

Freer Trade Relations Between
the United States and Canada

by Louis A. Rufener

May 15th, 1912

Submitted to the Department of Economics of the
University of Kansas in partial fulfillment of the
requirements for the Degree of Master of Arts

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FREER TRADE RELATIONS BETWEEN THE UNITED STATES
AND CANADA

The present discussion might be called a kind of aftermath of the wide interest shown in the recent attempt at reciprocity between the United States and Canada. The purpose of this paper is to attempt to show that freer trade relations between the two countries ~~are~~ desirable and practical both for the Americans and for the Canadians. The subject will naturally lead us into a discussion of the nature and extent of our trade with Canada, of the question of international trade with its two phases of free trade and protection, and of the political problems arising therefrom. Nothing but a rather brief treatment of such a large subject can be undertaken here. During and after the campaign for reciprocity many excellent articles on the subject appeared in various English, Canadian and American magazines, and many other articles which were not excellent because they were written by men biased strongly in one direction or the other. What is attempted here is to give a treatment of the subject which, although because of its briefness can not be exhaustive, yet will be more complete than the articles written in the heat of the campaign, or immediately after. As a rule the articles referred# to concerned themselves with only one or two phases of the subject, either

ignoring or minimizing other phases just as important.

I. Nature and extent of our trade with Canada.

The first thing we are concerned with is the nature and extent of our trade with Canada. To help us understand the general nature of this trade let us briefly compare the two countries, as to size, location, climate and population.

The area of Canada is 3,745,574 square miles. This is as large as is the United States with the Philippines and Hawaii. Although Canada lies north of the United States, it is not wholly in the frigid zone as is sometimes imagined. Its climate permits of a great variety of crops other than wheat; the southernmost point of Canada is in the same latitude as Rome.

The population in 1911 was 7,204,527, an increase of 34.13% over the population in 1901. From 1897 to 1905, 643,543 immigrants arrived, of whom 35% were British, 33% American, and 32% of other nationalities. With the exception of the large number of French in Canada and the negroes in the United States, the composition of the population of the two countries is much the same.

To put the matter briefly, we may say that we have as the

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1. Canadian Handbook, 1906, pp. 1-17.
 2. Fifth Census of Canada, 1911, Special Report on Area and Population, p. v.
 3. Ency. Brit., Article, Canada.

basis of our study, two countries of about equal extent of territory, both endowed with a wide range of climate, and adapted for the ~~###~~ production of a great variety of agricultural and manufactured products, lying side by side with boundaries touching for three thousand miles. There are practically no physical barriers to separate the two peoples in their industrial and commercial activities. Furthermore, they are of the same race, and, having similar conditions of natural environment to meet, and living under forms of government essentially identical, have similar wants and character.

Naturally, under these circumstances, one would expect to find a large trade existing between the people of the United States and the Canadians. There is still another reason for expecting such a trade to exist and to develop into greater proportions. That is the topography of the North American Continent.

" It is somewhat remarkable that, in all the discussion which has taken place concerning reciprocity with Canada, no refer~~ence~~ has been made to the topographical and geographical conditions which render trade between the different parts of the Dominion exceedingly ~~l~~ costly, and trade between the various parts of Canada and parts of the United States adjacent to them particularly easy and ad~~v~~antageous. As an editorial in the

 Review of Reviews, August, 1911, Reciprocity with Canada.

Engineering News remarks:

' Few people realize to what extent topographical conditions divide the Canadian nation into# separate parts remote from each other, each of which finds its natural commercial relations with that part of the United States immediately south of it, rather than with other portions of the Dominion.' "

Having now noted some of the reasons for the existence of a large trade between the two countries ,let us examine the extent of that trade itself. The following table shows the trade of Canada ## during the fiscal year ending March 31,1910, with the British Empire,Germany,France,the United States,and total for all countries. The amounts include coin and bullion.

The Foreign Trade of Canada.

| Countries | Exports | Imports | Total trade |
|----------------|---------------|---------------|---------------|
| British Empire | \$165,364,091 | \$112,312,760 | \$277,676,851 |
| Germany | \$ 2,501,191 | \$ 7,958,264 | \$ 10,459,455 |
| France | \$ 2,640,648 | \$ 10,170,903 | \$ 12,811,551 |
| United States | \$113,150,778 | \$239,070,549 | \$352,221,327 |
| Total | \$301,358,529 | \$391,852,692 | \$693,211,221 |

From these figures it is seen that 51% of Canada's foreign trade is with the United States,35.5% with the Empire

and only 13.5% with the rest of the world, and that the United States is consequently a very important factor in the economic life of Canada. Canada, because of its comparatively smaller population, is of less importance to the United States. But our trade of \$352,221,327 with our northern neighbor in the fiscal year of 1909-10 was better than 10% of our total foreign trade for that year.

This great trade of ours with Canada is not a temporary thing of mushroom growth, but represents a permanent trade which has had a gradual and solid development. Of the total exports from Canada in ~~###~~ forty-three years, Great Britain received 52.7%, the United States 36.7% and other countries 10.5%.

In the Export trade of Canada the United States is gaining on Great Britain and will eventually pass her as she has passed her on the import trade. In 1875, Canada imported from Great Britain in round numbers, \$60,000,000, and from the United States, \$49,000,000. By 1885 the United States led Britain in this trade by \$5,000,000; by 1895 she had increased her lead to \$19,000,000; and by 1905, to \$92,000,000. In 1910, the United States furnished 59% of Canada's imports, Great Britain, 25%, and other countries 16%. Our exports to Canada have been rapidly increasing in proportion to those of Great

1. Canadian Yearbook, 1910, pp. 62-69.

Britain, whom we seem to be displacing in the Canadian market, so that whereas in 1875 the figure for the United States was only five-sixths as large as that for Britain, in 1910 it was more than twice as large.

II. International Trade.

As we have seen above, there exists a large trade between the United States and Canada. We must assume that it is profitable to both parties concerned, or it would not exist. We may further assume that any expansion of this trade, or anything that would permit such an expansion would be profitable or the cause of profit. And we might expect that the peoples of the two countries would be busy on devices to increase the possibilities of such a profitable trade. But instead of such activity we find, if legislation can be offered as evidence, that this trade is not looked upon with favor, since it is being hampered by artificial restraints. We find that from the standpoint of politics, that when John Smith of Manitoba finds it desirable to trade a load of wheat to William Brown of Minnesota for a cow, or a plow, it is quite a different thing than when the same trade is made between John Brown of Minnesota and William Smith of Wisconsin. Although the business relations of the parties concerned are the same in both cases, there is a mysterious element to be reckoned with in the first case which does not

appear in the other. John Smith of Canada has hauled his wheat and the plow received in exchange across an imaginary line, and by so doing has profoundly disturbed the economic development and the political power of his country.

Economists have found it convenient to distinguish between the two cases just cited as examples. The one is international trade. The other might be called intra-national trade. The assumption of Bastable and other economists is that in international trade certain elements enter in ~~which~~ are not present in other trade, or are present to a less extent, viz., immobility of capital and labor, differences in language, customs, habits, government, coinage and currency etc. International trade, then, is often considered, not as trade between individuals of the nations, which it really is, but as trade between nations as a whole. Now as between the United States and Canada those elements of difference just noted are so slight as to be almost negligible, and if there were no tariff barrier, trade between Ontario and New York would be carried on with as little friction as trade between New York and Ohio.

But whether we consider trade between the people of one country and those of another as trade between nations or as trade between individuals living in different communities such commerce has great advantages. Mill says the advantage

lies in a more efficient employment of the productive powers of the world. It is virtually a device of cheapening production, and in all such cases the consumer is the person ultimately benefited. As a rule each nation exports those commodities for the production of which it is best suited, and obtains in return articles which it could not so easily make for itself.

Or as Bastable puts it, " By means of exchange a nation obtains a greater amount of satisfaction, with a given effort, or a given amount of satisfaction, with a less effort, and thus discharges, in a better manner, its function as an economic machine."

Another way of stating the advantages of international trade, or of trade between the individuals living in different communities, is to say that it means territorial division of labor. Territorial division of labor may promote economic welfare in much the same way as division of labor in a factory.

From the possible gains from international trade several deductions must be made, because such exchange is subject to certain impediments. These impediments may be said to consist of three classes.

