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# PLEAS FOR PROTECTION EXAMINED.

BY

AUGUSTUS MONGREDIEN,

*Author of*

*"Free Trade and English Commerce," &c.*

S. COGNETTI DE MARTIIS



ASSELL, PETTER, GALPIN & Co.:

LONDON, PARIS & NEW YORK.

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PLANS FOR PROTECTION

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## PREFACE.

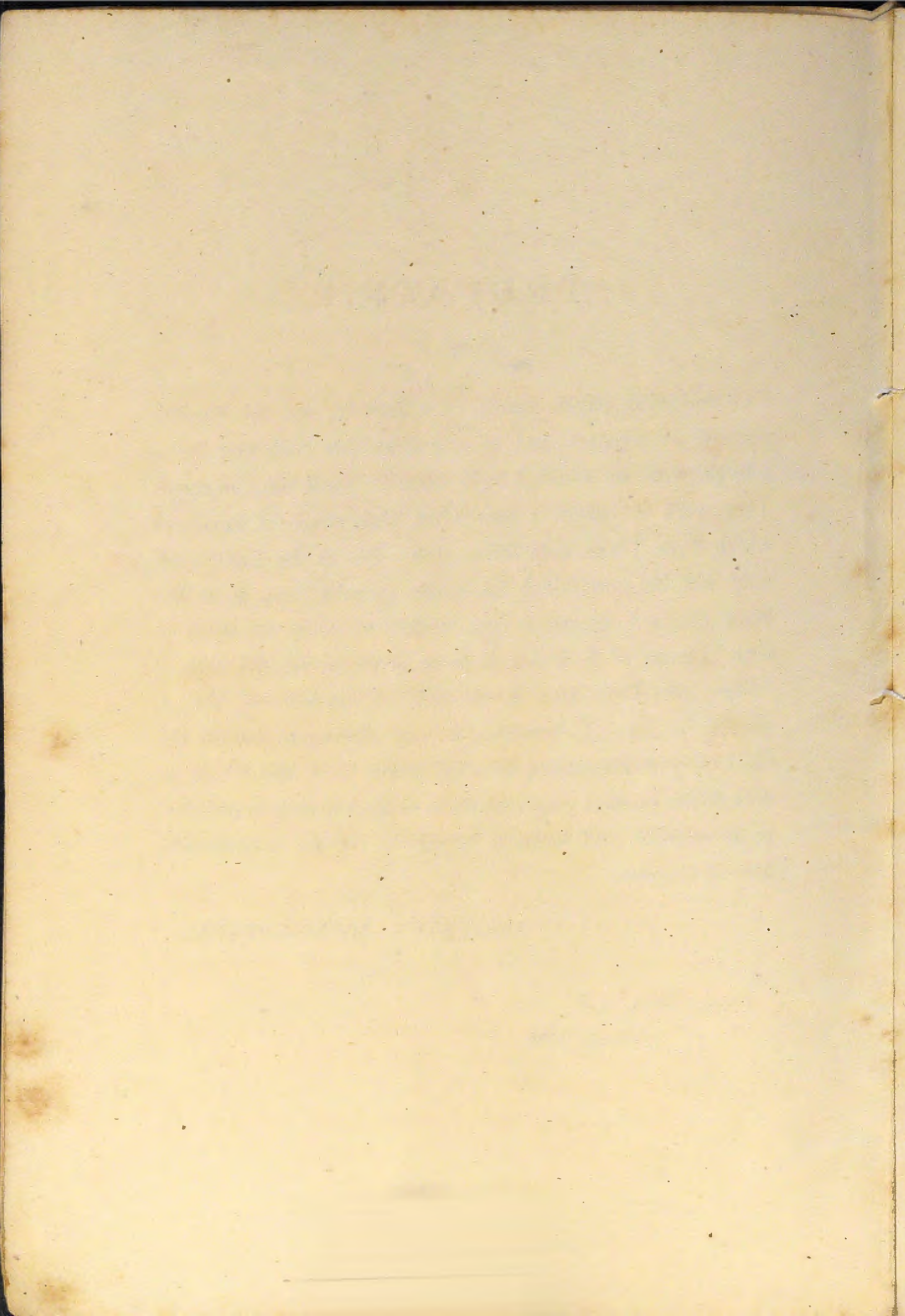
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THE following pages mostly form part of, and are, for the purpose of separate and early publication, borrowed from, a larger work on which I have been for some time engaged. That work embraces a somewhat wide range of topics, of which Free Trade only forms one. But as the larger work may not be completed for some months, and as it has been deemed advisable not farther to delay the issue of that portion of it which is here given under the title of "Pleas for Protection Examined," I am content that it should be so. I, however, hereby reserve to myself the right of re-incorporating into my larger work the whole or part of the present pages, as their subject-matter is essential to its entirety, and forms a necessary, though subordinate, part of its plan.

AUGUSTUS MONGREDIEN.

FOREST HILL, S.E.,

*January, 1882.*





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# PLEAS FOR PROTECTION EXAMINED.

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## CHAPTER I.

Introduction.    1. International debts not paid in specie.    2. All commerce is barter.

It is marvellous how unanimous in England is the assent to the abstract theory of Free Trade. It is equally marvellous how many of its professed votaries, while they extol that theory, object to its practice. They loudly abjure the name of "Protectionists," but adhere to the thing "Protectionism." They are Free-traders with "ifs" and "buts." This is their plea: "We are doctrinally as thorough Free-traders as that incarnation of the Cobden Club, Thomas Bayley Potter himself; *but* only under certain circumstances—only *if* all other countries become Free-traders as well as ourselves." So that, according to these notions, truth is bound to remain in practical abeyance until it is universally acted on! As long as it is not practised by everybody, it must be practised by none! It is most salutary to mankind if all mankind adopt it, but it is most injurious as long as only a portion of mankind adopts it! A curious paradox, showing how the same thing may at the same time be both true and false!

