports. Or, to say the same thing somewhat differently, it is the employment represented in the exports, and the employment the imports are still capable of giving, that determine the national value of foreign trade. Conversely there is national loss when articles are exported upon which productive activity might still have been expended and employment given, or articles imported

which furnish no opportunity for further production or even displace and check production. In either case the national gain or loss bears no relation to the volume of the trade, but solely to the character of the articles in which that trade is conducted. It is not in the Custom-house returns or in the bank balances of the merchants that we must look for the national value of a country's foreign trade, but in the output of its factories and in their weekly pay-sheets.

To illustrate my meaning let us revert to our previous imaginary instance of the two adjoining islands. But in this case, instead of supposing them different, let us assume them to be exactly alike in every natural resource and equally developed agriculturally and industrially. Let us further assume each of them to be large enough to provide a market that will allow of production on an efficient scale. A comparatively low tariff will probably suffice to prevent practically any trade springing up between them. Now what will happen if all fiscal impediments between them are withdrawn? In all probability a very large volume of trade will develop between the adjacent portions of the two islands, determined not by differences in their products and aptitudes but simply by convenience of proximity and cheapness of freights. But there will be no substantial addition to the productive powers of either island, which are already fully engaged. The national gain from foreign trade in either island will therefore be measured not by the volume of the trade but purely by the marginal difference in the freights, a difference which may represent only the merest fraction of the gross value of the trade.

Now let us suppose sailors from these islands were to discover a more remote third island containing many natural resources either wholly lacking to the first two islands or at any rate present in them in smaller quantities than the abilities and energies of their people could work up. Further, suppose this island to be inhabited by people on a lower plane of industrial development, quite incapable of making the fullest use of those resources. A trade will naturally spring up between the third island and the first two, the inhabitants of the new island exchanging the raw materials they do not know how to utilise for the manufactured articles which they cannot make at all or else only at great cost. The gross value of the trade may not be very great. But the gain to the industrial islands will consist not in the value of that trade, but in the total addition to the national production made possible by the importation of an additional supply of raw materials, an addition which might be ten times the value of the raw materials at the port of entry. In fact the gain to the industrial islands would be practically equivalent to the complete annexation of the third island *minus* the actual price paid for the raw materials.

The third island, on the other hand, will gain by the trade in so far as the easy acquisition of manufactured goods and instruments of production will enable it to develop its internal resources further than it has hitherto done, and thus support a larger and more prosperous population on the basis of its existing primitive industries.

But let us suppose the third island to be

already developing all its primary resources, and utilising them industrially, though it may not yet have attained to the same level of industrial development as the other two. In that case Free Trade with the more industrial islands will destroy its industries without any compensating increase in the development of the more primary economic processes. The volume of foreign trade will then spell not gain but loss. The export of its wool, for instance, and the import of woollen cloth will mean for it one and the same thing, the throwing out of employment and eventual annihilation (not transference) of that part of its population which depended on spinning, weaving, and all the other processes attendant on the conversion of raw wool into cloth.

Dismissing the third island from our purview let us return once more to the first two, and let us suppose them to be in all other respects the same, but under different fiscal systems, the one free importing, the other with a tariff so framed as to exclude finished manufactures, but to let in raw materials, and with every form of Government encouragement, lowering of freights or even bounty, given to the export of manufactures. Industrial conditions being approximately equal, the Government assistance given to the manufacturers in the Protectionist island will enable them to beat the unaided manufacturers of the free importing State in their own market. As the goods of the latter cannot be sold in the Protectionist island, the conditions of the money market will tend to force the export from the free importing island of the raw materials, which alone its Protectionist neighbour

will accept. In other words the individual producer of raw materials will find it most profitable to send his goods abroad. A considerable trade, and one which for a long period may be a steadily growing one, will go on between the two countries. To the Protectionist State it will be a trade of great value in virtue of the raw materials its policy has managed to suck within its boundaries, and which it buys with its surplus manufactures. To the free importing State, on the other hand—as distinct from the individuals who carry on the trade—the trade will mean pure loss; it will have suffered by the artificial restrictions of its neighbour, and by its own neglect, in exactly the same fashion as if it had been on a lower stage of industrial development, and had been injured by open competition.

If the free-importing island now follows the example of its neighbour, and introduces a similar tariff system, its foreign trade will at once decline. But that decrease, so far from representing a national loss, will represent a national gain, for its industries will no longer be displaced, and the productive potentialities—the potential man-power and well-being—contained in its raw materials will no longer be sucked across into the territory of its neighbour.

I think these hypothetical instances of different types of foreign trade will be sufficient to bring out my general point that it is the character, and not the volume of trade that is important from the national point of view. I will now give one or two instances which may furnish some indication of the actual quantitative difference in value from the national point of view between equal volumes of foreign trade.

Take the case of an industry like the woollen industry. The raw wool goes through a series of processes, in each of which it is increased in value, the increase being represented in the employment and wages of the workers (using the word in the broadest sense) engaged in those processes. In the end the most highly finished article may represent a value five or ten times as great as that of the original raw material which enters into it.

Now let us consider a foreign trade on the part of an industrial nation, in which it imports £1,000,000 worth of raw wool, and exports £1,000,000 worth of fine woollen cloth. What is the national gain in the transaction? It is not in the volume of exports and imports added together. Nor is it in the exports alone. Our export, as Free Traders have often rightly pointed out, is in itself a loss, a sacrifice made to secure something more valuable. Nor is it in the money profits of the exporters and importers. But where it is to be found is in the productive process that takes place in the conversion of raw wool into cloth. The original £1,000,000 of wool is converted into, let us say, £5,000,000 of cloth. Of this £1,000,000 worth is exported in order to pay for the original raw material. It is the remainder, the £4,000,000 of woollen goods left for consumption in the country—or what is the same thing, but from a different point of view, the £4,000,000 worth of employment given by the full industrial utilisation of the raw wool—that constitutes the national gain, a gain in this case four times as great as the total export.

Let us next suppose the character of the

foreign trade in wool changed, its volume still remaining the same, and let the £1,000,000 of raw wool be purchased by the export of £1,000,000 worth of what are known as "tops," or wool that has passed through the first processes of cleansing and combing. I have not attempted to verify the actual figures, but I believe the additional value created, or employment given, in converting wool into tops is very small, something less than twenty per cent. of the original value of the wool. We then have £1,000,000 of wool converted into £1,200,000 of tops; of these £1,000,000 are sacrificed in order to pay for the wool, leaving only £200,000 of tops in the country. The national gain in this case consists in the £200,000 of tops, which, if fully utilised, would eventually be worked up into, let us say, £800,000 of woollen cloth and represent in all some £800,000 of employment and subsistence afforded to the workers of the country. With the same volume of foreign trade there is a national loss of over £3,000,000—a decrease of £3,000,000 in the national wages bill—consequent on the change in the character of the trade.

Now, in the absence of regulations to the contrary, such a change from a trade involving £4,000,000 of national gain to one involving only £800,000 might be brought about by the merest marginal difference in profit to the individual exporters in exporting tops rather than woollen cloth.

Take another pair of examples: let us suppose an import of £1,000,000 of iron and tin ore bought by £1,000,000 of finished tin plate. The national gain will be represented by the total

possible national utilisation of the ore still remaining in the country after providing for the necessary £1,000,000 worth of export, a matter of several millions at the least. Let the foreign trade in this case be converted into a trade of equal volume, but consisting of an import of £1,000,000 of "billets" (which, I believe, is the last stage of the metal preparatory to its being converted into sheets for tinning) and an export of £1,000,000 of "black sheets" *i.e.*, sheets which have not yet been tinned. I do not know the increase in value, or in other words the amount of employment, incidental to the conversion of billets into black sheets. But one thing is certain: it is only a fraction of the total increase or total employment represented in the conversion of the ore into the finished tin plates. A far greater proportion of the import is consequently sacrificed in the export. The residue available for the exercise of industrial activity within the country, the employment represented* in the whole process—in other words the national gain—are far less.

A more complicated pair of instances, but one illustrating the same principle, will be if we suppose a foreign trade consisting of an import of iron ore paid for by an export of highly finished iron goods to be changed into one consisting of an import of finished iron goods paid for by an export of coal, the coal being a native

* The employment furnished by the transaction is equal to the total value of the residue when fully worked up: the employment furnished by the part exported being represented in the value of the raw material still left in the country, which is, so to speak, the price of the labour and skill put into the export.

product of the industrial country in question. In the first case the amount of the imported ore and of the native coal represented in the exported goods is very small, and the whole of the rest is available for internal utilisation, to increase the total of employment and swell the sum of the national well-being. In the second case the whole of this employment and well-being is lost, the loss consisting both in the import of the finished goods as compared with the ore, and in the export of the coal as compared with the export of finished goods.

These instances will, I think, suffice to show that the national gain by foreign trade is not measured by the volume of that trade, and is not to be sought in the actual process of exchange, which is neither gain nor loss. It is measured by the economic activities stimulated by the exports, or furnished by the imports with their necessary basis of raw material. If that trade, on the other hand, results in a decrease of production, either actually, or relatively to the production, which would result if the character of the trade could be altered, then it is from the national point of view a losing trade, and the measure of the loss is the actual or relative decrease of production.