1. Actual cost of carriage, such as shipping, freights, and

1. Mill, Political Economy, p. 134.

2. Ibid., p. 129.

3. Bastable, Theory of International Trade, p. 18.

4. Ibid., p. 46.

railway charges.

2. Brokers' and agents' commissions.

3. Import and export duties, whatever their aim.

The third class of impediments differs from the others, in being found in international trade alone, although this was formerly not so. Such impediments are artificial, yet in its ultimate effects, a tariff wall does not differ from a mountain range. A lowering of tariff duties will encourage trade just as a cheaper method of transportation. A high tariff imposed after a mountain has been pierced by a tunnel may nullify the removal of the natural impediment.

Much of the progress of the world during the last century has been the result of improvements in the methods of transportation, or the removal of natural impediments to exchange of all kinds. Naturally, therefore, any persons who desire to impose artificial impediments on international trade which tend to offset the advantages derived from the removal of natural impediments, ought to be required to give adequate reasons for doing so. The burden of proof rests upon the protectionists.

The works of Alexander Hamilton and of Frederick List are classics in their reasoning in favor of governmental restriction on foreign trade.

III. The Theory of Alexander Hamilton.

Let us now examine the protectionist doctrine as found in Hamilton's celebrated report on manufactures, and note in how far it is applicable to the trade relations of the United States and Canada. It might be inferred that since the United States was a young nation at the time that the report was written, and that Canada is now in a comparatively undeveloped condition, the ~~same~~ theory upon which the report is based would be just as applicable to Canada to-day as it was to the United States a century and a quarter ago. We have all heard the statement that the nineteenth century belonged to the United States, but that the twentieth century is Canada's.

Giving the matter only a casual thought, and noting that the population of Canada in 1900 was about the same as that of the United States in 1800, and that Canada in 1900, as the United States in 1800, possessed great bodies of unoccupied land and large undeveloped resources, we might suppose that there is a close analogy. But a second thought will serve to convince us that there is in reality a vast difference of conditions.

Before we pass to note this difference, however, let us consider Hamilton's Report in its main aspects. The Report is based on the two assumptions that manufacturing establishments are per se desirable acquisitions for a young and developing nation, and that their acquisition can be greatly facilitated by

the aid of government. To support his first assumption, he points out a number of circumstances "from which it may be inferred that manufacturing establishments not only occasion a positive augmentation of the produce and revenue of society, but that they contribute essentially to rendering them greater than they could possibly be without such establishments."

This thesis is no doubt sound, and it is useless for the purpose of this paper to dwell upon it longer here. We are mainly interested in the second assumption that the acquisition of manufacturing establishments can, and ought to be facilitated by governmental activity. Hamilton points out eleven ~~###~~ "means by which promotion of manufactures has been effected in other countries."

The first of these means he mentions and the one he chooses as the most expedient, is that of protective duties. In contending that protective duties were desirable for the United States, he was compelled to answer two great objections. The first of these two objections is that each nation should be left to free to produce what is most fitted to produce. He answered as follows:

"The United States are, to a certain extent, in the situation of a country precluded from foreign commerce. They can, indeed, without difficulty, obtain from abroad the manufactured supplies of which they are in want, but they experience numerous

and very injurious impediments to the emission and vent of their own commodities. Nor is this the case with a single foreign nation only. The regulations of several countries with which we have the most extensive intercourse, throw serious obstructions in the way of the principal staples of the United States:

The second great objection he answered thus:

" It is inferred that manufactures, without the aid of government, will grow up as soon and as fast as the natural state of things and the interest of the community may require. Against the solidity of this hypothesis, in the full latitude of the terms, very cogent reasons may be offered. These have relation to the strong influence of habit and the spirit of imitation; the fear of want of success in untried enterprises; the intrinsic difficulties incident to first essays toward a competition with those who have previously attained to perfection in the business to be attempted; the bounties, premiums, and other artificial encouragements, with which foreign nations second the enterprise of their own citizens in the branches in which they are to be rivalled."

Let us now apply Hamilton's defense of his system to conditions as they exist to-day between the United States and Canada. First, it would be absurd to say that now that the United States " are precluded from foreign commerce," when that commerce exceeds three billion dollars annually. Therefore on that score the United States does not require its manufactures to be protected by a protective tariff against Canada. Neither

can it be said that Canada is precluded from foreign commerce, since her foreign trade in 1910 amounted to almost seven hundred million dollars. Nor is there any probability, or even possibility that she will in the future experience those "injurious impediments to the emission and vent" of her commodities of which Hamilton spoke in regard to the United States. The international relations of to-day are not the international relations of Hamilton's time. Nations are more inter-dependent, and foreign trade is much more stable. It is especially unlikely that a food supplying nation, such as Canada, will, under any circumstances, be denied the ~~##~~ privilege of exporting her commodities. Therefore, this argument ~~for~~ protection in the case of Canada is no better than it is in the case of the United States.

The second argument for protection, the one referring to the necessity of government aid to overcome the inertia resulting from the strong influence of habit, the fear of want of success in untried enterprises, the intrinsic difficulties ~~#~~ incident to first essays in competition with those who have previously attained to perfection, etc., rests on a more permanent basis, and holds good to some extent to-day. But it by no means so strong as it was a century and more ago. Habit in industry no longer holds the sway it did in other centuries. Labor and capital are more readily turned from one employment to another. Entrepreneurs are now bolder and better informed, and embark more readily on

new enterprises . The intrinsic difficulties of entering into competition with established business are not so great because of the wider diffusion of knowledge, and the scientific and technical press.

However, whether this argument, which is the much discussed infant industry argument, is valid or not, does not concern the question of the protection of the industries of the United States against those of Canada. The former are not infants compared with the latter, and can therefore, not demand protection on this ground. But as a corollary of that conclusion, it might be inferred that the industries of Canada are infants compared to those of the United States, and therefore need protection against them. That Canadian industry does not need such protection I propose to show by a short description of the development of manufactures in the United States.

IV. Development of Manufactures in the United States.

As a starting point for a discussion of the development of the manufacturing industry in the United States, the table on the next page will be interesting, especially as regards the subject of infant industries. It was compiled from figures given in the Statistical Abstract of the United States, 1910.

Manufactures in the United States.

| Groups of States | Percentage of total in the United States | | |
|------------------|--|---------|-------------------|
| | Wage earners | Capital | Value of products |
| New England | | | |
| 1850 | 32.7% | 31.1% | 27.8% |
| 1880 | 23.7% | 22.4% | 20.8% |
| 1905 | 17.2% | 14.7% | 13.7% |
| Middle States | | | |
| 1850 | 43.9% | 44.2% | 46.4% |
| 1880 | 41.7% | 42.2% | 41.3% |
| 1905 | 36.7% | 39.5% | 37.3% |
| Southern States | | | |
| 1850 | 11.5% | 12.6% | 9.9% |
| 1880 | 8.2% | 6.9% | 6.3% |
| 1905 | 14.0% | 11.0% | 10.5% |
| Central States | | | |
| #1850 | 11.5% | 11.8% | 14.3% |
| 1880 | 23.6% | 25.1% | 28.5% |
| 1905 | 27.0% | 28.2% | 30.5% |
| Western States | | | |
| 1850 | .1% | .1% | .1% |
| 1880 | 1.0% | 1.0% | 1.4% |
| 1905 | 2.1% | 3.2% | 4.3% |
| Pacific States | | | |
| 1850 | .4% | .3% | 1.5% |
| 1880 | 1.8% | 2.5% | 2.4% |
| 1905 | 3.0% | 3.3% | 3.7% |

1. Statistical Abstract of the United States, 1910, p.179.

The most general observation to be made from this table is that the older sections of the United States, so far as the manufacturing industry goes, is gradually losing its pre-eminence by the growth of manufacturing in the newer sections. In 1850, New England and the Middle States employed 76.6% of all the manufacturing wage earners in the United States, and produced 74.2% of the products. In 1905 they employed only 53.9% of the wage earners and produced only 51.0% of the products, a falling off in comparative importance of about one-third. During the same period, their direct competitors, the Central States, increased the number of their manufacturing wage earners from 11.5% of the total in the United States to 27%, and the value of their products from 14.3% to 30.5%. The Western States, also competitors of the New England and Middle States, as well as of the Central States, increased the relative percentage of their products from .1% to 4.3% or forty-three times.