The fact is that these "if" and "but" Free-traders are simply Protectionists under the pseudonyms of Reciprocarians, Fair-traders, and what not. It is hardly "fair" of them to deny that they are Protectionists. The test that shall draw the line between true Free-traders and sham Free-traders is simple, and of easy application. Free Trade does not allow of any import duties being imposed on such

articles as are likewise produced at home.\* Protection does. Here is, in a few words, the radical difference between them, and that difference is clear and definite. Free Trade lays down a broad general principle. Under it no protection is given to home industries, the entire amount levied by import duties goes to the revenue, and our market is freely and fully open to foreign competition. Under Protection, the import duties imposed are protective; of the duties levied, part goes to the protected native producer, and only part to the revenue, and foreign competitors are handicapped in our market to the extent of those duties. The distinction is, we think, clear and unmistakable. Which of the two systems is the best is not the question now before us; we have discussed that before, and shall discuss it again. At present we have only to point out the plain line of demarcation that divides Free Trade from Protectionism, and to ask to which of the two does Fair Trade belong. The reply is obvious. The very thing which Fair Trade proposes to do is to impose import duties on some of the foreign articles which are also produced at home. This is also the very thing which Protectionism in its old form did and does; therefore the two are identical.

What those foreign articles are which Protectionism, under the guise of Fair Trade, proposes to tax, its advocates are not agreed, but they are determined to tax something, and the majority seem inclined for a 5s. per quarter import duty on wheat. That is the proposal that "divides them least." Be this as it may, the essential and distinctive programme of the so-called Fair-traders is to impose protective import duties. They are, therefore, to all intents and purposes Protectionists. They may call themselves by another name, but they advocate the same fiscal measures, and adduce the same arguments to advocate them. We shall, therefore, use the old denomination of Protection and Protectionism as embracing all classes of opponents to Free Trade, whether to its principles or to its practice.

\* The article "spirits" is an apparent, but not a real, exception. The import duties levied on foreign spirits are the exact counterpart of the Excise duties levied on home-produced spirits. Thus foreign and native distillers are placed on exactly the same footing.



It is our intention in these pages to collect and pass under review the most prominent or plausible of those pleas which have been adduced to justify the adoption of a Protective policy and the rejection of Free Trade. We shall endeavour to state them, discuss them, and refute them fairly, freely, and briefly. The Protectionist pleas we shall print in italics, to be followed by our remarks on each.

1. *Balances due by one country to another are paid for in specie. Hence, if the balance of trade be against us, we shall be drained of our specie to pay for such balance.*

Now, in the first place, there is practically no such thing as a "balance of trade." The trade between two countries entirely consists of a series of commercial dealings between a number of persons in one country and a number of persons in the other; and there can be no national balance of trade, because each dealing (of which the totality is formed) is settled for at the time, and balances itself.

We may, it is true, buy from some countries more than we directly sell to them, but the difference is not paid for in specie; it is paid for by bills on other countries to which we sell more than we buy from them. On the whole, the commercial dealings of a country with the world at large are self-adjusting, and leave no balance to be paid to or from either side. But although there is no such thing as a "balance of trade," most countries do either import more from the rest of the world than they export to it, or *vice versa*; and it is this excess, on whichever side it may be, that is ordinarily, though wrongly, termed the balance of trade.

How such excess arises we shall shortly see; here the question is simply whether it be true, as alleged, that if we import more than we export "we shall be drained of our specie to pay" for such excess of imports. Past history and present experience conclusively show that it is not true. Amounts due (from whatever cause) by one country to others are not paid for in specie. In England, our imports have exceeded our exports, year after year, for more than a quarter of a century, by an average of about £50,000,000 a year; and yet throughout all those years, instead of our bullion having been drained from us, our import has largely



exceeded our export of it. This fact is at once so undeniable and so conclusive, that we shall not waste time upon it. If any one desires fuller details and statistics on the subject, we beg to refer him to Mr. G. W. Medley's recent pamphlet, where it is treated in a masterly manner.\*

The ebb and flow of bullion between various countries has comparatively a very small range, and depends almost entirely on their respective circulation requirements. Even in wealthy England, the abstraction of a few millions' worth of gold so deranges the circulation as to raise the rate of interest to a point sufficient to bring it back again. How then can any one dream of our sending away 100 millions of it annually to pay for our annual excess of imports? The fact is, that every country possesses and retains as much specie as is required for circulation purposes—sometimes a little less, sometimes a little more, but never much less, nor much more. No country was ever drained of its specie by its foreign commerce. The only way in which it can ever be denuded of specie is by the adoption of an inconvertible paper currency. The circulation requirements being then supplied by paper, the specie becomes surplussage, and is sent abroad where its value is greater.

To sum up, the truth is that BALANCES DUE (FROM WHATEVER CAUSE) BY ONE COUNTRY TO ANOTHER ARE NOT PAID FOR IN SPECIE; AND NO COUNTRY HAS EVER BEEN DRAINED OF ITS SPECIE THROUGH THE OPERATION OF FOREIGN TRADE.

2. *Commerce is not the exchange of goods for goods, which would be barter; but of goods for money, which is not barter.* It will not, we think, be difficult to show that the exchange of goods for money is virtually as much barter as though the goods were directly exchanged for other goods.