It must be remembered, however, that the gain or loss in foreign trade turns not only upon the character of the goods exported and imported, but upon their character relatively to the resources and aptitudes, actual and potential, of the particular country. In the instances just given I have supposed a country possessed of high industrial skill, but lacking raw materials. An industrial country possessed of boundless

sheep runs not utilised in any other way, would lose if it imported raw wool instead of devoting itself to sheep raising as well as to spinning and weaving. The same country, if the industrial aptitudes of its people are low, would probably be wiser if it exported its wool and bought its woollen cloth finished; the total population and well-being it could sustain by the exercise of the industry it is skilled in being greater than that which might be sustained by the attempt to practise an industry for which it has no aptitude and no reasonably near prospect of developing one.*

After all these hypothetical and abstract instances let us now come to the concrete practical case of England. Here we have a comparatively small country supporting a dense population mainly by industry, *i.e.*, by the working up of raw materials into finished articles of use. Originally enjoying the advantage of abundant raw materials and a sufficiency of food within itself for a smaller population, it has long ago ceased to be able to supply its total requirements of any raw material except coal, and as regards food is not only unable to meet its whole requirements, but does not even attempt to secure the full utilisation of its limited acreage. It is obvious that the existence and well-being of the population of England, and still more the pos-

* It is this necessary qualification that the Free Traders seized upon and made a cardinal principle of their theory of international trade. Their mistake lay in regarding human aptitudes as fixed and unchangeable instead of as the results of practice, and in supposing that the greatest total of population or well-being could be created in any one country by the exercise of one particular aptitude or the exploitation of one particular natural advantage.

sibility of a large increase of that population or a rise in its standard of well-being, depend directly upon the volume of its imports of raw materials, and upon the export of manufactured goods in sufficient quantity to purchase not only those raw materials but also the national requirements in the way of food-stuffs. In a country of this character any export of a raw material or an unfinished article, any import of a partially or wholly manufactured article, which can be made in the country, spells grave national loss, a loss measured not by the value of the articles imported or exported, but by the sacrifice of industrial possibilities involved.

This has always been realised whenever the economic problem has been seriously considered in England. In 1721 the King's speech at the opening of Parliament asserted it as an evident axiom that nothing contributed so much to the public welfare as the export of manufactures and the import of foreign raw materials. The whole object of Cobden and Bright was by one and the same operation of abolishing British tariffs to encourage the importation of raw materials and food-stuffs (which from the capitalist's point of view are, in a sense, raw materials too), and to create a wider market for their exports of manufactures. And for a good many years the results seemed fully to justify the method adopted to secure the object in question.

But is that object being secured to-day? The volume of our foreign trade, it is true, is still steadily increasing; even our exports, though they have increased less rapidly than our imports, are growing nevertheless. But the character of our trade is changing entirely. The pro-

portion of raw materials and partially finished goods has been steadily growing in our exports, the proportion of finished manufactured goods has been growing even more rapidly in our imports. In 1883 we imported £165,000,000 of raw materials and £53,000,000 of manufactured articles. In 1904 we imported £182,000,000 of raw materials and £135,000,000 of manufactures. In 1907, a year of great industrial activity and high prices for raw materials, we imported £241,600,000 of raw materials and £154,000,000 of manufactures. No figures could be more significant than those of our net export of manufactures during the last thirty years. By net export of manufactures I mean the excess of our manufactured exports and re-exports over our manufactured imports, which, apart from interest and freight earnings, constitutes our power of purchasing food and raw materials.

NET EXPORT OF MANUFACTURES.*

Period.	Average Annual Value. Million £.	Per 100 of Popula- tion. £.
1880-89	136·2	380
1881-90	138·0	381
1882-91	136·8	375
1883-92	133·7	375
1884-93	130·0	364
1885-94	126·3	351
1886-95	124·8	338
1887-96	123·8	331

* The above table is taken from Mr. Holt Schooling's "British Trade Book" (third issue, p. 104). In the table given in the first edition of the present work no allowance was made for re-exports of manufactures, but the table above gives a more correct account of the situation.

NET EXPORT OF MANUFACTURES—*continued.*

Period.	Average Annual Value, Million £.	Per 100 of Popula- tion, £.
1888—97 . .	121·0 . .	326.
1889—98 . .	117·7 . .	315
1890—99 . .	114·2 . .	304
1891—1900 . .	109·9 . .	292
1892—1901 . .	106·8 . .	279
1893—1902 . .	105·6 . .	268
1894—1903 . .	106·0 . .	263
1895—1904 . .	108·0 . .	264
1896—1905 . .	111·4 . .	270
1897—1906 . .	116·7 . .	279
1898—1907 . .	127·1 . .	301

These figures, striking as they are, hardly give the full measure of our industrial decline. They have been derived by subtracting the official totals of manufactured and partly manufactured imports from the similar exports and re-exports without any attempt to allow for the fact that our manufactured imports are tending to be more and more finished and our manufactured exports more and more partially finished. We import more woollen cloth and hosiery, we export more yarn and tops than we used to.

Meanwhile, between 1882 and 1902 the German net export of manufactures rose from £50,000,000 to £91,400,000, and stood at £143,900,000 in 1907. In the same period their import of raw material rose from £64,000,000 in 1882 to £128,000,000 in 1902, and £218,000,000 in 1907. In the case of France the net export of manufactures has risen from about £40,000,000 in the early eighties to over £60,000,000 (£67,400,000 in 1907), while in the same period the import of raw material has risen from £96,000,000 to

£114,000,000 (£155,000,000 in 1907). I have no American figures by me, but even in that country, where foreign trade plays so small a part in the whole, the manufactured exports have increased, the manufactured imports have decreased, the imports of raw materials have increased very largely.

To what conclusion do these figures, on the face of them, lead us? Following the argument which I have been developing at such length, we should be almost bound to conclude from these figures alone, and in the absence of all corroboration, that the productive power of these other countries had grown much more rapidly than ours. They have been steadily increasing their import of the raw materials by which industry is sustained and on which an industrial population lives, and diminishing the proportion of raw materials they have had to sacrifice in their export in order to secure these life-giving imports. We have been importing more and more articles the industrial nourishment in which has already been exhausted by the process of manufacture, and exporting a larger proportion of articles before their complete industrial utilisation. It only stands to reason that our industrial organism cannot have developed as rapidly or as vigorously as theirs.

What are the facts as far as they can be ascertained? Thirty years ago we produced more iron, more steel, more machinery, more wool, more cotton, in fact more manufactured goods of every kind than any other country in the world, and in most of these great staple industries more than any other two countries combined. We employed more men and paid a larger total of wages. To-day there is not a single one of the

great industries—except shipping—in which we stand at the head of the list, and more than one in which we are not even second. Our birth-rate has been steadily declining during the same period. The German birth-rate has increased enormously, the great volume of German emigration has actually been converted into an immigration; and yet in spite of the annual increase of the German population by a million souls the average well-being of the individual German has gone up much more rapidly than that of the individual Englishman, though beginning at a considerably lower level.

I think these facts more than bear out the conclusion indicated by the change in the character of the foreign trade of the two countries. The question is how are the two factors, the change in the character of the trade and the change in industrial power connected with each other? Is the increase in German production the result of the change in the character of Germany's foreign trade, or is the changed character of that trade merely a reflection of Germany's growing prosperity? Is the change in England's foreign trade the evidence of our relative industrial weakness, or has it helped to bring about that weakness?

We Tariff Reformers hold that the increase of Germany's productive power, the increase of her population, the growth of her well-being, are very largely the direct result of her deliberate regulation of her foreign trade with a view to the strengthening of her productive powers. The Free Traders say, on the contrary, that the result, namely the increased production and its reflection in the character of her foreign trade, has come

about in spite of her efforts to interfere with trade. The logical conclusion of their argument is that *in spite* of the restrictions placed by German tariffs on the import of manufactures the proportion of manufactures imported into Germany has decreased, and that *in spite* of the encouragement given to raw materials, the proportion of raw materials has increased! So, too, the Free Traders say that our relative industrial decline is in spite of the advantage conferred upon us by unrestricted imports; in other words, in spite of the fact that the individual in England is allowed to buy foreign articles which are not conducive to the national prosperity just as easily, if he can make a small personal profit, as foreign articles which do conduce to that prosperity, he is going on buying the former in ever larger quantities! We say that it is just because there is no attempt in this country to regulate the play of private interest in foreign trade, in order to make it conform with the national interest, that that play of private interest is in fact determined by the national regulations of other countries, and determined in a fashion prejudicial to our national interest and prosperity.

A great part of England's foreign trade, I maintain, so far from being a benefit, is a terrible drain upon our national industrial vitality. How great a drain I do not think even the extremest Tariff Reformers have any idea. A few of our extremists think it a bold thing if, assuming that at least £100,000,000 of the £150,000,000 of our manufactured imports could be made equally well in this country, they venture to assert that we are losing £100,000,000 a year. From what

I have, I hope, made clear to you, the measure of our national loss is to be sought, not in the value of the manufactured goods imported, but in the total value of the manufactures which might have been made in England with the raw material which those manufactured imports have displaced. To form even the roughest estimate of this total would be a very difficult task. My own conviction is that if I put it at twice the value of the raw materials, and consequently estimate our national loss by that part of our foreign trade to-day at £200,000,000 a year, I shall be anything but exaggerating.

That loss, I claim, is not irretrievable. We can still make it good; not at once perhaps, but in the course of comparatively few years. We can never hope to recover for England, for these islands alone, the extraordinary supremacy she once enjoyed; but we can add enormously to her actual prosperity and check her relative decline. And in the British Empire we still have possibilities of an economic expansion to which even the vast development of the United States can furnish only a very inadequate parallel.

The only effective way to achieve our end is to regulate the trade of the Empire and of this country in such a fashion that the interest of the individual buyer or seller shall be made to correspond with the national and imperial interest. By such regulation of trade the manufacturing industry—the industrial population of England—was created in the past; by such regulation other countries, America, Germany, Japan, are building up vast industries, and breeding great armies of citizens for the economic and political struggle of the future. History is all in favour

of our contention, as I hope to show next time. And if there is anything at all in the abstract analysis I have attempted to give you of the real effect of foreign trade upon national production, as contrasted with the shallow current assumptions of Free Trade professors, then correct theory is on our side also.