The development of the Southern States was hindered by the Civil War, so that in 1880 they might have been called new states. In the period from 1880 to 1905 they increased the relative output of their factories from 6.3% to 10.5%, a relative gain of nearly 70%. In the Pacific States the increase in the fifty-five years was more than double.

We find, then, that the newer sections of the country are gradually gaining the relative importance of their

manufacturing output at the expense of the older sections. This fact might be lightly explained away by protectionists by saying that it was due to the increase in population. But such an explanation does not disprove the fact that here we have new communities actually developing great manufacturing interests in competition against older communities against whom they have no protection.

The growth of manufactures in the Central States is an especially interesting phenomenon when looked at in the light of the infant industry argument. These states have developed into a manufacturing section producing manufactured goods almost in proportion to their population as compared with the total population and manufactures in the United States. They have done this in spite of the fact that their manufacturing establishments were compelled to develop in direct competition with the more firmly established manufactures of the eastern sections, with their cheaper labor and capital.

But when we examine the conditions in the Western States, by which we mean those west of the Missouri River with the exception of the Pacific States, we find that here manufactures have seemed to lag. These states have remained largely mining and agricultural communities. It might seem, then, that, although the Central States have managed to prosper without protection against their older neighbors, the Western States have not done

so, and that here we have the strange spectacle of a confirmation of ~~of###~~ on the one hand and a confutation on the other of the protectionist theory, under similar circumstances. This apparent contradiction, however, can easily be disposed of. It rests on the protectionist fallacy that an extensive manufacturing industry is necessary for the prosperity of any community, and that therefore manufacturing establishments are good per se.

We find that the Central States, being well adapted for the growth of manufactures, have become manufacturing states to a marked extent, and are very prosperous under their free trade with their neighbors. We find that the Western States, not so well adapted for the growth of manufactures, have remained engaged more largely in the extractive industries. But their people are for this reason neither poverty stricken, miserable and uncouth, nor oppressed by sap-sucking manufactures of the East. To make an off-hand comparison of the relative prosperity and happiness of the people of different sections of a country is somewhat hazardous. Yet it would seem safe to say that the people of Kansas, of whom 1.8% were wage earners in manufacturing establishments in 1900, were as happy and prosperous as the people of Illinois, where the same percentage was 6.9% or the people of Massachusetts, where the percentage was 15%.

Having noted rather briefly the general trend of development of manufacturing in the United States, let us glance# at the determining factors influencing that development.

" Certain factors are recognized as influencing the localization of industries. Among the causes of localization, seven are enumerated in the twelfth Census, as follows:

1. Proximity of raw material supply.
2. Readily accessible markets.
3. Presence of water power.
4. Favorable climate.
5. Availability of labor.
6. Availability of capital.
7. Momentum of an early start#.

" The first four of these are distinctly geographical causes, while the three remaining ones are more or less determined by the first four.

" The data for these observations are based on the relative values of an industry in a state or city as compared with the total value of the same industry for the United States at large. Fifteen industries are selected to illustrate the principle. For example, it is shown that the manufacture of agricultural implements is localized chiefly in Illinois, Ohio,

1. Spencer Trotter, Geography of Commerce, p. 127.

and New York. The factors operating in the localization of this industry are first, the extension of the heart of the great agricultural section, making a ready market. This fact has caused the movement of the agricultural implement industry from New York westward on account of the cost of transporting the finished goods. A second fact is the nearness of the Ohio and Illinois districts to extensive hardwood forests, while a third factor is the nearness of the iron supply.-----

-----" Massachusetts shows over 32% of all the cotton goods manufactured in the country: this is the result of early utilization of water power and the presence of a moist climate. Its supremacy is clearly due to the advantage of an early start. The southern states have advanced in cotton manufacturing during the last decade, particularly North and South Carolina, which show a combined increase during this period of upwards of 2,000,000 spindles. Over fifty new mills were completed in the two states in 1900. Accessibility to the raw material supply is here an important factor, coupled with water power, cheap fuel, and the comparatively low cost of living.

" Pennsylvania produces 54% of all the iron and steel in the country from the proximity to the coal, and because of iron ore and limestone deposits of the Alleghany Plateau. In the early days it also had the advantage of the great forests of the region for fuel. The center of the industry has migrated westward from the anthracite region of eastern Pennsylvania, to the western part

western part (Connessville district) and to eastern Ohio as a result of the use of coke # (a bituminous product) in the blast furnaces, and also because of the use of large quantities of Lake Superior ore. The increase of the industry in Illinois is the result of the great market for steel goods, the supply of fuel, and the proximity of the ore fields.-----
 -----" The slaughtering and meat packing industry had its origin at Cincinnati, Ohio, as early as 1818, incident to the livestock and corn production of the surrounding region, and the transportation facilities of the Ohio River. The center has migrated westward with the westward extension of the corn belt and the cattle ranges, and it is now in Illinois: The Chicago packing industry has an output of over 35% of the total United States product. This centering of industry rests upon the fattening power of the corn belt food supply, and the railroad facilities which bring livestock from the more distant western ranges, as well as upon the perfected development of the cold storage process of shipment."

The four examples quoted here from Trotter, showing how these industries have grown up in newer sections because of geographical reasons, in competition with the established industries of the older sections, are but typical of the development of all industries. The industrial history of the United States has amply shown that an industry in a newer section with ample raw material supplies, power and transportation facilities, will compete with

compete successfully with, and often displace an established industry in an older section.

I made the statement at the beginning of this section of this paper that the purpose of sketching the development of the manufacturing industry in the United States was to show that the industries of Canada do not need protection against those of the United States. The connection seems obvious enough. Industrially the relation of Ontario and New York, for instance, is analogous to the relation of New York to Ohio, or the relation of Manitoba and New England, to that of Nebraska and New England. Protection in the one case does not differ from protection in the other in its economic bearing. If Kansas, for instance, can prosper without protection against the rest of the United States, there seems to be no reason Alberta should not prosper under similar circumstances.

Politics and local sentiment has not been lacking which would have destroyed free trade within the United States under pretexts just about as sound from an economic point of view as those used to keep up the tariff wall between the United States and Canada. The attempts of the American States to "protect" ~~their~~ their industries from the industries of other states did not end with the adoption of the Constitution.

" In general the protective system is supposed to be drawn

1. Bliss Encyclopedia of Social Reform, Article, Free Trade.

exclusively upon national lines; and it is constantly assumed that the only question between protectionists and free traders is as to whether foreign goods should be admitted in free competition with domestic goods. But this was not originally so, and is not altogether so even now.----- The legislature of New York has passed laws requiring all stone used for public buildings to be dressed and finished within the state; and serious efforts have been made to compel such stone to be taken from New York quarries. The common councils of some cities have repeatedly made efforts to prevent the admission into those cities(for public use, at all events) of certain classes of goods made in other cities. Heavy license fees have been repeatedly demanded by the authorities of one state from the citizens of another state undertaking to sell goods within its borders. Many statutes and ordinances of this kind have been enacted, most of which however, have been held void by the Supreme Court of the United States as violative of the Federal Constitution. If it had not been for the existence of this Constitution and the firmness of the Supreme Court there can be little doubt that long before this time such laws and ordinances would have become universal, because they would have been enacted in retaliation, even in states where the people disapproved of them as an original proposition. The principle underlying such statutes and ordinances is precisely the same as that which underlies and protective tariff whatsoever. No

intelligent distinction can be made between the two cases. No sound reason can be given for maintaining a protective tariff between New York and Canada, which does not apply with a hundred fold force to "New York and New Jersey."

The last two sentences quoted could hardly be questioned if they were modified by the qualifying phrase "from an economic point of view." It is doubtful whether they are to be confuted as they stand, yet it would be useless to deny that something more than pure economics is to be grappled with when we consider the commercial relations of two mutually independent nations. This something more is the political element. Let us consider for a moment, then, the theory of Frederick List, as it is related to the question we are discussing.