The only possible value of money consists in its purchasing power. Money is only worth what it can buy. Just consider. Of what possible use can money be if it be not used to purchase something with? Whether that "something" be commodities, or land, or labour, &c., matters not; the only worth of money is in its power to purchase such

\* "Reciprocity Craze," by G. W. Medley: Cassell's, 1881: pp. 11—14, *et passim*

things. True that it may be melted down and applied to manufacturing purposes, but then it ceases to be money, and becomes only a metal. A dollar may be converted into a pencil-case. In its latter shape it is useful, but has no purchasing power; in the former shape, it is utterly useless except by reason of its purchasing power. Now in all commercial transactions, if the money which the seller of the goods receives for them is ever utilised at all, it can only be by the purchase with it of some other commodities. Hence it follows that, virtually, an interchange takes place between the commodities which that seller has sold for money and the other commodities which he has used that money in acquiring. All trade dealings are inevitably attended by the same process. No sale is made by any person without his making, sooner or later, a corresponding purchase. The goods so sold are, virtually and substantially, bartered for the goods so purchased, and the money merely serves as the medium of interchange. In most cases the barter is not effected either directly or at once, and is only completed when the money received for the goods is made use of for some definite purpose. It may for a time be deposited in a bank, but it will not long remain idle. It may for a time be transferred from one person to another as a loan; but, soon or late (in most cases, soon), it is used as a payment in exchange for something, and that something is the "thing" for which the goods originally sold are ultimately bartered.

Occasionally a long time elapses before the barter is completed; as, for instance, when the receiver of the money, instead of using it at once, puts it in an old stocking and hoards it. The completion of the barter is suspended until the owner takes the money out of the old stocking and utilises it. He may use it, let us say, to pay the wages of labour; in which case the interchange is perfected, and the goods originally sold are bartered for labour. In point of fact, the money paid by the buyer to the seller is equivalent to a ticket authorising the holder to receive, in exchange for the goods which he has sold, other commodities to the same amount, of any kind which he may choose, and at any time that he may think fit. The



moment he utilises that ticket the barter is complete, and the commodities which he receives form the counterpart to the goods which he has sold.

The money which the seller receives for his goods would be little more than so many pieces of broken slate were it not for its purchasing power. The consideration for which his goods have been given is not the mere coins, it really is the commodities which those coins will purchase. The mere money itself is utterly valueless, unless it be, sooner or later, turned into commodities, whatever those commodities may be, whether land or labour, raw materials, or manufactured products. If you purchase wheat, and pay for it in money, that money may perchance be used for purchasing a horse, in which case the horse has been, indirectly but no less truly, bartered for wheat. To put it into a more general form, every sale or purchase is a barter of the commodities so sold or purchased with the commodities on which the seller may expend the money received. If money, as money, had any other value beyond its purchasing power, it might be said that every sale or purchase is a barter between goods and money. But money, as money, has no real but only a representative value. The barter really is between the definite goods given for the money, and the undefined goods which that money represents, and which it may at any moment realise. Just as when you buy a ticket for a concert, the consideration given for your money is not the piece of paste-board of which the ticket itself consists, but the musical performance which the ticket represents.

Let us conclude by an illustration. You buy, we will say, a cargo of wheat from New York. Against the bill of lading, &c., of this shipment you accept a bill drawn on you by the seller, payable in England, and probably you pay for this bill in money before you get possession of the wheat. Now, pray observe. The money which you pay for that bill is not sent over in specie to America. It remains in England, to the credit of the banker in New York to whom the bills drawn on you were endorsed. The usual and natural use which he makes of this credit is to draw bills from New York against it, which bills he will sell in America, for a given



number of dollars, to any one who wishes to make a remittance to England—perhaps to a man who has ordered some Manchester goods, for which he pays by remitting those bills to Manchester. In such case, it is evident that the specie does not leave England, and that, substantially, the American wheat has been bartered for Manchester goods.

Frequently the process is more indirect and circuitous ; but, if analysed, it comes to the same thing. For instance, the bills referred to above, instead of being sent direct to England may be sent to Rio Janeiro to pay for coffee ; and sent from Rio Janeiro to England to pay for Sheffield steel-ware bought for Brazil. In this case England gets the American wheat, America the Brazilian coffee, and Brazil the English steel. And thus a double barter—something like Capt. Marryat's triangular duel—has taken place without the slightest displacement of specie. Note, moreover, that this is the regular, normal, and nearly universal practice in mercantile operations. Hardly once in a thousand cases are foreign goods paid for by direct export of specie.

To sum up, the truth is that ALL COMMERCE IS BARTER ; FOR IT IS AN INTERCHANGE BETWEEN THE COMMODITIES SOLD FOR MONEY AND THE COMMODITIES WHICH THAT MONEY WILL BE USED IN PURCHASING.

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## CHAPTER II.

3. Excess of imports mostly a sign of wealth. 4. Imports and exports (except those for loans or repayments) balance each other. 5. Protection discourages native industry.

3. *Permanent excess of imports impoverishes, and permanent excess of exports enriches, a country.* This is the reverse of the fact. It would not be true even if such excess of imports had to be paid for by the receivers, or if such excess of exports implied a return payment of some kind. But this is never the case. For had such excess to be paid for, the payment must necessarily be either in goods or in specie. Now, it could not be in goods, as then, *ex hypothesi*, the goods exported would equal the goods imported, and how could

there be an excess either way? Neither could that payment be made in specie, for it has been shown over and over again that the displacement of specie between country and country is confined within a very narrow range, that it is almost exclusively governed by circulation requirements and that balances due by one country to another are never paid, unless to a mere fractional extent, in specie. The fact is that these permanent excesses of imports over exports, or *vice versâ*, consist of non-mercantile operations which are not repayable. They consist of national loans (repayable at indefinite periods, but scarcely ever repaid), of investments in foreign undertakings, of interest and dividends on such loans and investments, of subsidies to allies (less in fashion now than formerly), of war indemnities (that of France to Germany in 1871 to wit), ocean freight earnings, and other similar disbursements which are outside of, and in addition to, ordinary commercial interchanges.