So far, you may have observed, I have said nothing about the balance of trade. The phrase is one which is often in the mouth of Free Traders. It is generally coupled by them with some suggestion to the effect that Tariff Reformers are so woefully ignorant of the very elements of economics as not even to know that exports and imports must balance, that international trade is in goods and services and not in money, that imports create exports, that a reduction of imports means a reduction of exports, &c.

The practical deductions they draw from these truisms for controversial purposes are, firstly, that as our trade must balance there can be nothing wrong with it as long as there is plenty of it; and, secondly, that any attempt to restrict our imports by a tariff will consequently check our exports, with the result that our industries would lose as much in the export trade as they might gain in the home market, while there would be no gain to compensate for the dislocation of trade or the rise in prices.

As a matter of fact I believe we are most of us not altogether ignorant of the elementary superficial mechanism of international trade. But we do not see how our argument is in any way affected in consequence. A correct statement of any country's imports and exports, direct and

indirect, should always be made out to balance on both sides of the account, like a company report or one's own pass-book at the bank. But a mere formal balance is no proof in itself of either national or private business being in a satisfactory condition. It is the character and composition of the two sides of the account that alone can indicate how the business is progressing.

It is also, no doubt, true that the bulk of international trade is in goods, and that our import of goods, as soon as it has produced a certain effect upon the international money market, tends to create a consequent export of goods. But an export of goods is not necessarily an export of manufactured goods. It would, no doubt, in our case, normally tend to be an export of manufactures. But that tendency can be most effectively counteracted by another country's tariffs, with the result that the tendency will be to export other goods, the result of whose exportation need by no means involve any great stimulation of production or increase of wages in this country. There is no great industrial activity stimulated in the export of woollen "tops" to Germany, or of an Old Master to America, that would compensate for the displacement of a skilled productive industry by foreign imports.

Again, we are quite prepared to admit that if a tariff were to succeed in reducing the volume of our imports, it would tend to reduce our exports. That would not in itself, necessarily, be a bad thing. The national value of our trade depending, not on its volume, but on its character, a tariff which reduced our import of manufactured goods and checked our export of semi-manufactured goods and raw material would still

be beneficial, even if it involved a reduction in the total volume of trade. A stoppage of the importation of German woollen goods into England, resulting in a consequent stoppage of the export of English tops and yarn to Germany, would mean a transference of industry, of employment and wages to England from Germany, and, consequently, a national gain, however great the reduction in the volume of trade between the two countries.

As a matter of fact, however, nothing that we Tariff Reformers propose is likely to reduce the volume of our imports and, consequently, of our total trade. All that we propose is a tariff designed to change the character of our imports and exports in order to increase the volume of our home production. The object of our tariff is selection, not exclusion. It will be framed to check the import of those manufactured goods which displace home industry, in order to stimulate and increase the import of those raw materials which are the life and sustenance of our home industry. Indeed, by the very laws of international exchange which Free Traders invoke so freely and, as a rule, so unintelligently, the checking of a particular class of imports is bound to result in the stimulation of those imports on which no restriction is placed.

The idea that a restriction of one class of imports must necessarily involve a reduction of imports as a whole, and consequently of exports as a whole, is based on a misapprehension of the meaning of the phrase that imports create exports. Free Traders habitually use the phrase as if it meant that the imports were the actual cause and origin of the exports, while the exports were

a mere consequence and nothing more. From that assumption, it is true, it would follow that a restriction of any one import would lead to a restriction of the total of exports, and that, therefore, the only rule is to "look after the imports and the exports will take care of themselves." Unfortunately, the assumption, though often treated as one of the eternal verities of economics, is a mere absurdity. How absurd it is we can realise at once if we remember that the same transaction which is the import of one country is the export of another. If it were true that our imports from Germany were the actual cause of our exports to Germany, then from the German point of view it would be the case that the German exports to England created the German imports from England, and the "law" about imports causing exports would not be valid in Germany. An "eternal verity" which only flourishes on English soil, and ceases to hold good in Germany, is to my mind a very suspicious object.

The truth is, that the phrase about imports creating exports has only a meaning as a corrective to the equally one-sided and incorrect assertion that exports create imports. Imports and exports are connected through the economic stresses set up in the international money market whenever an increase or decrease of either of them seriously disturbs the normal balance. But the stresses act both ways, as it were. A sudden increase in a particular export not only sets up a tendency to increase imports, but also a tendency to diminish other exports. A decrease of a particular import not only sets up a tendency to check exports, but also a tendency to stimulate

other imports. Which of the two tendencies will predominate depends entirely upon the conditions of supply and demand, which are the real factors which decide international trade or any other trade.*

In the particular case of a tariff which is designed to restrict the import of finished manufactures, leaving free the import of raw materials and food-stuffs the purely money-market stresses might equally act in the direction of checking exports and of stimulating the import of raw materials and food-stuffs. But the restriction on the import of manufactures does not do away with the home demand for those manufactures. That demand is met by home production, and that home production forthwith sets up a direct demand for an increased supply of raw materials. But that home production also does another thing. It creates an additional demand, on the part of the persons employed in that production,† firstly for food-stuffs, and secondly for manu-

* I have left out of account here the stresses set up in the freight market. Except for the fact that these affect the bulk rather than the value of our imports and exports, they act similarly to the money market stresses, i.e., a reduction of one import will tend both to lower freights for other imports, if procurable, or to raise freights for exports.

† In the long run there will be a purely additional population created by the new industry. (See pp. 31-35.) But the demand will begin to take effect almost from the first. The workmen engaged in the new industry, coming from the ranks of the less well employed, will, by reason of their better employment, be able to exercise a larger demand than they otherwise would have, and have larger families; the removal of their competition from other branches of industry will tend to raise wages, multiply families, and generally increase the demand of the country as a whole.

factured articles, which latter, being met by home production, owing to the restriction of the tariff, resolves itself into a further direct demand for raw materials, and an additional series of demands for food and manufactures, and so on, practically the only limit to these demands being the amount of raw materials and food-stuffs which the exports can purchase. With all these demands reinforcing the money-market stress in the direction of stimulating the import of food and raw material, there can be hardly a doubt that the result of a tariff on manufactures will be not to diminish imports but to increase those imports which provide life and sustenance alike to our industries and to our people.

I have already given figures showing that the import of raw materials on the part of our chief industrial and political rivals has increased much faster than our own. I think I have now given sufficiently good reasons for holding that that faster increase was not in spite, but because of the tariffs framed with the intention of bringing it about. I should only like to add just one instance, where the results I have indicated as likely to flow from a general tariff on manufactured goods in this country have actually followed the imposition of such a tariff in the case of a particular industry. The imposition of a differential duty upon "stripped," *i.e.*, partially manufactured tobacco, as against "unstripped," by the late Government ought, upon the Free Trade argument, to have checked importation generally, and consequently injured our export trade. What actually happened was that the import of stripped tobacco decreased, but that of the raw material, unstripped tobacco, increased.

There was no general decrease of the volume of trade, but only an alteration in its character. And what was the result of this alteration? The additional employment of several thousand persons in the stripping industry of this country, However, the Government of this country, in its zeal for the purity of Free Trade, decided to reverse the process and to throw these people out of work. Mr. Asquith frankly admitted that this was so. His answer in the House of Commons* was a delightful example of unintelligent Free Trade bigotry:

It is no doubt true that the effect of the additional duty on stripped tobacco, as of other protective duties, has been to create additional employment in a particular trade, but I cannot for that reason countenance the continuance of what I regard as a mischievous economic experiment.

Mr. Asquith's implication clearly was, that the gain to the particular industry in question had been at the expense of other industries. But what other industries? The exporting industries did not suffer by any reduction in the total imports. What industries did these people desert? They could not have deliberately deserted more highly paid industries. If on the other hand they came from the lower paid industries, and still more from the ranks of unskilled and casually employed labour, as I believe they did come, where was the mischief in the experiment? Or dare we say, in the face of Mr. Asquith and the professors, but with the facts on our side, that the experiment was not mischievous but beneficent, that it was giving steady employment

* May 18, 1906.

to thousands, and by so doing was relieving the problem of the unemployed, saving many from becoming unemployable, and helping to keep up the standard of wages throughout the country? And if so what shall we say of the arid bigotry which, by a stroke of the pen, sent these thousands out upon the streets again?

The actual figures illustrate the process very clearly. The rapid increase in the importation of unstripped tobacco following the raising of the duty on stripped tobacco, and the decrease following the levelling of the duty, prove incontestably that the effect of the differential duty was to change the character and not to diminish the total volume of our tobacco imports.

	Stripped.	Unstripped.
1902 . .	98,276,898 lbs.	27,676,407 lbs.
1903 . .	53,478,338 "	30,029,913 "
1904 . .	30,684,222 "	75,716,995 "
1905 . .	11,250,530 "	71,860,331 "
1906 . .	21,143,457 "	94,270,515 "
1907 . .	48,850,059 "	49,833,103 "

So far from diminishing the total volume of our imports and therefore of our exports, I myself believe that a tariff will in the long run increase the volume of our exports and improve their character, and consequently increase the volume of our imports as well. When we buy German finished woollen goods we not only displace a part of our home industry, reducing the productive efficiency of what is left, but we also diminish our demand for raw wool, and our power of purchasing it on the best terms. Further, we produce certain corresponding results in Germany. We increase the German demand

for the raw material and give Germany the advantage which the larger buyer has in the market. We increase the total output of the German factories, and in that way, too, diminish the costs of production in Germany. We thus add to Germany's competitive efficiency in every other market and in our own home market. By excluding the German woollen goods we should increase our demand for wool, and would thus be likely to get it on better terms. We should increase the total output of our factories and in virtue of that, too, would be able to produce more cheaply. We should at the same time reduce Germany's buying power in the wool-market, and lower her productive efficiency. We should thus be enabled to undersell German goods in the neutral markets, and, as far as Germany's tariff permitted, even in the German market, as well as keep our home market. Our total volume of exports might thus go up enormously, with the consequent result of a still greater import of food and raw materials, a continuous growth of our home industry, and a steady rise in the numbers and well-being of our population. Our export to Germany of tops and yarns, and to some extent of coal, would decrease, but considering the character of that export, the decrease would be pure gain, the materials in question being absorbed in our growing home production, and eventually exported in a more finished form after having provided more employment to the people of this country.