V. The National System of Political Economy.

The general theory of Frederick List is this:

" History teaches us that nations which have been endowed by nature with all resources which are requisite for the attainment of the highest grade of wealth and power, may and must--without on that account forfeiting the end in view--modify their system

1. Frederick List, The National System of Political Economy, p. 115

according to the measure of their progress; in the first stage adopting free trade with more advanced nations as a means of raising themselves from a state of barbarism, and of making progress in agriculture; in the second stage, promoting manufactures, fisheries, navigation, and foreign trade by means of commercial restrictions, and in the last stage, after reaching the highest degree of wealth and power, by gradually reverting to principles of free trade and unrestricted competition in the home as well as in the foreign market, that their agriculturists, manufacturers, and merchants may be preserved from indolence, and stimulated to retain the supremacy which they have acquired. In the first stage we see Spain, Portugal, and the Kingdom of Naples; in the second, Germany and the United States of North America; France apparently stands close upon the boundary line of the last stage; but Great Britain alone at the present time has actually reached it."

Since that paragraph was written there has been a great advance in the economic development of the various nations. It is quite likely that List would now class the United States as having crossed the ~~###~~ boundary line of the last stage. If that is the case, the doctrine of List would demand free trade, rather than protection, as the proper policy ~~###~~ for the United States to pursue in regard to Canada.

However, Canada is apparently in the second stage, and so according to the doctrine as given by List, should pursue a

a restrictive commercial policy, of which protection against the industries of the United States would naturally be a part.

But let us look into the reasons List advanced to justify a restrictive commercial policy on the part of a nation in the second stage of economic development. The central principle of List is the idea of National development. Nations can and will if given an opportunity mutually restrain each others economic and political development. A stronger nation, if given free entrance into the markets of a weaker, will not only retard the economic development of the weaker, but even repress it altogether. His remedy for the weaker nation is for it to build itself up by commercial restrictions into a community strong enough through its diversified industries to meet force with force, whether economic or political.

Now, although the theory of List ~~may~~ be universally applicable to ~~some~~ extent, we must remember that List was a German born in the year 1789. The international relations of Germany in the formative period of his life were mainly political, and politically Germany during that period was greatly humiliated. His, is a theory then mainly applicable to a nation surrounded by hostile nations stronger than itself and more or less bent upon its destruction.

We may say of List's doctrine that it was probable good doctrine in the case of Germany in the middle of the nineteenth

century. It is applicable in a time when nations are ready at a moment's notice to jump at each others throat, when their relations are political rather than economic, and their wars often only the result of personal quarrels and jealousies of their rulers. It becomes less and less applicable as inter-national relations become more friendly, and the danger of political oppression of one nation by another becomes less. Against the doctrine of free trade in state# of perpetual peace List himself offers no objection:

" If as the prevailing school requires," he says, "we assume a universal union or confederation of all nations as the guarantee for an everlasting peace, the principle of international free trade seems to be perfectly justified. The less every individual is restricted in pursuing his own individual prosperity the greater the number and wealth of those with whom he has free intercourse, the greater the area over which his individual ~~#####~~ activity can exercise itself, the easier it will be for him to utilize for the increase of his prosperity the properties given him by nature, the knowledge and talents which he has acquired, and the forces of nature placed at his disposal. As it is with separate individuals, so is it also the case with individual communities, provinces, and countries. A simpleton only could maintain that a union for free commercial intercourse between themselves is not as advantageous to the

1. Frederick List, National System of Political Economy, p.122.

different states included in the United States of North America, the various departments of France, and to the various German allied states, as would be their separation by internal provincial customs tariffs."

Now the situation confronting Canada to-day approaches much more nearly the condition of a state of universal peace than it does the situation of Germany at the time when List was formulating his theory. There is no reason to believe that the national life of Canada would be placed in jeopardy by freer trade relations with the United States. If free trade is desirable, as List says, between nations in a state ^{of} perpetual peace, there is little reason for restriction of commercial relations between these two countries. In fact there is no more reason to apprehend a war between Canada and the United States than there is to expect a conflict between the western states and the eastern states of the union, if as much.

If the objection is raised that free trade between the United States and Canada might in the end mean free trade for both of them with the world, we may answer that even then the theory of List would not be applicable with its old force. Wars among the nations of western Europe and North America, at least, are likely to become a mere memory in the near future. This is so because of the growth of democracy, giving the persons who have usually to bear the brunt of warfare, a voice in the councils of war. A war-lord, or a commercial baron can no longer

declare war without the consent of the men who are to fight his battles. Perhaps a stronger guarantee for peace are the intimate international commercial relations which have sprung up in spite of commercial restrictions.

It would seem, then, that neither the theory of List nor of Hamilton justifies a restrictive commercial policy so far as the relations of the United States and Canada are concerned. Having now considered our problem in its general aspects, more or less theoretically, let us next examine it more in particular in connection with the special interests ~~##~~ involved.

VI. Canada and Freer Trade--From an Economic Point of View.

The examination of this part of our problem will be carried on more or less in the light of the discussion aroused by the recent attempt at Reciprocity, and extracts from many of the articles written during that discussion will be quoted for the purpose of showing the attitudes of the various parties concerned.

Now as regards the Canadians, it is evident that we can not sum up their view in one sentence, and say thus the Canadians looked upon this question. The opportunity for gaining reciprocity with the United States which was given to our northern neighbors, presented them with no simple problem. They recogni

recognized that the reciprocity tie, so to speak, might be made out of a rope of many strands, which could not be unravelled from one another. On its face the problem presented was an economic problem. But the Canadians believed that it was bound up closely with political and social problems.

If the Canadians had been asked to vote on the simple question " Will reciprocity be economically profitable?" and no other question had been involved, there is no reason to believe that they would have answered in the negative. From an economic point of view reciprocity would have meant gain to the farmer, fisherman, lumberman, miner, and quiteley in the end after a period of readjustment, for the manufacturer. Each would have been given broader possible markets for his products, and they would not have had to be exceedingly keen-minded men to recognize the advantage arising therefrom. Even with the manufacturers opposed, the vote should still have been in favor of freer trade relations.

In 1911 the rural population of Canada was 3,924,083, and the urban 3,280,297. With over half the population then directly engaged in agriculture, apparently, and with a considerable part of the urban population directly or indirectly interested in agriculture, fisheries, lumbering and mining, we can see that from

1. Fifth Census of Canada, 1911, Special Report on Area and Population.

an economic point of view reciprocity would have been advantageous to a large majority of the Canadian people immediately. This true because reciprocity as provided for in the proposed agreement was little more or less than free trade in the natural products of Canada.

The leading articles that were to be admitted free were cattle, horses, hogs, wheat, oats, barley, apples, potatoes, peaches, butter, cheese, eggs, fish, timber, tinplates, type-casting and type-casting machines, ground pulp (chemical) and print paper up to a value of four cents a pound. Other articles, comprising Schedule B of the agreement were to enjoy a reciprocal lowering of duties. The leading articles under this schedule were fresh meats, bacon, ham, salted beef, barrelled pork, canned vegetables, flour oatmeal, ploughs, harrows, waggon, and harvesters. In addition there were to be certain reductions in duty no longer exactly reciprocal.

But let us turn from these generalizations, and notice some of the particular economic results of commercial restrictions in Canada, which the reciprocity pact might have made it possible to eliminate, ~~or which are one of the~~.

" One able Canadian writer calculates that the 'national' cotton industry of Canada, which in 1905 employed only 10,000

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1. Review of Reviews, April 1911. Reciprocity between the United States and Canada.
 2. C.E. Mallet, Contemporary Review, Oct. 1911, # The Case for Reciprocity. p.485

hands, cost the Canadian people \$5,000,000 a year,----- and that the 'national' sugar refineries which employed less than 1700 people, cost the public \$2,000,000 a year."

Another writer says of the sugar industry that the people of Canada could pay a pension of 200 pounds a year to each of the 1800 employees engaged in the sugar refineries, and still be over 300,000 pounds ahead, provided they could buy sugar at the open world market price, and that the same is true of rubber and many other articles of general use.

The coal industry is another case in point just as striking:

" Every province in Canada, except Nova Scotia, would be benefited by free trade in coal, for the existing duty in the Dominion tariff in the interest of the coal operators of Nova Scotia is costing the Dominion \$3,500,000 a year."