"How," the Protectionists ask, "can a nation go on buying more than it sells without at last (like a spendthrift who lives beyond his income) becoming utterly ruined?" The answer is simply that no country ever buys more than it sells, nor sells more than it buys. The trade of a country consists of the aggregate operations of individual traders, which are always equal, co-ordinate, and self-balancing; and which necessitate to a mathematical certainty (with the exception of bad debts) an import as a counterpart to every export, and *vice versâ*. As we have already shown, all commerce is direct or indirect barter. Whatever a country exports beyond what it imports, it gets no return for; whatever it imports beyond what it exports, it gives no return for. Such excess goes either to liquidate old international debts or to contract new ones. Whatever is brought into a country over and above what is sent out from it is either a payment or a loan. If a payment, it is retained for ever; if a loan, it will be retained till repaid at some future indefinite period. Of the rare and exceptional case of a nation paying off its foreign indebtedness, we shall treat elsewhere, but it does not invalidate the general principle that a permanent excess of imports over exports is not paid for, and must, therefore, far from impoverishing a country, add to its present wealth



if the excess represents a loan ; or to its permanent wealth if it represents a payment.

How it comes to pass that this excess of imports or of exports takes place, we have already in great measure explained. Beside the normal commercial profits which naturally contribute to make what comes in of greater value than what goes out, wealthy nations which have lent money to foreign states, or otherwise invested money in foreign countries, have annually to receive large amounts for dividends on those loans and investments. These amounts are periodically remitted to them in goods (not in specie), which figure in their statistical returns as excess of imports. Let us take the case of England. She has yearly to receive about £60,000,000 from abroad for interest on foreign investments. She has also to receive some £40,000,000 to £50,000,000 more for ocean freight (gross) and charges, because two-thirds of the entire ocean-carrying trade of the world is conducted by her mercantile navy. Now, since England has to receive about £100,000,000 per annum from abroad in goods, for which, as they constitute a payment to her and not a sale, she has to make no return, it is clear that these will figure in the Board of Trade returns as imports without any corresponding amount of exports. They will appear as an excess of imports over exports to the extent of £100,000,000. But how can receiving £100,000,000 a year, and keeping it without making any return, be either a cause or a symptom of impoverishment? By what peculiar twist of the mind can this be made the subject of regret or alarm? At all events, this excess of imports must continue, and probably increase, as long as England possesses an annual income from abroad and the ocean-carrying trade. Even if England were to double or treble her yearly exports, her imports must of necessity continue ahead of them by that £100,000,000, or probably more.

The converse applies to over-exporting countries ; their excess of exports generally represents the amount which they have to pay to the world, as borrowers, for annual interest, &c. The fact, in brief, is that all lending nations must necessarily import in excess of their exports, and all borrowing nations



must export in excess of their imports ; and the alarm which some feel at our over-importations should be converted into exultation at the wealth which they imply and to which they minister. To sum up, the truth is that THE WEALTHIER A NATION IS, THE GREATER WILL BE THE PERMANENT EXCESS OF HER IMPORTS OVER HER EXPORTS ; AND A PERMANENT EXCESS OF EXPORTS IS A SURE SIGN OF INDEBTEDNESS.

4. *It is false that imports and exports balance each other, since many countries import more than they export, and vice versa.* Why it is that some countries over-import and others over-export, we have just explained. But if we leave out those exports which are sent to pay a previous debt or to create a new one, we shall find that all other exports are balanced by corresponding imports. For, indeed, how otherwise could they possibly be paid ? That they are not paid for in specie, we have seen ; so that, if they are ever paid for at all, it must be in kind. All commercial transactions resolve themselves, directly or indirectly, into interchanges of commodities ; so that, as we have said before, all commerce is barter ; and there can (loan and investment payments excluded) be no import without an export to same amount, and *vice versa*. Every purchase implies a corresponding sale.

It must be borne in mind that in speaking of the imports or the exports of a country we of course mean the total imports or the total exports of that country from, and to, the world at large, and not those from, or to, any one particular other country. Some have misapprehended this, and have applied what had reference to the total foreign trade of a country to the special trade between that and a single other country. The aggregate commercial imports and exports of each country must, as we have seen (that is, debt-payments excepted), balance each other, but it does not at all follow that the separate dealings between two individual countries will show a similar result. Over-imports from countries A, B, &c., will be counterpoised by over-exports to countries C, D, &c., and, in the aggregate, one will make up for the other, and the equilibrium between the total commercial imports and total commercial exports of each country will be maintained. To sum up, the truth

is that FOR EVERY EXPORT OF GOODS TO THE WORLD AT LARGE, EXCEPT WHAT IS SENT TO PAY A PREVIOUS DEBT, OR TO CREATE A NEW ONE, THERE MUST BE AN IMPORT OF GOODS FROM THE WORLD AT LARGE TO THE SAME AMOUNT, AND VICE VERSA.

5. *Protection promotes native industry by providing fresh channels for the employment of native labour.* It would be well if this were all, but truth requires the addition of the following words: "It at the same time destroys more of the old channels for the employment of native labour than it provides new." Such is the fact, and in its suppression lies the fallacy. Ceasing to import foreign goods means ceasing to export those native goods which were sent in exchange for the former, and throwing the producers of such native goods out of work. A country that adopts the Protective system ceases to import, and produces for itself, certain articles which we may call X Y Z, and thus capital and labour acquire "fresh channels for employment." So far, so good; but this good inseparably brings with it an evil that far more than counterbalances it. When the nation in question imported the articles X Y Z, it exported in exchange for them other articles of native manufacture which we may call A B C. But when it ceased importing the former, it necessarily (for imports and exports are, as we have seen, correlative) ceased exporting the latter. What is the consequence? The articles A B C are no longer produced, and the capital and labour which produced them remain idle. The capital can afford to wait; but what of the labour-sellers who are thrown out of work? Instead of "native industry" being "promoted," it is "the old channels for employment" that are "destroyed."