Compared with the present state of affairs a tariff on imported manufactures would thus, by improving the character of our foreign trade, enormously increase the volume of our home pro-

duction, and, as a consequence, increase the volume of our foreign trade as well. At the same time the effect of a tariff in this country is limited by certain considerations. It can improve the export trade of this country only in so far as that export is not checked by the tariffs of others. The steady rise of foreign tariffs, and the gradual inclusion in the tariff areas of regions from which we draw our raw materials, threatens not only our exports of manufactures, but also our imports of raw materials, and with them the whole subsistence of our people. A British tariff against foreign cotton goods will, other things remaining the same, stimulate our purchase of raw cotton and improve our position as buyers and exporters. But a rise of tariffs in China and Japan, coupled with the growth of native industries in those countries, or the inclusion of the Philippines in the American protective area, are typical instances of counteracting causes which would check the improvement in the export. The growth of the American cotton industry, and the possibility of an American export duty on raw cotton, indicate the dangers to our import of the raw material which no English tariff alone can check.

Against that danger—a certain and not a problematical danger—the only safeguard lies in the development of the market for our exports in the British Empire, and in the development of the natural resources for the supply of food-stuffs and raw materials within the same vast area. The economic development of England is absolutely bound up with the economic development of the Empire, and with the maintenance of the economic unity of the Empire. That economic

unity need not involve complete internal Free Trade; I have already given reasons to show that a *Zollverein* on the German or American model would not be desirable to-day, even if it might become so in the course of future development. But it must involve unity as against the outside world: mutual economic co-operation of each part for the development and welfare of the whole. To that development it would be difficult to assign any limits, and upon that development as a basis the social reformer can remodel and build up the structure of society towards his ideals without fearing that his foundations will give way as he builds, and his effort fail of achievement.

It is from the social reformers, indeed, that we meet with another class of objections to Tariff Reform, based partly on pure sentiment, partly on sentiment reinforced by economic fallacies. The commonest form of objection of this class, is that a tariff may increase the total of production, but that it will only benefit the producers at the cost of the consumers owing to the increase in the price of everything.

As a matter of fact a tariff need not involve a rise in prices, and may result in a fall. Take first the case of manufactured goods. Their cost is determined by the cost of the raw materials, the efficiency of the labour and direction, and the volume of production. I think I have made it sufficiently clear that a tariff on manufactured goods is likely, as far as it goes, both to cheapen the raw materials, and to increase the volume of production. The only increase in price would therefore result from the inefficiency of our labour and direction. But I do not believe that

they are less efficient than the labour and direction of other countries, but, on the contrary, more efficient, if only they are given favourable conditions. Even Adam Smith has acknowledged that a protective tariff may result in cheapening production. And if we look back to history, we find that manufactured goods were cheaper in England than in any other country at a time when our tariffs were, perhaps, the highest in Europe.

As regards food-stuffs the notion that Imperial Preference will raise their cost is due to the purely fallacious assumption that a duty raises the cost irrespectively of the volume of production not affected by the duty. Price is determined by supply and demand, and a duty can only affect it in so far as the untaxed supply does not meet the demand. The American duty on foreign wheat does not make wheat *pro tanto* dearer in the United States than here. How could it, seeing that it is the same wheat that is sold here after bearing the cost of transportation? A duty, however high, on foreign coal would not affect coal prices in England because our home production meets all our needs. A preferential duty on such food-stuffs as the Empire can grow in quantities sufficient to meet its wants and under favourable conditions will not raise prices, but on the contrary, by increasing the world's total supply, cause prices to fall.

To this reply as to the question of prices the objectors usually retort with the argument that even if prices ought to fall they will be raised by combination between producers, by "rings" and "trusts." All that I can say is, that combination is a feature of modern industry that is not done

away with by free imports. Only, in a free importing country, the combination is usually outside its territories. The profits made by the combination are not amenable to its taxation; the methods it employs in its production, the treatment it gives to its employes, are not within its jurisdiction. The Beef Trust would be a very different thing if Chicago were under the jurisdiction of the British Parliament. Again, admitting that a system of high protection in England might encourage the formation of trusts, Imperial Preference, by stimulating production in every part of the Empire, would effectively counteract the possible evils of insular protection.

The argument about producers and consumers is one of those childish fallacies which it is amazing to find repeated, unquestioningly and unthinkingly, by one generation of economists after another. Here it is, in all its crudity, in Mr. Armitage-Smith: "The consumers are the more numerous body, seeing they comprise all, and their interests considerably outnumber those of any group of producers who desire to foster their industry at the expense of the community." The fallacy, in this case, is simply part of the general individualist fallacy which looks at men individually without regard to their relations to other members of the community. It is only by taking individuals separately, and entirely ignoring their position in society, that we can arrive at the conclusion that the consumers are "the more numerous body, and that their interests outnumber" those of the producers. The moment we consider the relations of individuals to each other and to society we see that there are

no consumers who are not dependent upon some producer or body of producers for their welfare, and whose interests are not indissolubly bound up with those of the producers in question. Can the interests of wives and children, widows and orphans, be separated from those of husbands and fathers? Can the interests of shareholders or of clerks be divorced from that of the industries from which, directly or indirectly, they get a living? Can the nation, as a whole, consume unless it produces? And is there any other way of increasing the national consumption than that of increasing the national production? To make sure of the national production should be the first care of the social reformer before he sets about to consider the distribution of that production among the consumers, unless he wishes to be left with nothing to distribute.

There is one aspect of trade, lastly, which I wish to touch on briefly before concluding. That is, the aspect of national security. I have already shown that the importation of raw materials and exportation of manufactures upon which the population of these islands depends for its existence is liable to interruption by the tariff regulations of other countries, and have indicated that the only safeguard against such interruption lies in the national co-operation of Imperial Preference. But there is another interruption that I have not yet referred to—the interruption of war. Free Trade is based upon the assumption of perpetual peace, an assumption about as wise as the assumption of perpetual sunshine. No system which involves a complete dislocation of the national industries in consequence of war, which enfeebles a nation's diplomacy and en-

courages the aggressiveness of rivals by a knowledge of that weakness, can be a permanent national benefit even if it were beneficial from the purely commercial point of view.

Free Traders in their zeal to extend the great principle of division of labour to industrial intercourse forget that even in private industry that division is only effective when it is combined with co-operation towards a single object and under a single control. The constant tendency of every great business is to get the whole of the industrial process under its own control. That is the only way for the producer to protect himself against fluctuations in prices and against the manœuvres of his rivals. But what is a necessary precaution in the case of private industry, sheltered to some extent by law from certain forms of competition, is even more necessary for nations which acknowledge no central authority and no law save that of the stronger.

That economics can in practice be divorced from politics as a whole is, indeed, a cardinal fallacy of Free Trade thought, or, rather, of that still wider habit of mind which for the last two generations has pervaded the whole theory and practice of English administration in every branch of life, the habit of regarding things in compartments without any regard to their interaction. We have come across not a few instances of this bent of mind in the theoretical discussion of Free Trade. The individualist fallacy, the "imports create exports" fallacy, the "consumers and producers" fallacy, are all typical of the easy and short-sighted habit of analysing things *in vacuo* without regard to their relations. But we find it in a wider sphere in the neglect

to consider the interaction of foreign trade and social reform, of economics and defence, of foreign policy and military organisation, of the political and economic activities of one part of the Empire and the rest. In fact, the whole Empire as it stands, unorganised, undeveloped, congested in one part, unpeopled in another, over-defended here, defenceless there, is but the outward expression of the narrowness of thought, the lack of imagination, the formula-loving mental idleness that have dominated us so long. The Empire of our ideal, the vision of our waking dream, will not come without a change in our minds and in our wills. We must be ready to act, instead of hugging the plausible fallacies which would justify inaction. We must think of things as a whole, and as a living whole, however hard the task, and however strong the temptation to surrender to the seeming clearness and logical accuracy of lifeless and meaningless abstractions.

FREE TRADE PSYCHOLOGY AND FREE TRADE HISTORY.

In the first address of the present series I set forth by expressing the view that Free Trade was based on unsound logic, on false verbal analogies, on an entire misconception of the structure of human society and of the nature of man, and on a complete disregard of the teachings of history. So far, I have, in the main, confined myself to the logical and verbal fallacies whose origin lies in the failure to distinguish between the actions and interests of a human society, whether great or small, and those of its component members; or, to put it another way, in the assumption that a nation, or any other form of human society, is a mere aggregate of unrelated individuals, and not a dynamic complex. I showed first of all that the broad general principle of *laissez faire* depended entirely upon this assumption. In the second address I tried to bring out to what an extent the whole orthodox theory of production is vitiated by this same fallacy, a fallacy largely imported into the argument by the misleading and confusing use of the term Capital. I showed that the main argument of the orthodox school against Protection, namely, that it simply diverts capital from its natural channels to less profitable employments

and cannot create it, is based on the failure to recognise that the real capital of a nation consists not in money or in stored up material goods, as is the case with the capital of the individual, but in the energies and character of its citizens and in its national organisation, and that these can undoubtedly be affected or stimulated by legislation. Finally, last time I showed how the same false analogy from the interests of the individual to those of the community inspired the whole orthodox conception of trade as the national object. The real national object, as I endeavoured to make clear, is not trade, but production. Trade may stimulate production by means of the division of labour, but, as I pointed out in my analysis, the volume of trade, more especially the volume of foreign trade, bears no relation whatever to the total national production or to the national well-being dependent upon it. The national interest in foreign trade lies not in the volume of that trade, but wholly in its character as providing sustenance for industry or opportunity for employment.