" Since 1879, there has been a duty on ~~the~~ bituminous coal with the avowed object of holding the Canadian market for Nova Scotia mine, but after thirty years of persistence, it has been found impracticable to force Nova Scotia coal into use in Ontario. That province still draws its increasing supplies from United States. It is, further, very doubtful whether the Nova

1. J. J. Harpell, Contemporary Review, Jan. 1910, p. 98.

2. Edward Porritt, North American Review, 189:688-94, Canada and the Payne Bill.

Scotia mines are benefited by the restrictive policy, since they would in all probability find a ready market for their coal, under free trade, in the Atlantic seaboard cities of the United States.

These examples of protected industries in Canada show that the majority of the Canadian people are being injured by the protective tariff directly. That the indirect benefits to be expected in return for the present loss, will ever offset this loss, is exceedingly doubtful.

" The Liberal Convention of Ottawa in 1903 boldly declared that the "National Policy, while building up trusts and combinations had decreased the value of farm property, had checked immigration and had impeded commerce. And it is impossible to study the evidence collected by many Canadian writers without admitting that the advocates of Reciprocity have strong grounds for the indictment they present. Production on a small scale has certainly been checked. For one new manufacturing establishment created, many have disappeared.----- There are grave reasons for asking whether all the manipulation of interests and prices which goes on behind the tariff wall is really developing Canada in the best way; and the answer given by the agricultural interests in the country is to-day of a decisive kind. The

 I.C.E. Mallet, Contemporary Review, Oct. 1911, The Case for Reciprocity,

unprotected interests--not consumers only--but the producers of the greatest wealth which the Dominion holds--declare that they are being injured for the sake of a few favored and organized interests.---- The farmers and fishermen have to sell their products in a market where the abundance of nature keeps prices down, and to buy all they want in a market where every price is artificially raised."

The foregoing is a sound criticism of the protective policy in Canada, with one exception. It can not be said with certainty either that the building up of trusts and combinations is bad per se, or that the disappearance of small manufacturing establishments has been due to the trusts.

The attitude of the farmer ~~#####~~ has not changed since 1893. " Every agricultural paper in Canada and the most important of the farm organizations were heartily in its (reciprocity's) favor."

We may safely say, then, that from a purely economic point of view the great body of Canadians were in favor of reciprocity, and would have been benefited as a result of freer trade. But there were some men- who on account of vested interests- opposed it on purely economic grounds.

" In spite of the comparative immunity, and the private

1. O.D. Skelton, Jour. Pol. Econ. Nov. 1911. Canada's Rejection of Reciprocity.

assurance that no further reductions were contemplated, the manufacturers and the allied banking and railway interests afraid of the thin #edge of the wedge, fought the (reciprocity) pact in almost unbroken ranks."

These opponent of reciprocity were in a position to make their opposition count out of proportion to their number.

" Canadian protectionists are exeedingly well organized. There can hardly be 200 manufacturers in the Dominion who are not members of the Canadian Manufacturers' Association, which has 2400 members."

Now it cannot be denied that these manufacturers deserve some consideration in the commercial policy of the Dominion. If they have invested their capital in a business which must be protected to live, as some of them have, it must be said that they have done so at their own risk and with the expectation of winning large profits. Yet the government which has encouraged them in this is hardly free from obligation to preserve them from ruin#not only for their own sake, but for the sake of preventing such injurious reaction upon the business as a whole of the Dominion as might result from the shock of readjustment accompanying a free trade policy.

Not one of the least arguments against a protective system in any country is the fact the protected interests are likely to receive more than a just consideration in national legislation and that legislation in protected countries has a tendency to degenerate into a wild grabbing of special privileges instead of performing its legitimate function of working for the general welfare. Such a tendency is appearing in Canada as it has appeared in the United States.

" Many who have watched the rapid growth of Canadian manufactures forget the cost the country had to pay. For years the Liberal leaders denounced the new system as unfair to the unprotected interests, as wasteful, corrupt, oppressive in the tax which it levied on the masses of the people. But year when the Liberals returned to power in 1896, so strong was the hold of the organized interests, so difficult is it to abolish tariffs on the faith of which manufactures have grown up, that the essential elements of the national Policy remained unchanged. New bounties in some cases took the place of lowered duties, but the high duties of 25% to 35% remained substantially the same. And the new ~~tariff~~ tariff of the Liberal party till then the clamorous advocates of free trade, remained in effect a tariff framed to safeguard the interests of those Canadian

manufacturers whose political influence was too strong to be denied."

Since Canada is pre-eminently an agricultural country, and an exporter of agricultural products, it can not be said that protection is required for her agricultural interests. The only justification, then, from an economic point of view for Canada's protective tariff wall against the United States, is that it may be necessary for the development of manufactures in Canada. It is assumed that these manufactures would not develop without such protection. But this assumption does not seem to be justified, if the development of manufactures in the newer states of the Union can be said to demonstrate the fact that manufactures tend to grow up wherever the necessary conditions—power, raw material supply, markets, and transportation facilities—are present. Our contention here is, that with those necessary conditions present, manufactures will grow up without government aid. Perhaps they will develop more rapidly with protection, but such unnaturally accelerated growth is unhealthy, and is not an indication of prosperity.

Canada boasts of tremendous natural resources, natural transportation facilities, unrivalled water power. If she has these, her manufactures will take care of themselves, just the manufactures of the United States would have taken care of themselves, if they had been left to themselves. As regard

the particular competition of the United States, the Canadian industries ought to thrive as well as have thrived those in the United States west the Mississippi in competition with those in the East. If we take the case of Missouri and compare her manufactures with those of Canada we are led to doubt the efficacy of protection against the United States even to accelerate the growth of manufactures# in Canada. Let us glance at the comparison just a moment.

Manufactures in Missouri and in Canada Compared.

| | Canada, 1906. | Missouri, 1910. |
|-------------------|---------------|-----------------|
| Value# of product | \$718,352,605 | \$617,000,000 |
| Wage earners | 366,034 | 213,641 |
| Wages paid | \$134,375,925 | \$125,250,000 |

It will be seen from this table that the value of the manufactured products of Missouri in 1911 was# almost as great as the value of the manufactured products of Canada in 1906. Although the figure# for Canada in 1911 probably reaches or exceeds \$1,000,000,000, it still remains true that Missouri manufactures which have never been protected against the country east of the Mississippi equal or exceed in per capita value those of Canada which have been so protected since 1878.

1. Canada Yearbook, 1910, p. 36

2. A. W. Biggs, Commissioner of the State Bureau of Labor Statistics, Report for 1911.

If one will take the trouble to look over the list of products manufactured, he will find about as large a variety in the one case as in the other. But two notable items are lacking in the Missouri list which are found in the Canadian list-- textiles and iron and steel, for the ~~presumptuous~~ proud possession of which Canada is paying a heavy price.

Our conclusion from the foregoing, then, must be that from the economic point of view, protection of Canadian industry, whether agricultural or manufacturing, is unsound and undesirable. It causes the consumer to pay more ~~###~~ for what he buys, and the retaliatory duties laid by the United States limits the market of the producer and lowers the price of what he has to sell. Furthermore it tends to create legislation solely in the interest of special classes, whereby a system of logrolling arises ~~#####~~ which for every dollar it benefits some special interest may cost the Dominion as a whole many times that amount.

Let us turn next to a brief survey of ^Reciprocity or freer trade relations with Canada from an economic point of view as it would effect the United States.

VII. The United States and Freer Trade--From an Economic Point of View.

I have already shown that it is on the verge of absurdity for the American manufacturer to demand protection against the industries of Canada. But undoubtedly American protected interests would oppose free trade with Canada, as they are said to have opposed reciprocity as the entering wedge of free trade, although the proposed agreement was distinctly favorable to them. From an economic point of view, however, their opposition to free trade with the country north of the Great Lakes is as unjustifiable as would be their opposition to free trade with the country west of the Mississippi. It is not so much their fear of meeting any Canadian competition which would arouse their opposition, as the fear that concessions granted to Canada might be extended to other countries.

The American consumer would gain from freer trade relations with Canada, if we consider him as an abstraction. But concretely, the consumer is also a producer in most cases, and we must consider whether as a consumer he would gain more than as a producer he might lose. It is pretty clear that if freer trade would, as economic theory holds that it would, increase the abundance of economic goods by cheapening production, then the consuming public as a whole would gain. But some of these consumers engaged in the production of certain

protected commodities might suffer temporary economic loss. Let us consider the case of the farmer, who is both a producer and a consumer of the articles in which there would be direct competition between the United States and Canada.