Eventually, the displacement is partially remedied by the absorption of the disorganised capital and labour into the new industry. But is the change which has been effected through this displacement a benefit? Certainly not. Quite the contrary. The advantages which the division of labour confers have been set aside. The capital and labour which were employed in the production of articles A B C, with which the foreign producer could not compete, are now diverted to the production of articles X Y Z which cannot



compete (else, why protective duties?) with the production of foreigners. In other words, men are taken away from what they can do better than others, and set to work on what others can do better than they can. The capital and labour which used to be employed remuneratively are now producing a loss which has to be made up by a public subvention in the shape of an import tax.

If, instead of taking the instance of a nation that is adopting the Protective system, we take that of a protected nation that is adopting Free Trade, we arrive at analogous results. Such nation, by abolishing the import duties on certain articles X Y Z, imports them from abroad, where they are cheaper, and discontinues their production at home. Thus capital and labour lose some of their old channels of employment. But let us look at the other side. Now that this same country imports, instead of making, the articles X Y Z, it necessarily exports in exchange for them (for every increase of imports necessitates an increase of exports) other articles of native production, which we may call A B C, and thus fresh channels of employment are created. The capital, fixed and floating, and the labour, which have become disused by ceasing to produce the articles X Y Z, are utilised in producing the articles A B C, for which an export demand is created by the importation of the articles X Y Z. And now let us inquire—Is the change which has been effected through this displacement a benefit? Yes! and a very decided one. The same capital and labour that was before unprofitably employed in producing the protected articles X Y Z, which the foreigner could produce cheaper or better, are now profitably employed in producing the articles A B C, which suit the foreigner's market, and which he readily takes in exchange for his own. Hence the capital and labour which used to be devoted to losing are now devoted to remunerative industries, the consumers enjoy the benefit of cheap goods instead of dear ones, the division of labour is effectually carried out, and a great impulse is given to foreign trade. In this way the producer gains, the consumer gains, the national wealth is increased, and the general commerce of the country is extended.

The fresh industries which Protection creates are created



at the expense of the staple old industries which Protection curtails. The former can only exist by taxing the entire community; the latter were self-supporting. A country cannot at the same time cease importing foreign articles, and go on exporting the native articles which used to be sent in exchange for them. Free Trade says, "Go on exporting the cheap native article and importing the cheap foreign one." Protection says, "Leave off producing the native article which you produce so cheaply, and turn to producing the foreign article which you can only produce at a high price, and the law will compel the consumers to pay you that extra price by laying a heavy import duty on the cheap foreign article." Were the principle of opening new losing industries at the expense of old profitable ones fairly carried out, England might create a fresh industry by producing her own wines, and thus being independent of France; France, by producing her own cotton, and thus being independent of America; Germany, by producing her own silk, and thus being independent of China, &c., &c. The absurdity of such a policy is palpable, but the absurdity is equally positive, though not so palpable, in every case wherein nations discourage the industries for which they are best adapted in order to create others for which they are less fitted.

Protection, therefore, does not promote native industry, but simply displaces it from a good to a bad position. We have dwelt at some length on this topic because the fallacy of the Protectionist proposition is not immediately obvious, and many honest inquirers have been temporarily misled by it. The key to its solution is in the fact that just in the proportion that a country curtails its imports, in that same proportion it curtails its exports. To sum up, the truth is that PROTECTION DISCOURAGES NATIVE INDUSTRY, BY CLOSING PROFITABLE CHANNELS FOR ITS EXERCISE AND SUBSTITUTING FOR THEM UNPROFITABLE ONES.

## CHAPTER III.

6. Import duties on foreign goods fall on the importers. 7. Free Trade supplies native industry with cheap materials and cheap living.

6. *Import duties on foreign goods fall on the foreigner, and are paid by him.* This is absolutely the reverse of the fact, but the assertion has been frequently made, with a jaunty indifference as to its truth, in order to coax the consumer into acquiescence with levying duties on foreign goods. He is told, "Let us lay on, say, 10 per cent. import duty on such or such a foreign article. You will not have to pay it; oh! dear, no! It is the foreigner who will bear it. He will let you have his goods 10 per cent. cheaper than you pay now, so that the duty will make no difference to you, and the revenue will be benefited at the expense of the foreigner." Very tempting, but alas! quite untrue. The foreign producer will not, and cannot, make the reduction. Before the duty is laid on, competition has already reduced the price of the article as low as it could go without trenching on a fair living profit. Such a profit leaves no margin for such a reduction. The imposition of the duty by no means diminishes the amount of labour and capital expended on the production of the article. The foreign producer may, if the imposition of duty takes him by surprise and he has a large stock, submit to some deduction for the moment. But permanently he must get the old price, or the importing country must do without the article. If the importing country will, however, have the article, it must itself bear the 10 per cent. duty which it imposes. Suppose that England laid an import duty of a penny a pound on raw cotton, does any one for a moment imagine that the price of cotton would thereupon fall a penny a pound in America, so that cotton would stand in to English spinners no more than it did before the duty? Who, in this case, would have to bear and pay the duty—the American grower or the English consumer? Can there be a doubt as to the reply? Again, if putting a duty on foreign imports makes no difference to the consumers of the importing country, then, of course, neither would taking the duty off make any difference to them. So that, according to this doctrine, if



England were to abolish her import duty on tea, the Chinese would get all the benefit, and the English consumers would still pay the same price as before! But as the subject is again referred to under the next head, we will not enlarge upon it here. The proposition implies that the prices which we now pay for foreign goods are so exorbitant, that they could easily be reduced by the amount of import duties which we might levy on them—which is simply absurd. Of course, some slight and temporary variations in the relative demand and supply might occasion some slight and temporary variations in prices, but they would be both trifling and transient. To sum up, the truth is that IMPORT DUTIES ON FOREIGN GOODS FALL ON THE CONSUMERS OF THE IMPORTING COUNTRY, AND ARE PAID BY THEM.