In concluding the series to-day I propose to leave the logical and structural side of the case against Free Trade, to which I have hitherto confined myself, and to deal very summarily with the more concrete topic of the Free Traders' misconception of human nature and their entire neglect of history.

The importance of psychology in the orthodox economics lies in the fact that the basis upon which it is founded is largely subjective and not objective. Not only does the orthodox school confine its analysis of economic processes mainly to the individual aspect of those processes, but

it usually endeavours to analyse them, not from the point of view of the scientific bystander and examiner, but from the point of view of the actor in the process himself. In other words, it tries to found its conclusions not so much upon the actions of individuals as upon the motives which underlie those actions, and upon the character of the actors. In practical life, where the knowledge of individuals and their characteristics is possible, and the divination of motives must come into play, the subjective method has its value. But it becomes extremely dangerous when the attempt is made to use it in order to arrive at general or abstract conclusions. Science is objective: it deals with phenomena, with what actually happens, not with the emotions or intentions which we may try and read into those phenomena. Primitive man explains almost everything subjectively. Every natural phenomenon to him is the expression of some personality or emotion. Fire consumes objects because it is hungry; the sky is overclouded when it is angry; earth and sea and sky and all that they comprise are persons to be understood, and, if possible, propitiated. There is an element of metaphysical truth in the primitive point of view, but it is inconsistent with scientific method. But scientific method is the same whatever it deals with. It is no more concerned with human motives and feelings when investigating social processes, than it is concerned with the motives of the cholera bacillus when investigating the circumstances of that particular disease. The attempt to build up a system of economics on the motives and appetites of real or imaginary persons belongs, in essence, to the same primitive pre-scientific

form of thought as the attempt to explain the process of combustion by the motives and appetites of fire.

But allowing that the methods of the classical school are, in a sense, pre-scientific, they need not, therefore, be wholly valueless. Admitting that the subjective method is not the best for arriving at objective, positive conclusions, there is still all the difference in the world between conclusions founded on careless, inaccurate psychology and conclusions founded on good psychology. So dismissing our criticism of the subjective method generally, let us follow the Free Traders on their own lines and examine the subjective or psychological foundation on which their whole superstructure of economics is built up. I have already remarked often enough that their analysis dealt in the main with the individual. But the individual they dealt with was not a concrete person but an abstraction, an abstraction, moreover, not of all the qualities and emotions that animate human beings, but of one set of qualities and emotions only—the strictly economic ones. This abstraction of a particular set of characteristics was to some extent necessary, but it introduced all the danger and weakness inherent in the process of thinking in compartments.

This weakness was fastened upon from the very first by those thinkers who, like Ruskin and Carlyle, felt, with a sure intuition, that an economic theory which could propound, in so apparently convincing a fashion, such preposterously false and immoral conclusions on social relations as those of the earlier Free Traders, must be based on a false foundation. They con-

tended that the "economic man" was not a human being at all, that no such being did or could exist, and that a science which was built upon the sordid foundation of a creature that lived for gain alone, a creature devoid of the ordinary human feelings, and unsusceptible to the social, moral and æsthetic influences that direct men's lives, could only lead to sordid and false conclusions. It was this conception of the "economic man" and the doctrines flowing from it—the reduction of mankind to the level of pigs intent only on nosing for the maximum of hog's-wash in the universal swine's trough of material goods—that Carlyle derided so fiercely in his "Pig Propositions."

The criticism of the idealists was true in substance, but to some extent it failed of its effect because it was framed in a fashion that admitted of an easy retort, and was based on no effective alternative economic theory. Economists could always reply that they were considering man purely from an economic view, because they only wished to arrive at economic conclusions, and that it was quite open to any one to reject their conclusions on moral or æsthetic grounds if they wished, as long as they understood clearly what they were doing. Many of the reforms, indeed, that were introduced during the last century were justified on the grounds that they were politically or morally necessary, though not strictly defensible from the point of view of economics. The real fact, however, was that they were, in the main, economically sound, and that much greater progress might have been made if the reformers had begun, not by denouncing the immoral conclusions of economics, but by

showing the inaccuracy and inconclusiveness of the economists on purely economic grounds.

Even from the standpoint of the classical economists, dismissing all consideration of the economic bearing of the various motives that influence man in his social relations and confining ourselves strictly to the more narrowly economic motives and qualities, it is still open to us to point out that their economic abstraction was a faulty one, that their "economic man" was an entirely untrue picture of human economic qualities in the abstract.

To begin with, the economic man of Free Trade theory was only a very partial abstraction, and to a very large extent a particular type, and even an idealized type. Instead of being colourless and abstract as he ought to have been, his attributes were all tinged with the prepossessions, local associations, and political prejudices of those who framed and expounded the theory. He was not merely negatively purged of all such human emotions as might interfere with the constant pursuit of gain, but in that pursuit he was presumed to be endowed with supreme efficiency. *Ex hypothesi* he never got the worst of a bargain. Thrifty, enterprising, always ready to take up any new trade or new idea that offered a chance of increased profits, he was the abstraction not so much of mankind in general as of a comparatively small business community in England and of, at that time, still smaller similar communities in other countries. To put it in another way, the Manchester school practically pre-supposed all humanity to be composed of Manchester men. There was one exception, however, to the rule. The moment the individual

was considered as a ruler or statesman he was presumed to be endowed with supreme economic ignorance and inefficiency. Need we wonder that a theory based on the supposition that the individual man normally possesses and exercises all the qualities of one of the late Mr. Samuel Smiles's heroes, and that the State, on the other hand, is necessarily composed of incompetent and meddling representatives of the squirearchy, inevitably led to the conclusion that State interference can only be harmful to industry?

The real "economic man" is a very different thing from the "economic man" in the orthodox presentment. The economic man the Free Traders assumed as normal was really a highly artificial product, the result of centuries of industrial development, a creature only possible in a highly organised community. Man by nature is not economically efficient. The natural economic man is neither industrious, nor thrifty, nor enterprising. It is at least as true to say that he is the creature of custom, shy of change, averse to venturing on any new enterprise, or to modifying his ways of life. Industry, perseverance, thrift, enterprise, these are not natural but highly artificial and rapidly evanescent economic qualities that only flourish in a prepared and favourable soil. It is true that the Free Traders realised vaguely that mankind in other countries or in past times had not been like the men of Manchester. But they explained the difference conveniently by attributing it to the repressive sway of customs and restrictions, which only required to be swept away for the natural economic tendencies of man to assert themselves.

According to the Free Trade theory all advance is the result of individual effort; the actions of government, or the restrictions of custom, only hamper the march of progress. The whole lesson of history is entirely the other way. Man has progressed, not by being left to his own enlightened self-interest, but by the compulsion and interference of his fellow men. Human existence itself is based upon the compulsion of nature. Human progress has always been determined by the compulsion exercised by the stronger over the weaker. For the purposes of my argument it matters little whether that compulsion has been merely physical, or has enjoyed the sanction of political or religious or parental authority, or has been based on purely personal influence, persuasiveness, or moral earnestness; whether that power has been exercised for purely selfish or for unselfish ends. Necessity is the mother of invention even more when the necessity is applied by one man to others than when it is applied by indiscriminating nature. The kicks and blows of the primitive husband played no small part in contributing to the development of the domestic industries. Slavery, to a very large extent, was the mainspring of ancient civilisation. Modern capitalist organisation of industry possesses many of the features of a veiled and impersonal slavery, as the socialists are never tired of pointing out. That is strictly true, but any system which takes its place will have to find some equivalent power of compulsion if it wishes to avoid stagnation and decay.

In the march of progress the legislator and ruler—the individual endowed with authority and power—has throughout played the most pro-

minent part. There is more sound economics in ancient legend and mythology, in the tales of Lycurgus and Solon, in the story of Osiris or of Demeter, who taught men the arts of agriculture, of Prometheus who brought down the fire from heaven, than in all the writings of the *laissez faire* school. The legislator does not apply the mere crude compulsion of nature or the selfish interest of a master, but employs skilful devices towards the attainment of definite ends. He deliberately shapes his necessity to become the mother of the invention he desires. Often, no doubt, the authority has been used selfishly; the ruler has looked to his own immediate interest, or that of a small class, and not to that of the community as a whole. Yet from the first the belief that the duty of the ruler is to consult the welfare of the ruled has been held up as an ideal under every form of government, while free government, whose essence lies in the consent of the ruled, prevents that ideal being deliberately and avowedly disregarded. This is not the occasion to enter into a general discussion of the influence of legislation and regulation on human progress. For the moment our concern is with one particular form of economic regulation.

Of the various forms of compulsion or persuasion which the State can exercise in order to stimulate the economic activities of its citizens, one that gradually emerged during the middle ages, almost accidentally as the result of the necessity of finding revenue, was the tariff or duty. Whether the credit of that great and beneficent invention of statecraft belongs to England I do not know. England certainly was the country that first developed it with courage

and consistency, and no country ever carried the conscious deliberate use of tariff legislation to such a pitch.

A tariff is simply a means of using the revenue in such a fashion as to put pressure upon the people of a country in order to make them develop a certain industry. It is not in its essence a tax, so much as a law fining any citizen who, by using the foreign article, attempts to frustrate the object of the law. It is conversely a premium and encouragement to any one who is ready to undertake the industry in question, whether he be a native or a foreigner who may be induced by the tariff to come into the country and there set up his skill and impart it to others. If the natural and national conditions are present the result is almost bound to be successful, and success means an enormous addition to the national capital, that capital which consists in the living skill and energy of the citizens. On the other hand the conditions may be present, but as long as the individual citizen is allowed to consult his momentary convenience and interest, the skill which is required to make use of these conditions and develop the national resources—a skill born of practice and usually of compulsion—can never come into existence, or, if it exists, may easily be neglected and be lost altogether.