As the proposed reciprocity pact was drawn up- with practical free trade in the farmer's products, with only reduced tariff rates on the corresponding manufactured products- a pact so drawn up as to promise reduced prices for the farmer's products, with no equivalent reduction in the price of goods he has to buy-- with the agreement the farmer obviously had a right to quarrel. The American farmers if they had been given an opportunity would have voted down this agreement more emphatically than did the Canadians, and they would have done so on purely economic grounds. To the American farmer it might well have seemed unjust to take away his protection at the very time it really began to protect.

Some of the objections of the American farmer to reciprocity with Canada as it was proposed are as follows:

1. It is not real reciprocity- the farmer gets nothing in return.
2. It will reduce the price of wheat.
3. This will re-act on the wheat and corn acreage and reduce

1.G.C.White, Jour.Pol.Econ., July, 1911. The Proposed Agreement as Viewed by the Farmer.

the price of corn, and other farm products.

4. It leaves the manufacturer protected and the farmer unprotected. If the manufacturer wants cheaper food for the sake of cheaper labor, let him give up his own protection.
5. It would be far better to produce our food at home and have our own farmers prosperous consumers than pay our money to the Canadian farmer for his products with no assurance that he will spend any part of such money for American goods.

We find the American farmer then crying out that ~~##~~ it is unfair to protect the manufacturer and not protect the farmer. He asserts that he has been tricked into paying unnecessarily high prices for manufactured products in the past by the promise that the home market thus built up would pay him higher prices in the future. Now, he says, just when the American market promises to rise above the level of the world market, and he is ready to reap his reward, his protection is to be swept aside. The protected manufacturer of the United States, with his various arguments for protection, would find it difficult to answer these objections and complaints of the farmer. But let us examine them for ourselves, both from a theoretical and from a practical standpoint.

First as to theory. The theory of protection as advanced by List and Hamilton had no reference whatever to agricultural

products, but solely to manufactures. Their doctrine does not assume the policy of protection to be applied to an industry impeded, not by artificial and removable, but by natural and permanent obstacles. All protection to agriculture is an abuse of the theory of protection to infant industries differing only in degree from the case of protecting the banana industry in Minnesota.

" The argument for agricultural protection is forced to abandon the infant industry plea, and merely appeal (like the modern form of the argument for protection to manufactures) to an alleged difference in the cost of production at home and abroad. In this form it becomes an argument, not for a temporary but for a permanent policy, which means, in brief, that the protected industry shall be made permanently a parasitic industry, to be maintained at the expense of all other industries, and, moreover, that the less suited it is to the country, the more the people shall be taxed for its support."

Protection to both agriculture and manufacture at the same time is inconsistent with any and every rational theory of protection- it is like an attempt of a man to lift himself by his boot straps, or to saw a piece off one end of a board and nail it on to the other in order to make the whole longer. The idea

of difference in the cost of production carried to its logical results would prohibit all foreign commerce whatsoever. From a theoretical point of view the farmer's plea for protection is very weak.

From a practical point of view it is doubtful whether the farmer would gain anything from protection against Canada. With free trade between the two countries the chief Canadian products the American farmers would have to compete with would be wheat, barley, and flaxseed. Now, "only one farmer in ten in the United States has any material interest in wheat, barley, or flaxseed, as a producer, while all are interested as consumers of wheat and flaxseed products."

Up to the present time, the price of wheat in the United States has been with the exception of a few times, on a world market level. Therefore free trade in wheat can now be had without encroaching upon vested interests, since under the circumstances it could not lower the price of wheat. The same is true of other farm products in which the United States and Canada would be brought into competition under free trade. Only in case Canada should be able to increase her production of wheat to such an extent as to lower the world price would the American farmer suffer from her competition.

1. E. Van Dyke Robinson, Jour, Pol. Econ., July, 1911. Reciprocity and the Farmer.

What free trade in agricultural products between the United States and Canada would do would be this, as stated by President Taft.

" It would increase border sales by giving nearer markets, and would ~~enlarge~~ the supply of farm products for our people, and thus prevent undue enhancement of prices."

It may be pointed out here that horses, cattle, and hogs, are higher, rather than lower in Canada than they are in the United States, and the same is true of eggs and butter, especially in western Canada. Therefore it is quite possible that the American wheat grower, if he should be injured by free admission of wheat, could recoup himself by the higher price for his animal products which a broader market would afford. It is certain that one of the results of free trade would be some such readjustment in the geographical division of labor in agricultural production. Such a readjustment would unquestionably be advantageous to the people as a whole, although a few individuals might suffer temporary loss.

To put agriculture upon a protected basis would be calamitous to the general welfare of the nation, and would most likely prove injurious to the agricultural population itself in the end, by making its prosperity depend upon legislation, which is uncertain, rather than upon natural conditions and ability.

1. . . H. Taft, J. Our. Pol. Econ, July, 1911, Reciprocity with Canada.

2. Hibbard, Economic Review, June, 1911. Reciprocity and the Farmer,

The farmer who would be uncertain whether or not to sow wheat in the fall of a presidential year, or one the eve of a tariff reform, would not only be in an unenviable position himself, but would prove a poor food supplier of a nation. Farmers as a whole could afford to accept a somewhat lower price for their products with that price resting upon the firm foundation of supply and demand, than to obtain a higher price which would depend upon the political complexion of current legislation. And even with a protected agriculture, the possible addition to the price of farm products would not likely find its way into the pockets either of those who were actually tilling the soil or those who have built up the "home market" by buying protected manufactured goods. A great part of it would be paid out as rent or interest on the increased capitalization of land and an increase in the price of farm products would warrant.

On the question of freer trade relations with Canada it would seem to be in the best interests of the farmers to accept free trade in farm products, and clamor for free trade in manufactured products, not only with Canada, but with other nations rather than to accept the principle of perpetual protection in manufactured goods, and clamor for perpetual protection in agricultural products. Freer trade, for the farmer as well as for others, would mean the advantage to be reaped from an increasing profitable trade.

In conclusion of our discussion of ~~#####~~ our subject from an economic point of view, we may say that, vested interests not under consideration, free trade between the United States and Canada is highly desirable. The vested interests, however, complicate the situation. Some Canadian manufacturers might suffer severely. To these the Canadian government, if it is responsible for their position could lend aid in transferring their capital to more natural and suitable industries. American manufacturers would not suffer to any serious extent unless the freer relations should be extended to other countries. In that case the reduction in the tariff would have to be made cautiously and gradually so as to prevent an unnecessary shock to the general business interests of the country.

As to the possibility of securing the consent of the American people to freer trade relations, this much is to be said. The American farmer if given a voice in the matter would not readily ~~##~~ accept free trade with Canada unless the manufacturing interests would concede freer trade relations in manufactured products to some extent with other countries. In that case he would probably be found in favor of unrestricted trade with Canada. With the present sentiment in favor of tariff revision, and the suffering consumer held up as an object of pity, it is altogether unlikely that such concessions could not be wrung from the manufacturing interests. We may say then, that that, not only is freer trade with Canada desirable on the part

of the United States, but that legislation to that effect is at the present time expedient and possible.

VIII. Canadian Politics and Reciprocity.

It is the consensus of opinion that politics, and not Canadian economic theory, killed Reciprocity in Canada. When the Canadians voted on the question of reciprocity and defeated the Liberal government, there were many cross-currents in the political stream. Yet " it was undoubtedly the reciprocity issue that decided the election. It is further beyond doubt that it was the political rather than the economic aspect of the case that carried most weight."

" From the outset opponents of reciprocity concentrated on the political issue. The government was denounced as favoring an agreement which was the forerunner of annexation, the death-blow to Canadian nationality and British connection.----- Every American cross-r ade politician who talked of the Stars and Stripes floating from Panama to the Pole was set doan as a statesman of national importance, voicing a universal sentiment."

Ancient prejudices and smoldering causes for dislike of the United States were raked up and fanned into a blaze. It

l.O.D.Skelton, Jour.Pol.Econ., Nov., 1911. Canada's Rejection of Reciprocity.

seems that the Canadian people were influenced as much or more perhaps by a desire to "get even" with the Americans for past insults and injuries, as they were by the fear of political and social evils that might arise from closer trade relations.