7. *Under Free Trade native industry is taxed, while foreign industry is not.* If it were possible for a nation to tax foreign industry, it is most wonderful that such a scheme, which would shift the unpleasant burden of taxation from our own to other people's shoulders, should not be universally resorted to. Why should the native be taxed at all, if the necessary taxes can be levied on the foreigner? What are statesmen about that they do not raise the entire revenue of the country by taxing foreign industry? The fact is that to tax foreign industry is a sheer impossibility, and to fancy that it can be done is one of those delusions which only exist as long as they escape examination. "Oh! but it is possible," interposes a Protectionist; "it is done every day. The United States of America tax foreign industry through their import duties on foreign goods, and in 1880 they levied from this source a revenue of \$186,000,000, equal to £37,000,000." Here then we join issue. The Protectionist maintains that this enormous amount of Customs' duties levied in the United States on foreign commodities falls upon, and is borne by, the foreign producers; while we maintain that it falls upon, and is borne by, the American consumers. Evidently one of us must be egregiously wrong. The question is narrowed to a very simple issue, and there ought to be no difficulty in solving it. Let us look into it carefully, and, to avoid complexity, let us take some average article as a type



of the rest. In 1880 the United States imported, chiefly from England, cotton manufactured goods to the value of \$25,723,000 (£5,200,000), on which the Customs' duties levied on admission at American ports amounted to \$9,976,000 (nearly £2,000,000), which is equivalent to an average import duty of  $38\frac{1}{2}$  per cent. *ad valorem* on the amount imported.

Now, then, comes the question, who pays that £2,000,000 of duty? If the Protectionist is right, the American consumers do not pay it, but only pay the £5,200,000 which is the current value of the goods imported at their place of production, *plus* the freight. The £2,000,000 of duties "constitute a tax on British industry, and are paid by the British producer." The latter consequently only receives £3,200,000 in payment for goods of which the current value in Lancashire is £5,200,000. He is actually content to accept in America £3,200,000 for what he can get £5,200,000 elsewhere. This is the Protectionist view. Does it accord with common sense? Merely to state it clearly is a refutation. Do English manufacturers make two prices—one for the general market, and another,  $38\frac{1}{2}$  per cent. cheaper, for the American market? Or are their profits so enormous that they can allow a discount of  $38\frac{1}{2}$  per cent. to the American buyers, and still make sufficient profit to induce them to continue the trade year after year?

Let us take another article. In 1880 the United States imported pig iron to the value of \$11,619,000 (£2,300,000), on which the Customs' duties amounted to \$4,318,000 (£863,000), equivalent to a duty of  $36\frac{1}{2}$  per cent. *ad valorem*. Can any one for a moment imagine that our iron-masters could afford to supply the American market at prices  $36\frac{1}{2}$  per cent. below those current at home, and would go on doing so year after year? It is patent to all who have any knowledge of trade (1) that the average profits on all our large staple commodities are kept within very moderate limits by the pressure of competition, and (2) that, as a rule, those markets which do not afford that moderate margin of profits cease to be resorted to. But that the producers of such articles will continue to send them to a

market where they can only get within 36 or 38 per cent. of what they get elsewhere is an assertion which, although it may possibly be believed by the assertors themselves, is quite too heavy a demand on average human credulity.

The instances which we have quoted fairly represent the entire list of the dutiable articles imported by the United States of America. We could easily find instances far more striking. For instance, steel rails are not admitted into America under a duty of 90 per cent. *ad valorem*; so that, on the assumption that import duties "constitute a tax on the foreign producers and are paid by them," the British steel producers are content for every hundred pounds' worth that they send out to receive back only £10! On that assumption, was it generosity or foolishness that induced them to send out to America in 1880, on terms equivalent to giving them away, a quantity of steel rails of no less an amount than \$1,644,000? If iron be as cheap in America as it is here—as it ought to be, barring a trifle of freight, if the Protectionist assumption be correct—why have the American ship-building industry and their ocean-carrying trade collapsed?

But it is, perhaps, needless to multiply proofs, and we think that all our readers will by this time agree that the Protectionist doctrine is erroneous, and that, beyond all doubt, import duties on foreign goods are borne by the consumers in the importing nation.

To revert, however, to the £5,200,000 worth of English cotton goods imported into America in 1880, on which an import duty of £2,000,000 had to be paid, it is perfectly clear that those goods were not sent to America to make a loss of £2,000,000, but they were sent because the current prices ruling in America for such goods made it probable that they would realise there an amount sufficient to cover (1) the cost, (2) the freight and charges, and (3) an average trade profit. Otherwise, where are the madmen to be found who would, year after year, send out that amount of goods to bear a large amount of loss? The trade would not be carried on at all unless the American consumers paid for those goods at least £7,700,000; viz.:—



£5,200,000 for the cost of the goods in England.  
 2,000,000 paid for import duty to the Customs in America.  
 500,000 (at least) freight, charges, and profits.

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£7,700,000

At anything less than that, the goods would leave no profit, and a trade that leaves no profit quickly dies out. The same process of reasoning applies to all cases, and to all countries, in which an import duty is levied on foreign commodities. The duty is paid, not by the producers in the exporting countries, but by the consumers in the importing country.