Let us take a parallel from the field of education. The average boys in a school are probably all capable by nature of becoming more or less tolerable mathematicians or linguists. But they will never become so if they are not compelled to learn. If they are all allowed to make free use of "cribs" for their translations and "keys"

for their sums, we may be sure that in that school there will be no great progress of learning. Now the Free Trade argument would say: "Let the boys crib, they will thus get the greatest result with the least expenditure of mental energy, and have more mental energy left over for those intellectual pursuits which specially appeal to them, or for which they are specially qualified. By making a boy work out a sum for himself when he can, with so much less effort, get the answer from a key, the schoolmaster is interfering with the boy's use of his brain, with regard to which he is presumably best able to judge for himself, and is diverting the boy's mental capital from the more profitable pursuit in which he would otherwise have engaged it." The argument sounds absurd, but it is not a whit more absurd, really, than the ordinary Free Trade argument that by putting compulsion on a nation to exercise a skilled industry itself, instead of merely purchasing the results of that industry, you are interfering with private business and diverting capital from more profitable to less profitable channels.

When I said just now that the Free Trade argument throughout neglects the importance of compulsion in promoting progress. I left out one form of compulsion to which, it is true, Free Traders do assign the very greatest value, which in their eyes is, indeed, the very key of all progress, I mean competition. Free and unfettered competition, according to them, is the source of all energy and all enterprise. Hence they argue, the more a country opens its ports to foreign competition the more its own energies are kept up, and the more rapidly it progresses; while,

on the contrary, any attempt to exclude foreign competition at once leads to idleness and stagnation. To quote the words of our friend Mr. Armitage-Smith:

Protection has a tendency to stereotype the industries of a country and to check its natural development. A trade once specialised under the shelter of legislation has a claim to its continuance. It is shut in from the healthy play of competition, from the invigorating influence of new ideas, and from the necessity of keeping pace with the growth of science and with the industrial advance of other countries.

Here again the Free Traders, by neglecting history, by looking only at the peculiar context of their own business surroundings, came to conclusions entirely false in their psychology. As a matter of psychological fact, competition, as such, does not necessarily stimulate energy or enterprise, security from competition does not necessarily lead to stagnation; it all depends on the particular character of the competition and on the particular kind of security.

Let us consider what conditions must attend competition in order to make it a real incentive to enterprise and energy. In the first place it must not be too severe. No man is inspired to effort by a task which he knows from the first to be hopeless. A man's running powers are not called out to their utmost by his being asked to run a race with an express train, but by his being asked to run with a man whom he has, at any rate, some chance of beating. I expect you all know what a handicap race is. In such a race the inferior runners are given a certain start, but the object of that is not to deprive the best runner of victory, but to make the best

possible race and to secure the prize for the runner who has put forth an exceptionally good effort. A race from level between runners varying very greatly in age and speed is bound to be a dull affair. The inferior runners give it up as hopeless from the start; the crack runner has no real competition to face. In the same way it is a customary thing at tennis between players of unequal merit to give the weaker player a certain number of points in order to make a good game, in other words, a keen, hard-fought game. A reasonable prospect of success, then, is essential to competition, if that competition is to stimulate energy. And not only must there be a reasonable prospect of success in the future, but competitive keenness is stimulated by nothing so much as by a reasonable proportion of success in the past. The men who come to the top in any walk of life, whether athletic or otherwise, are those who have gone on from one success to another, in each case narrowly overcoming their competitors, and nerved by their past successes for the task of facing the next struggle in front of them, though not rendered over-confident. Now in economic matters a tariff may provide just that same element of equalisation, those same opportunities for successful practice, which are necessary to evoke energy and enterprise in ordinary life. That is to say, a tariff, so far from discouraging national enterprise, may be essential to stimulate it.

Again, competition, if it is to stimulate energy, must be fair and equal; that is to say, it must be regulated with a view to the particular energy which it is desired to bring out. Let us take the example of an examination. Not only to secure

the best test of ability, but also to get the best work done, the conditions under which the examination is carried on have to be strictly regulated. The students are not allowed to copy each other's papers, still less are they allowed to exercise the right of free competition to the extent of destroying each other's papers, or, indeed, each other. Reasonable intervals are allowed for meals, otherwise the examination would prove not a contest of intellectual ability but of physical endurance. An examination carried on on *laissez faire* principles would be a sort of bear garden in which very little work of any kind would be done, and in which the prize would fall not to the ablest and hardest working but to the toughest and most unscrupulous. Now, in exactly the same way, if economic competition is to be a real test of efficiency and a real stimulus of economic energy, all alien features such as differences in cost of labour, differences of national organisation, &c., ought to be eliminated. In fact no international Free Trade between nations on different planes of development, and with entirely different scales of living can really promote the sort of competition that is required to stimulate industry. Free Trade, on the other hand, between the citizens of the same country, living more or less in the same fashion, and enjoying in equal measure the support and protection of the Government, does undoubtedly stimulate competitive activity.

Let us look at the actual facts. Take these Manchester men, with whom free competition was such an idol and who were themselves such examples of competitive energy. Were they the offspring of unrestricted international competi-

tion? They were what they were as the result of centuries of Protection, of "artificial coddling." They welcomed the competition of the world because they knew that they could overcome it without difficulty. In Bismarck's language the England of their day was the strong champion who, after developing his muscles, stepped into the market place and said, "Who will strive with me, I am ready for any one." To-day the manufacturers and merchants of protected Germany are continually held up to us as an example of energy and enterprise in every direction. Yet even twenty-five years ago, when German trade was freer than it is to-day, and when the effects of Protection had had less time to disappear in England, the ordinary German looked upon the Englishman as immensely his superior in those very qualities. Again, take the Americans. Will the Free Traders assert that they have been rendered unenterprising and indolent by their Protective system? Or will they turn the question by saying that American enterprise is due to the internal competition of a great Free Trade market? If so, will they explain how either that great market—which is only another word for a great population—or that internal competition would have come into being if the industries had not first been stimulated by tariffs and the population created under their shelter? In fact, are not American and German enterprise alike a triumphant vindication of the principle of limited competition?

Further, competition to be useful must be regular and not intermittent. Nothing, for instance, is so discouraging to good farming as insecurity of tenure, or great uncertainty of

climate or of other natural conditions. The one thing that has checked progressive farming in South Africa has been the fact that every few years the farmer encounters a drought or a flight of locusts which destroys the year's crop and takes away all his energy and enterprise. In exactly the same way intermittent and incalculable competition from without may produce the most discouraging effect on industry. The injury done to British industry by foreign dumping is not to be measured by the mere trade displaced, but by its general moral effect, by its reduction of the national energy, in other words, the reduction of the national capital. The possibility, on the other hand, enjoyed by foreign manufacturers, of averting the worst consequences of a period of depression, and at the same time injuring and discouraging their British competitors by the process of dumping, is a gain not to be measured in the particular transactions but in the general encouragement afforded by that possibility, in the energy stimulated, that is to say, in the increase of the national capital of their countries.

What is true of competition is correspondingly true of security. When security means complete protection from any competition whatever, complete absence of any pressure, it undoubtedly leads to stagnation, and that is undoubtedly a reason against excessive tariffs and in favour of a considerable area of internal Free Trade. But as long as security only makes the terms fair, as long as it excludes no competition which complies with the terms, then it undoubtedly is an essential element in encouraging industry. In industry as in farming security of tenure is an

essential condition. Every form of improvement, all moneys spent on new plant or on scientific research, involve making a present sacrifice with a view to a future gain. If the future is too uncertain the present sacrifice is not worth making; in other words, security and the prospect of a good reward as well as mere necessity, are the co-parents of invention. England was the great home of invention when she was still Protectionist. Since we have become Free Traders the lead in invention has gone to the United States and to Germany. What is more, in many cases, even when the inventions have been made in England, their practical development has taken place in other countries: as for instance in the case of aniline dyes. The trained chemists of the German factories, of whom we hear so much, are an expensive item of equipment which only security of tenure will allow a manufacturer to invest in. It is no use talking of imitating German methods, of starting new Charlottenburgs in London, if we refuse to reproduce the conditions which create a demand for the trained students of such institutions.

To sum up then, Free Trade economic psychology is radically defective. It begins by assuming, as the normal and permanent economic characteristics of man, certain highly artificial characteristics resulting from a long process of industrial development. It disregards entirely the value of the deliberate and organised compulsion of legislation in stimulating progress. It insists upon the value of the undirected and unorganised compulsion of individual competition, but fails to recognise that it is only under certain specific conditions that such competition

possesses the value they assign to it, and that those conditions require constant, watchful regulation. The fact is that Free Trade psychology is vitiated by the same old individualist fallacy as Free Trade logic. Just as the latter fails to take account of the relationship of the individual to the community and to the other individuals composing the community, so the former fails to realise that the individual character is in the main the reflection of the influences of its past and present environment. There is no normal "economic man," but each society has the economic man that corresponds to its past history and present organisation. Any attempt to deduce economic conclusions from the economic character of the individual can only be of value if applied with a knowledge of the economic structure of a particular society, and within the limits of that or closely similar societies. It can afford no universally applicable results as regards individuals and still less as regards the best economic regulations for societies.

I now propose to touch on the most salient features of our industrial history in order to show how they too contradict all the *a priori* assertions of the Free Traders, and how completely on the contrary they bear out the conclusion of practical reason that great ends, economic or otherwise, can only be attained by sustained, thoughtful, purposeful effort. I can only deal very sketchily with a subject that would require a whole series of addresses by itself, but to those who may be interested in the subject I might recommend a work entitled "The Coming Re-action," published by an anonymous author only a few months before

Mr. Chamberlain began his tariff agitation. Even more interesting is the treatment of the subject in List's "System of National Economy." Those, of course, who wish to study the subject in greater detail could hardly do better than read Dr. Cunningham's "Growth of English History and Commerce."