The voters still remembered, or if they did not remember they were reminded of the fact that many of their ancestors had been driven from the United States in the time of the Revolution, and their estates confiscated, that Canada had been invaded by United States armies, that the Reciprocity Treaty of 1854 was broken off by the United States as a political move to force Canada into the Union, that the United States broke off the fishing treaty of 1871, that the United States Senate refused to ratify a new fisheries treaty and passed a Bill of Non-intercourse with Canada, that the Dingley and McKinley tariffs raised the average duties of Canadian exports to 50% and 49% respectively, while Canada's average of United States exports was about 29%, that the Liberal-Conservative party made a final but vain effort for betterment of trade relations in 1892, and that the Liberal party made three more ineffectual efforts in 1896, 1897, and 1899.

" These long years of varying menace, of fruitless quest, and constant rebuff, had their effect upon Canada. She was thrown

1. George E. Foster (former Minister of Finance in Canada)
Nineteenth Cent., June, 1911, Canadian Autonomy and American Reciprocity, A Canadian Point of View.

back upon herself, the strong grain of independence and loyalty to British institutions was hardened and polished, and the dim glimmerings of early hope broadened into the all-alluring vision of a strong Canadian nationality under the aegis of an all-world British Empire.

" America's refusal of fair trade, American menace and pressure were answered by Canada in a determination of becoming free therefrom, of building up a distinctive nationality, and maintaining a position of economic and political independence under the British flag. Her instruments for this undertaking have been a protective tariff, establishment of home industry, inter-provincial trade, and development of a water and rail transportation system."

This policy the writer quoted has been very successful in building up trade and industry and attracting immigrants.

Another thing which undoubtedly had an influence in the election is the fact that some Canadians at least consider the Americans as being, politically and socially, in bad circumstances. It is characteristic of a young nation, as of a young human being, that it is far more likely to see the faults of its elders than its own, and that it has a tendency to magnify its own wisdom. The United States has suffered to some extent from its self styled virtue and precocity, just as we may suspect Canada of suffering. "ere is what some Canadians think of us as it ^{was} expressed in an article published in the Toronto

World while the reciprocity campaign was on.

In the United States they are chained down to a system imposed upon men now living by men who have been dead for one hundred years. The President can not cure the evils he finds before him. The Senate has grabbed many powers and has become a house of privilege. The popular house has become an insignificant influence, through which the views of the people can not be realized. The American constitution and system of government has broken down; mighty changes are at hand, and the American people must find a way of governing themselves.

Likewise, ~~###~~ according to this article, American finance has broken down. The most extravagant gambling institution in the world is Wall Street. It is based on robbery, cheating and demoralization. Of all the rotten things in Wall Street, the rottonest is over-capitalization and the enormous consolidation of interests, and the attendant thereupon issue of securities largely made up of water. Municipal franchises have been exploited in the most shameful way. Railways and tramways have been watered and re-watered for the benefit of exploiters. Immense trusts, controlling the necessities of life, have not only cornered the commodity, but watered the organization as a financial proposition to ten times more than it should have been in some cases.

Unfair concentration of capital, stock-watering and stock gambling-- these three combined can ruin almost any nation.

Add## the worst thing of all is that the financial abuses which are so enormous and far-reaching are to-day entrenched in the constitution. You must smash the constitution to smash the abuses. Such is the opinion of some Canadians of conditions in the United States.

From such an ungodly crew and ill-fated passengers of our ship of state, the Canadians might well turn away in alarm. But they were somewhat unduly alarmed. The conditions are hardly as serious as the Toronto World points out. If the Canadians will only look about them, they may find problems of their own.

Without doubt the Canadians were afraid of those trusts mentioned in the article ¹ have been quoting. Said Mr. Borden in a speech in the House on February 9, 1911:

" We can guard against our own trusts and combines by appropriate legislation passed by the parliament of Canada, but we have no means except our tariff to guard against the trusts and combines of other countries. With a tariff union, ^{of} the two countries there must be a political union for Canadian protection.

We have now seen the Canadian attitude toward reciprocity through the eyes of its opponents. Let us now see it through the eyes of one of the most vigorous advocates of reciprocity. John A. Macdonald.

1 " The truth is, the most potent factor in the election was not the economic argument, or the commercial advantage which reciprocity in natural products would have brought, but the vague prejudice against the United States, the distrust of the sincerity of the American politicians and the uneasy fear that free trade relations might in some way lead to closer political connection. It was sentiment and not reason, fear and not argument, that tipped the scale against reciprocity. For many years there has been in the sub-consciousness of Canada a resentment at the open disregard of Canadian interests manifested by the United States in every amendment of the American tariffs. ~~on the natural products of Canada~~ Prohibitive tariffs on the natural products of Canada destroyed Canadian trade and greatly hampered Canadian development.

1 "Back of all this was the unforgotten grievance of Canada against the United States, in which Britain was also involved because of the settlement of inter-national boundary disputes! ----- "That old sense of having been given the worst of every bargain was revived and made acute when a new bargain was proposed. -----

----- "The spread-eagleism of the American politician," too, says Macdonald, " and the lavish display, boastfulness and flaunting of the stars and stripes by the American tourist in Canada, has -----

1. J. A. Macdonald, Contemporary Review, Nov. 1911. The Canadian Elections and Afterwards.

in Canada has made a widespread dislike of American ways.

"All these things conspired to create a general prejudice ~~###~~ against the United States, and to this prejudice the opponents of the Laurier government made direct and persistent appeal. -----" The Union Jack was waved as against the fear of the Stars and Stripes. To argue against such an appeal, or to reason with emotion aroused, was as vain and futile as to rebuke a London fog. -----Beyond all question the appeal was irrelevant, and the fear of annexation as a possible result of reciprocity and in trade was utterly rediculously absurd."

We find, then, that the political considerations that led the Canadians to refuse reciprocity lay in the past more than in the present or the future. This being the case, we can expect the Canadians to reverse their decision if again given the opportunity to vote on freer trade relations. There are two reasons for hoping for such a result. First, having now had their little revenge for rebuffs received at the hands of the United States, one motive for refusing reciprocity would be weakened. The other is that prejudice, although hard to argue against, gradually weakens with time, as the prejudice in the United States against anything British has weakened. Without doubt another campaign for freer trade relations would see the same prejudice appealed to in Canada, but the response would not likely be so strong as before. The majority against reciprocity

was not very large, and a little change in sentiment might overturn it.

IX. Reciprocity and the Empire.

Perhaps the strongest opposition to reciprocity developed in England rather than in Canada or the United States. The British (Conservative) arguments ranged all the way from the assertion that reciprocity would interfere with the Imperial preferential tariffs, to the assertion that it would destroy all possibility of Imperial Union and a possible Imperial Zollverein, and would lead to the annexation of Canada to the United States. Some British writers say in the proposed agreement the gateway of economic ruin for both the United States and Canada. Canadian agriculture would ruin the United States, and the United States manufactures would ruin Canada.

1 One British writer declares that President Taft conceived the brilliant idea of offering the Canadians such terms of reciprocity as might induce them to become the future hewers of wood and drawers of water for their southern neighbors. He mentions Senators Cummings, Jones, and McCumber, and Champ Clark as only favoring annexation.

1 Roper Lethbridge, Nineteenth Century, June, 1911,
Canadian Autonomy and American Reciprocity: an
English Point of View.

1 Another points out that the foundation of the German Zoll-verein lead surely and steadily to the creation of the new German Empire a generation later .The majority of the population of the United States,he says,expect what most CanadianConservatives and many Canadian Liberals dread,the pacifid absorbtion of the Dominion by the U_nited States. Farmers for the Republic will move north in larger numbers than ever,but they will move for business reasons only,and under the new conditions,their trade and railway connections with the United States would be far more important to themthough settled on Canadian soil,than any Canadian political interests ~~whats~~soever. Iⁿ these circumstances reciprocity would widen baturally into a North American Zoll-verein,with free trade from Panama to the Pole,and a protection-ist tariff wall against all the world without,including the United Kingdom.