It is clear that the American producers of that class of cotton goods which we above referred to as imported from England were unable to produce them for less than £7,700,000; or else why should the American consumers have paid that amount for British goods? Hence it follows that if, from any cause, such importation of those British goods were to cease, the American consumers would still have to pay £7,700,000 for them to the native manufacturer, while the United States Government would lose the £2,000,000 per annum which it now receives for import duties. In other words, the American consumers who now pay for those goods £5,700,000 cost and freight, and £2,000,000 duty to their Government, would then pay the whole of the £7,700,000 to the native manufacturers. Nor would these benefit much out of the £2,000,000 thus lost to the revenue. They would increase their sales by £7,700,000 annually, on which, assuming their net profits to be 6 per cent., they would realise £460,000, leaving £1,540,000 (or three-fourths of the £2,000,000 duties lost to the revenue) as a dead loss, owing to capital and labour being diverted to losing trades which the consumer is taxed to maintain.

In all countries which impose import duties on foreign merchandise these duties will assume one of three forms. These three forms will be (1) purely revenue duties, (2) protective duties, and (3) prohibitory duties. Now, (1) pure revenue duties are those which are levied on such commodities as are not produced at home, but are wholly



imported from abroad ; as well as upon such commodities as are partly produced at home, but on which the native producers pay precisely the same percentage of internal or Excise taxation as the foreign importation does of import duties. In these cases, whatever the consumers pay extra in consequence of those duties goes, in its entirety, to the revenue. (2) Protective duties are those levied on such commodities as are partly produced (free) at home, and partly imported (under duty) from abroad. In these cases, whatever the consumers pay extra in consequence of the duties goes in part to the revenue and in part to the native producers, who could not withstand foreign competition were it not for the tax so paid by the consumers. (3) Prohibitory duties are those which are too high to allow of importations from abroad, and leave the consumers entirely at the mercy of the native producers. In this latter case, the revenue gets nothing, and whatever the consumer pays extra for the prohibited commodities goes entirely to the native producer, who could not withstand foreign competition were it not for the tax so paid by the consumers. In none of these cases do the foreign producers bear any part of the import duty. It falls entirely on the native consumers. In the first of these cases, the whole of the extra price which the consumers pay in consequence of the import duties goes to their own Government, and relieves them to that extent from other taxes. In the second case a part, and in the third case the whole, of such extra charge to the consumers goes to cover the losses of the protected producers. From such portions, therefore, of that extra charge the national revenue derives no benefit, and the deficiency has to be made up by some other tax in some other form on the poor consumers, who thus have to pay two taxes instead of one.

Some, in reply, have said, "Admitted that heavy import duties are borne by the importing country, but a small duty is a different thing ; the foreigner will lower his price to that extent sooner than lose his market." The answer is easy. Say that you tax a foreign article, A, 1 per cent. The foreign producer will certainly not lower his price as long as you continue to take from him the same quantity of

that article, A, as you did before. Price is regulated by relative supply and demand. If that relation remains unaltered, the price will also remain unaltered. The only chance of buying that article cheaper would be to sensibly diminish your purchases of it from the foreigner. But to do so, and yet meet the consumptive demand, you must to the same extent increase the native production of that article. Now, at the price hitherto current the native producer must have produced all that he could produce at a profit, and he can be stimulated to increase his production only by paying him an increased price. But the proposition stipulates that the price to the consumer is to remain the same. How are these two incompatibilities to be adjusted? By what process is the native producer to get a higher price for his article, A, and yet, at the same time, is the price of it to the consumer to remain the same? If the native producer does not get that higher price, he can produce no larger quantity than he did before; you will take from the foreigner the same quantity as you did before; in which case, as the relative supply and demand will remain unaltered, he will obtain from you the same price as he did before, and the 1 per cent. duty will, against your proposition, fall upon the consumer.

If the consumer does pay the 1 per cent. duty, it then becomes a common case of Protection to that extent. The native is enabled to produce a little more than he did; the foreigner will supply a little less than he did; your exportation of other articles will diminish a little; the consumer will have to pay a little more than he did; and, generally, the same effects will take place, though on a small scale, as though the import duty, instead of 1 per cent., were 10 per cent. or 40 per cent. In every case, import duties, whether they be small or whether they be large, will equally fall upon the consumers.

"You will however grant," says a Protectionist, "that if not the whole, at least some part, of the import duty is paid by the foreigner." We regret that truth will not allow us to be so complaisant. The average profits made in a regular trade are, as a rule, kept down by competition to a certain level, below which the trade would not be continued.



Under the additional burden of an import duty, that trade would first droop and soon die, unless prices rose in the importing country so as to cover the import duty. No merchant (unless for a short time and as a mere experiment) will go on employing his capital in a trade which does not yield him the average profits which capital earns in other channels. Now if prices rise in the importing country so as to cover the duty, and thus allow the trade to continue, it clearly must be at the expense of the importing consumers, and not of the foreign traders.

But Free Trade is blamed not only for not taxing foreign industry, which we have shown to be impossible, but also for taxing native industry. This is a totally unfounded accusation. Not only it is false that Free Trade specially taxes native industry, but it is true that Free Trade assists and promotes it in the most effective manner. Both these assertions we will in a few words make good. It is obvious that Free Trade imposes no special tax on native industry. All members of a community, whether under Free Trade or Protection, are subject to the general taxation deemed necessary to defray the Government expenditure, and they are liable to exactly the same burdens under both systems. This we think clear and incontrovertible. Now, on the other hand, Free Trade greatly assists and fosters native industry by supplying it with all the foreign materials which it needs to work with, or to work upon, at the cheapest possible cost, and unburdened by any import duties whatever. It at the same time lessens the cost of living, and increases the comforts obtainable for the same expenditure. It is hardly possible to over-estimate the enormous advantages which this cheapness confers on, or the strong stimulus which it affords to, productive industry. The cheap products of this industry will, of course, find a vent in all neutral markets, since the dear products of protected countries cannot possibly compete with them. Where the materials on which productive industry is exercised are enhanced in cost by protective import duties, it is impossible that the product should not be enhanced in cost in the same proportion. But the cheapness arising from untaxed materials not only fosters a demand from abroad, but also



lessens the cost to the native consumers, and the benefit is thus twofold. It is, therefore, abundantly clear that native industry is largely promoted and developed by having, as a consequence of Free Trade, cheap untaxed materials to work with and to work upon. If the United States had had cheap untaxed iron, they would not have lost their valuable share of the ocean-carrying trade.