England in the middle ages was an agricultural and pastoral country, supporting a small population of two or three millions and possessing very little or no accumulated wealth. Her one great export and source of profit was the export of wool, which was sent over to be worked up into cloth by the Flemings. England was the Australia—without the gold—and Flanders the England of those days. Even so the actual trade of buying up and exporting the wool was not done as a rule by Englishmen or in English ships. It was done by the foreign merchants, "staplers," who resided in England, prominent among whom were the merchants of the Hanseatic cities, whose head-quarters was the "Steelyard" in London. In fact the England of those days was very much in the condition of many backward countries to-day, a grower of raw materials collected and exported by foreign traders whom the Government encouraged for its own purposes. At various times from the middle of the thirteenth century and onwards efforts were made to encourage the spinning and weaving of wool in England itself, and an industry of some dimensions gradually established itself. But the beginnings of a really deliberate protective policy are to be found in the legislation of Edward IV. The particular form taken by the regulations of his and subsequent reigns was

that of a prohibition or heavy duty on the export of wool combined with an import duty against the bringing in of woollen cloth.

Like Mr. Chamberlain Edward IV. and his advisers kept their eyes constantly fixed, not on the volume of foreign trade, but on the employment given to the people of the country. The wording of the recital of the law of 1463 regulating the sale of wool would, but for the differences in the language, do well as a text for any Tariff Reformer of the present day:

Whereas in the said Parliament, by the artificers, men and women, inhabitant and resident in the city of London and other cities, towns, boroughs and villages within this Realm and Wales, it has been piteously shown and complained how that all they in general and every of them be greatly impoverished and much hindered and prejudiced of their worldly increase and living by the great multitude of divers chaffers and wares pertaining to their mysteries and occupations being fully wrought and ready made to sale by the hands of strangers being the King's Enemies . . . whereof the greatest part is deceitful and nothing worth . . . by occasion whereof the said artificers cannot live by their mysteries and occupations as they used to do in times past, but divers of them, as well householders as hirelings and other servants and apprentices in great number, be at this day unoccupied and do hardly live in great idleness, poverty and ruin, whereby many inconveniences have grown before this time and hereafter more the like to come (which God defend) if due remedy be not in their behalf provided.

The object of the law is put clearly enough in the following passage from the same recital:

The first because that the chief and principal commodity of this realm of England consisteth in the wools growing within the said realm, and to the intent that sufficient plenty of the said wools may continually abide and remain within the said realm as may competently

and reasonably serve for the occupation of cloth makers of England and of all the members and branches of the same, whereby the cities, boroughs, and towns of the same realm now fallen into great and piteous desolation, ruin, and decay to the occasion of idleness, may be, if God will, multiplied in inhabitation and by labour restored to their ancient joy and prosperity.

There was more sound knowledge, I fancy, of national economics in Edward the Fourth's little finger than in the skulls of all the orthodox professors or Exchequer theorists of these degenerate days!

The success of the policy was inevitable. The Flemings were at one and the same moment deprived of their chief source of raw material, and shut out from one of their principal markets. As the English woollen industry grew steadily, the Flemish declined. Political and military troubles only confirmed what industrial policy had already determined. From the Free Trade point of view these regulations only restricted trade, and it is quite possible that the actual volume of our foreign trade was diminished in consequence. But there can be no doubt of the enormous increase of employment, capital, and population which resulted from the development of the woollen industry in England. In course of time, too, even the foreign trade showed an enormous expansion as a consequence of the great home industry behind it. By the end of Elizabeth's reign the export of woollen goods had reached a million pounds sterling a year, by 1690 it was nearly three millions. When Adam Smith wrote, it was over four and a half millions.

And yet, according to the Free Trade argument, the capital invested in that great industry was simply diverted from wool growing! The

people engaged in it were taken away from the more profitable business of shepherding and shearing!

The cotton industry was an offshoot of the woollen industry, whose first beginnings can be traced in the seventeenth century, though it did not really leap into prominence till late in the eighteenth century. Its foundation lay in the ancestral skill in spinning and weaving, which had for centuries been fostered in Englishmen by their Government. Nevertheless, at first the skill of the English workers in wool was quite insufficient to enable them to weave a pure cotton cloth, and cotton was used mixed with wool in the making of a stuff called "fustian." In those days, I am speaking of the early eighteenth century, the calicoes and cottons of India were far cheaper and more beautiful than anything England could produce. They were the chief articles that English merchants brought home from the East. But they were not allowed to be sold in England. To protect the woollen industry and the feeble infant cotton industry in England, the Indian goods were not only taxed, but absolutely prohibited. The action of England in this respect is held up by List as a masterpiece of far-sighted statesmanship. Let me quote a few sentences from his passage on the subject:

England accordingly forbade the wares of her own East Indian traders; she prohibited them absolutely. She would have no thread of them. She would have none of those cheap and beautiful wares. She preferred to consume her own dear and inferior stuffs and to sell these more beautiful and cheaper Indian wares to the nations of Europe. To them she was ready to give all the advantage of this cheapness; herself, she would

have none of it. Did England thereby act foolishly? According to the theory of Adam Smith, which only looks at values, she certainly did act foolishly; according to our theory of productive energies she certainly did not. The statesmen of England had no desire for cheap and perishable goods. What they wished to acquire was dear but enduring manufacturing power. To-day England produces fifty or one hundred times as much as the whole former trade in cotton goods with the East. What would England have gained if a century ago she had bought these cheap Indian goods? What have they gained who bought these goods so cheaply? England gained power, immeasurable power; the others the very reverse—dependence.

Not only were foreign cotton goods prohibited, but a bounty was put on the export of cotton goods from England in 1783, with the result that between the years 1780 to 1812 our export of cotton goods rose from £350,000 to £16,500,000. A whole new population, a vast accumulation of new capital, an immense development of new activities and abilities were the result of this industry, an industry practically created by legislation. Where was that capital diverted from? What other occupations might those people have been pursuing? Where had those abilities found their scope and opportunity before?

Exactly the same policy of prohibition and protection was employed to foster the iron industry. As early as the days of Edward III. the export of iron was forbidden. Edward IV. absolutely prohibited the importation of ordinary iron goods, such as locks, hammers, pincers, scissors, pins, &c., which, up to his time, had been chiefly supplied by Germany. Elizabeth and the Stuarts consistently carried on his policy. From 1738 onwards, when the art of smelting

iron with coal was perfected, the British iron industry made enormous advance, always with the help of duties ranging from about forty per cent. up to several hundred per cent.

On the basis of the two great primary industries of wool and iron, all the other internal industries and trades of this country have been built up. Each industry created aptitudes that were useful for other industries; each provided capital and population available for fresh developments; each furnished a market for the products of the other. The demand for spinning and weaving machinery created the machine industry; the need for pumps to keep water out of the coal mines created the steam-engine; the rail or the tramway was originally devised for hauling coal or ore. Any one studying the history of the locomotive can see that but for the British iron industry it could never have come into existence. As Mr. Wells once pointed out in a suggestive article, the railway engine is the descendant, by a gradual process of evolution, of a steam-pump mounted upon a truck. The industries fostered by the policy of the English Government were the direct creators of the mechanical skill that made England so famous a century ago. Without the flourishing wool and cotton industry there would have been no Cartwright to invent the power loom and the wool-combing machine. Without the mine industry dependent upon a protected iron industry, there would have been no Watt or Stephenson. The steam-engine would no doubt have been invented some day or other, but it would not have been invented when it was, nor would it have been invented and developed in England.

Now to Adam Smith and his school all these efforts to create and foster industry seemed mere futility. Adam Smith makes much mock of the restrictions on the export of wool, and it was very easy for him to do so at a time when the British wool industry was absolutely supreme. He never paused to inquire whether that industry would ever have come into existence but for those very restrictions. I have quoted Mr. Armitage-Smith already several times. He devotes the whole first chapter of his book to the subject of restrictions on trading; he mentions the various times at which they were imposed; but he carefully omits to state the fact that those restrictions achieved their result. He merely refers to them as the follies of a dark age. It is not that he misrepresents the facts, but that he makes no attempt to read their meaning. Let me quote a passage which, as far as it goes, gives an admirable description of the facts:

There grew up in the reign of Elizabeth a feeling from which developed a national policy; the aim of this policy was to make England great, healthy and wealthy. This object was to be accomplished by the creation of new territory, by plantations, or new colonies, by the development of national resources, and the increase of treasure in gold and silver for the purpose of defence in warfare.

Is it conceivable that a man should have written these sentences, and yet should never have asked himself whether the success of that policy had any connection with the means by which it was deliberately brought about?

List realised the historical truth of England's development far better. With him the appeal

to England's history was the final verdict against Free Trade:

From every country of the Continent this island borrowed its peculiar aptitudes and planted them under the shelter of her tariffs upon her own soil. . . . Once in possession of a branch of industry she fostered and nourished it for centuries like a young tree which needs support and attention. If there is any one who does not know that any branch of industry can be made profitable in course of time by diligence, skill and thrift, who does not know that in a nation which has already made some progress in agriculture and general civilisation, young industries, however imperfect and dear their products may be at first, will soon with practice and under the stress of internal competition equal those of older countries in every respect; who has not realised that the prosperity of each separate branch of industry is conditioned by the prosperity of every other branch; who does not know to what degree a nation can develop all its productive powers if it studiously takes care that each generation should continue the work of industry where the last generation left off—let him, I say, study the history of English industry before he essays to build theories and to give advice to practical statesmen, into whose hands the weal or woe of nations is entrusted.