2 Another ~~har #####~~ Englishman says that " any agreement from which the rest of the Empire is excluded,and which brings one portion of the empire into more intimate relations witha foreign country than the rest of the Empire, and which tends to make the development of that great Dominion more and more dependent upon foreign enterprise,foreign capital,and foreign routes of travel, than upon the established lines which run onBritish territory

1.J.L.Garvin,Forn.Rev.,March,1911. Imperian Union and American Reciprocity.

2.Benj. Taylor,Forn.Review.,Oct.,1911.Preferential Trade in the Empire.

is matter for Imperial anxiety."

Having seen now what some British opponents of reciprocity believe might happen with freer trade relation, let us next examine the actual problem of Imperial relations in connection with freer trade between the United States and Canada. One of the most important phases of this problem concerns the Imperial preferential tariff.

1 Since July 8, 1900, British goods have enjoyed a preference of one third in the Canadian tariff. The average Canadian duties range from 10% to 35% ad valorem. This leaves British goods taxed at from 6% to 24%.

2 " This much must be allowed, as regards British interests: that, in so far as reciprocity would encourage free trade and destroy protection, in so far it must destroy the system on which Imperial Preference depends. But when it comes to weighing the loss involved, there is little to be made of it. Even the preference has not been able to break down the tariffs against us; and if reciprocity led as it might, to an all round lowering of those tariffs in the future, to that extent our manufacturers would gain. Every blow struck to Canadian protection is a blow struck in the behalf of our traders."-----

-----" Preference has not enabled us to hold our own against

1. Edinburgh Review, April, 1907. Colonial Preferential Tariffs.
2. C. E. Mallet, Contemporary Review, Oct. 1911. The Case ~~for~~
for reciprocity.

the United States in the Canadian market, or to prevail against geographical conditions and the similarity of tastes and habits which make it inevitable for Canadians and Americans to trade with one another.

" Even under preference Canada's exports to the United Kingdom, in spite of the large increase in her food exports, have fallen from 59% in 1897 to 50% in 1910, whereas her exports to the United States have risen from 32% to 37%. Even under preference, American trade and the American markets are more important to Canada than our own." One of the chief reasons for this is:

1 " The Atlantic Ocean serves as the great barrier, and will always act as an ally to the United States in her competition with the United Kingdom to supply the wants of the Dominion, and the value of this alliance far outweighs any possible scheme of preference."

We find then that Great Britain would lose little by the breaking down of the preferential tariff, and that she might gain more in the end by the breaking down of the protective system in Canada, as well as in the United States. Britain's interest in freer trade relations between the United States and Canada, we must conclude is mainly political rather than economic.

If there is no danger of Canada breaking away from the Empire

1. Edinburgh Review, April, 1907, Colonial and Preferential Tariffs.

because of reciprocity, then Britain has nothing to fear.

Now, just what is the danger of Canada becoming a political annex of the United States because of freer trade relations?

There seems to be no reason why Britain, or Canada either, should apprehend such a result. In the first place, if the United States had any strong desire to incorporate Canada in her political domain, it is probable that she would have attempted it before now. Secondly, the chief motive for any nation to do any land grabbing is desire for greater freedom of trade with a larger extent of territory. Nothing will arouse the combative spirit so much as the knowledge that something is to be gained by fighting. Therefore, if Britain fears that Canada may desire to, or may be forced to become a political annex of the United States, the worst policy she can pursue is to attempt to hamper natural trade relation between the two countries.

In the third place, over half of Canada's foreign trade is with the United States now, and yet, before the question of reciprocity was brought up, there was little to be heard of a political union between the two countries. If Canada can do 50% her trading with us, and not become an adjunct of the United States politically, why should there be danger of annexation the moment that trade promised to become a little larger and more profitable? In fact there is less sentiment in the United States in favor of annexing Canada than there is for annexing Mexico, with whom we have only half the trade that we enjoy

with Canada. This is true because the Americans are more secure in their business relations with Canada than with Mexico.

IX. Diplomatic Difficulties.

It is asserted that there are diplomatic difficulties in the way of freer trade between the United States and Canada.

1 "Canada is a party to the Imperial treaty system, and she can not give to the United States what she does not give to all the countries with which she has most favored nation treaties."

1 There is a solution for this difficulty "under a system which would give the United Kingdom and each state of the Empire a reciprocating and an Empire tariff."

As far as the most favored nation clause is concerned, the United States is at liberty to grant reciprocity or free trade to Canada without thereby necessarily embarking upon universal free trade. The following is the American interpretation of the most favored nation clause:

2 "The most favored nation clause of our treaties with foreign powers have from the foundation of our government been invariably construed both as not forbidding any internal

1. Benj. Taylor, Fortn. Review, Oct. 1911. Preferential Trade in the Empire.

2. Opinion of Attorney General Olney, Nov. 13, 1894. (210p. 80-83)

regulations necessary for the protection of our home industries, and as permitting commercial concessions to a country which are not gratuitous, but are in return for equivalent concessions, and to which no other country is entitled except upon rendering the same equivalent."

The Supreme Court of the United States, as well as the Secretaries of the ~~Executive~~ State, Jefferson, John Quincy Adams, Clay, Livingston, Evarts, and Bayard, took the same position in regard to the favored nation clauses.

XI. American Statesmen and Politicians and the Question of Annexation.

As to whether freer trade would lead to annexation, I have said something in other sections of this paper. Unfortunately some of our statesmen have permitted themselves to make indiscreet remarks which can be interpreted as meaning that the United States is ready to gobble up Canada on the first pretext. President Taft and Champ Clark, because of their prominent positions, stand out as the chief offenders in this respect, while Roosevelt might have refrained from repeating an unfortunate statement of Taft, and thus avoided increased publicity of it. Of Clark's remark, nothing need be said ~~##~~ except that it smacks of the cheap political patriotism of "Hip, hip, hurray, boys, we're all for the flag. Come out and vote."

Taft's remark was little more nor less than the truth baldly stated in such a way as to wound sensitive inter-national feelings.

"The amount of Canadian produce we would take would produce a current of business, between Western Canada and the United States that would make of Canada only an adjunct of the United States." Such a remark could not but have an insulting sound to the sensitive Canadians. Of course Taft meant only an economic adjunct. An adjunct by definition is something added to, but not a part of. It is a complement, or a help. If Canada becomes an adjunct of the United States (in fact, if we can judge by trade figures she is that already) The United States by the same process becomes an adjunct of Canada. Because Canada is the smaller adjunct is no sign that she will suffer thereby. The remark of President Taft is not ^{so} ominous as it sounds.

Secretary Knox has better expressed the general sentiment of the United States toward Canada.

"The proposition with which we have to deal is economic, not political. The United States recognizes with satisfaction that the Dominion of Canada is a permanent North American political unit, and that her autonomy is secure."-----The two peoples are and always have been most closely related geographically and racially. Pursuing the same course of development and fostering

1. Speech of the Hon. Philander Knox before the Chicago Association of Commerce, Feb. 15, 1911. Printed, # 61st Congress, 3d Session, House of Rep. Doc. 1418.

the same ideals, their social relations have been intimate and complex, and inevitably brought them together politically in the sense, but only in the sense of possessing similar laws and systems of government, and the sympathies of like desires, although living under separate sovereignties."

XII. Conclusion.

We have now considered the question of ~~the~~ freer trade relations between the United States and Canada from several points of view. We have glanced at the theory of protection, and have found that it does not warrant a tariff wall between the United States and Canada. We have examined the arguments of the special interests involved, and find that they do not justify a restrictive commercial policy. We have seen that neither Great Britain nor Canada need to fear territorial aggression on the part of the United States because of freer trade--that, in fact, commercial restrictions would only serve to magnify any such desire on the part of the United States if it did exist. Socially Canada need not fear contamination through closer trade relations with her neighbor. If such contamination is possible under free trade, it is just as possible under protection when even under protection more than half of Canada's commercial intercourse with the world is with us. To escape such contamination, if it is possible, Canada

would be compelled to pass a bill of non-intercourse against the United States, and enforce it patrolling her southern border.

We have seen that the majority of the people both of Canada and the United States would be benefited by freer trade. Furthermore it seems that legislation to secure freer trade is now possible in the United States, and that the Canadians would not long hold out against the offer of terms so desirable from an economic point of view. Our final conclusion, then, is that freer trade relations between the United States and Canada are highly desirable, and possible of attainment.

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