From the internal industries of England let us now look at her no less important external interests. The foundation of England's position in the world's economics was the Navigation Act of 1651. There was shipping legislation to favour British shipping as early as the time of Richard III., but the Navigation Act first laid the basis of a deliberate continuous policy. The legislators of that day found that the carrying-trade between England and the English colonies across the Atlantic was in Dutch hands, and they determined that it should be in English hands. It was no question as to who could do the carrying better. The Dutch, with all their experience

and accumulated capital, could always beat our shipping on equal terms. But they were powerless to fight against us in a case such as that of the trade between England and her colonies, where we had the control. Control is an element in economics that is in some ways more important than any other, and it is one which, as I pointed out before,* the Free Trade theory excludes altogether. It was not in virtue of our being able to offer better freights, but by extending our control, either through direct legislation or treaty, or by the indirect use of the power our greater industry gave us, that we successively ousted the Dutch shipping from one trade after another. By developing a great direct trade with the Baltic, for instance, we gradually captured the Baltic shipping from the Dutch.*

The great master stroke, however, which secured us the world's shipping, and made the Navigation Acts really effective, was the treaty secured by Lord Methuen in 1703. Adam Smith mocks at that treaty as a mere piece of folly, but List has pointed out conclusively how it first of all gave us the whole Portuguese home market and stifled the rising industries of Portugal in their cradle; how, secondly, it gave us, in conse-

* See pp. 90, 95. Adam Smith attempts to justify the Navigation Acts on the ground that defence is better than opulence, forgetting that we had soundly drubbed both Spaniards and Dutch at sea before the Acts were passed, and were supreme in naval fighting power long before the Acts finally took effect in placing us at the head of the commercial shipping of the world. Undoubtedly, like every other sound economic measure, the Navigation Acts contributed to national defence, and, perhaps, in an exceptional degree; but their primary justification was economic and not military.

quence, the whole carrying-trade with Portugal and the Portuguese possessions; how lastly, it gave us the whole Eastern trade of Portugal as a consequence of the two former. In those days the East was at least as advanced in most manufactures as Europe, and did not ask for our goods, but for gold and silver. Our favourable balance of trade with Portugal enabled us to lay hold of all the gold and silver in the Americas, not to use in England, but to send to the Far East. From the East we brought the cotton and other goods, a great part of which again we sold on the Continent of Europe rather than let them enter into destructive competition with our own home industries.

The same principle of control was the foundation of England's colonial policy. The Methuen treaty and the trade with the Far East furnish a characteristic example of the way in which English economic statesmanship adapted itself to circumstances. England's colonial policy showed she also knew how to shape the circumstances to fit her own needs. The colonies were deliberately fostered, in order to be, at one and the same time, the purveyors of all those raw materials that England required for her own industries, or of those tropical or sub-tropical products which she could not grow herself but could make a profit by distributing, and also the customers of the manufactures England wished to sell. Cotton, sugar, tobacco in the more southern colonies, timber, hemp, tar, iron ore in the northern, were encouraged by every sort of preferential regulation. Manufactures were forbidden as competing with the manufactures of England. No one can question the economic

success of the policy. In a marvellously short time, considering the difficulties of transport and communication in those days, a great nation of customers was created across the Atlantic. It remained a nation of customers and purveyors of raw material for at least two generations after the political separation of the American Revolution, and as regards cotton, at any rate, the process still continues, though there are indications of its gradually coming to its end.

Contrary to current assertions, the American Revolution does not seem to have been directly affected by the tariff legislation of the Mother Country. The colonists always recognised England's right to control their trade. It was the purely revenue taxes on stamps and finally on tea, in order to secure a contribution towards Imperial military expenditure—in other words the very kind of tax and the very kind of contribution Free Trade Imperialists favour—that furnished the excuse for an outbreak whose causes lay deeper. But the continuance of trade with America after separation largely destroyed the British faith in the economic necessity of control, discredited the whole colonial policy, encouraged Little Englandism, and paved the way to the complete abolition of all colonial preferences in Cobden's day.

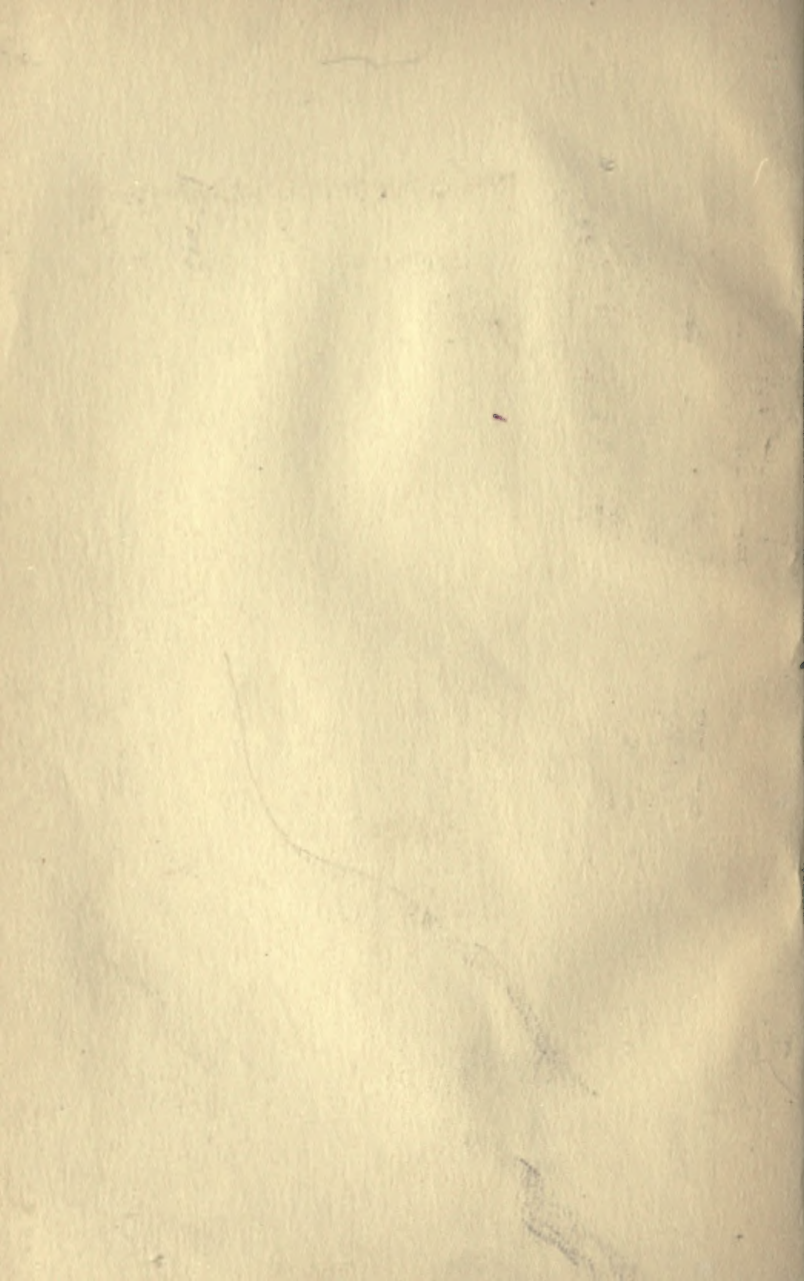
The great French wars sweeping away Dutch, French, and Spanish competition, created an enormous expansion of industrial activity in England. But the necessities of revenue caused the whole judicious tariff system of an earlier generation to be smothered beneath the weight and indiscriminate distribution of revenue taxes.

Not manufactures only, but every kind of raw material was taxed. After the conclusion of the war a natural and justifiable desire for national self-sufficiency, coupled to some extent, no doubt, with the purely selfish interest of landlords and tenant farmers, led to the passing of the Corn Laws. The Corn Laws undoubtedly hampered and fettered our trade with the European continent. They may have contributed, as the Free Traders always claimed, to the continental efforts to start manufactures, as we shut our doors to the continental raw material; though there are at least equally good grounds for tracing the revival of continental manufacturing industry to the protection furnished by Napoleon's "continental blockade."

The old historic, statesmanlike policy of England, under such circumstances, would undoubtedly have been to revise the tariff in the direction of taking the duties off raw materials, excepting a colonial preference, of lowering the corn duties against the colonies, of stimulating colonial food production, and, generally, of encouraging colonial development, in the faith and knowledge that the colonial trade could be made much greater, as well as securer, than the trade with Europe. But Cobden and his fellows knew nothing of history, except vague misrepresentations as to the cause of the American Revolution, their judgment was warped by the shallow sophisms of the economists, and by their class hatred of the Tory squires. They were much more concerned with the immediate profits of their class than with the future greatness of the British Empire, the Empire which to them was

a "blood-stained fetish." Hence, instead of reforming, they destroyed. Instead of lopping off dead branches, they cut the living tree at the root. The whole principle of conscious and constructive statecraft working for the greatness of the nation and the well-being and development of its citizens was abandoned. Effort and thought alike were decried as futility; the supreme art of statesmanship lay in doing nothing. For another generation the great machine of British industry ran on by its own impetus, by the intellectual and moral qualities fostered under the old system. But the speed has long since slackened; we have been passed in the race by others who have followed, not the example we have set of late, but the example we set in the days when we believed in economic statecraft, when we had the courage of our reasons, and when we had faith in experience. If we wish to regain our place in the economic world, if we wish to achieve the great political ends we cherish, if we wish to restore the energy and character of our people, to regenerate their lives and improve their material surroundings, then we must apply our intelligence to the circumstances in which we live, we must take our courage in our hands, and be prepared to act in the spirit in which our forefathers acted. But before we can do so we must clear our minds of all that body of baneful prejudice based on sophistry, false logic, ignorance of psychology, and ignorance of history, which would hypnotise us into the belief that all effort is vain, and all thinking, planning and striving futile and mischievous.





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