We must apologise for devoting so much time to the refutation of a fallacy so easy to refute ; but this we thought necessary from the frequency of the allegation, and from the number of honest-minded men who, not having a ready answer, have been mystified by it. To sum up, the truth is that FREE TRADE TAXES NO INDUSTRY, WHETHER NATIVE OR FOREIGN ; BUT, AMONG OTHER ADVANTAGES, IT GREATLY FOSTERS NATIVE INDUSTRY, BY AFFORDING IT CHEAP, UNTAXED MATERIALS WHEREWITH AND WHEREON TO WORK, AND BY ALLOWING IT TO FLOW IN ITS NATURAL AND MOST PROFITABLE CHANNELS.

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#### CHAPTER IV.

8. Wages highest where most wealth is created. 9. Protection frustrates division of labour. 10. If protected nations prosper, it is in spite of, not because of, Protection.

8. *If the labour-seller in protected countries pays more for what he consumes, on the other hand his wages are proportionately higher.* It does not at all follow. The present average rate of wages in Free Trade England, now that everything is cheap, is at least 50 per cent. higher than it was formerly in protected England, when everything was dear. Indeed, if the statement that heads this paragraph be correct, how comes it that our Protectionist friends so persistently warn us that we are being, or are going to be, undersold by our foreign competitors in consequence of the lower rate of wages and the longer hours of labour that prevail abroad? How is it that they so loudly call on Government to protect the British workman by import duties, to prevent him from being

reduced to the low wages and long hours of his protected continental fellow-workmen? Here is surely a curious contradiction. Wages in protected countries cannot be at the same time higher and lower than they are here. If higher, what need is there to protect the British labour-seller against his higher-paid foreign competitor? If lower, then Protection in foreign countries, while it enhances the cost of living, does not enhance the rate of wages. How are these utter discordances to be resolved? This is how it is done. Division of labour is resorted to. One set of the Protectionist party uses statement No. 1, and another set uses statement No. 2. There is the "higher wages abroad" division and the "lower wages abroad" division. If the one fails to convince you, you are handed over to the other, who proceeds on a diametrically opposite tack; and it will go hard if, between the two, you can help being, if not convinced, at least mystified.

The fact is that the money rate of wages does not depend (except when it is at the famine level) on the cost of living, but on the relative demand for, and supply of, labour. Wages are higher than with us in protected America, and lower than with us in the protected continental States of Europe. It is where there is abundance of cheap capital, as in England, or abundance of cheap land, as in America, that there will be the greatest demand, and consequently the greatest remuneration, for labour. Capital is the fund out of which the wages of labour are paid, and the larger that fund, compared with the number of labour-sellers, the higher will be the rate of wages. The increase of that fund depends on increased production, and there are no more powerful agencies in the production of wealth than free commercial intercourse, general and international division of labour, and such an application of capital and labour as will produce a *maximum* result. To sum up, the truth is that WAGES ARE NOT REGULATED (EXCEPT AT STARVATION POINT) BY THE COST OF LIVING, BUT BY THE GREATER OR LESSER DEMAND FOR LABOUR, WHICH IS GREATEST WHERE WEALTH IS MOST RAPIDLY CREATED.

9. *Protection promotes diversity of industries in the protected country.* So much the worse. It is a matter of regret,



not of boast. The greater the diversity of industries in a given locality, the less scope there is for universal division of labour. This fertilising and wealth-creating principle is crippled in proportion to the smallness of its sphere of operations. By whatever it is short of being international and world-pervading, by so much is its efficacy impaired. It is merely sectional and intra-national in those countries where great diversification of industries prevails. Nowhere does the diversity of industries exist in a higher degree than among the Pitcairn islanders, unless it were among the country people of the olden times, when each family raised its own food and spun its own garments.

No doubt Protection does promote sectional diversity of industries, since it discourages commercial interchanges between nation and nation. If it were possible for each country to have within itself such a diversity or universality of industries as that all its wants could be supplied by native capital and labour, there would at once be an end to all foreign commerce ; for as all countries would have their needs supplied out of their own resources and exertions, no one of them would take anything from the other, and, of course, no one of them would raise or produce anything beyond its own wants, since there would be no outlet for such surplus. The more perfect the system of self-sufficing diversity of industries, the more complete would be the isolation. It has not been the fault of man's fiscal enactments that this complete isolation is not attained ; it is the fault of nature's laws. Not only does each nation want something which other countries can, but which itself cannot, produce, but each nation has through its aptitudes, natural or acquired, certain surplus productions for which it desires to find a vent, and for which it must—positively and inevitably must—take in exchange the products of other nations.

Suppose, for instance, a country, A, blest with a fertile soil, with a genial climate, and with land, abundant and cheap, cultivated by an energetic and industrious race of men ; the result will be the production of agricultural commodities far in excess of the requirements of that country itself. If for that surplus produce the producers find a vent in the other countries of the world, they will have to take in pay-



ment for it the world's commodities of other kinds ; for there is no other mode of payment. If country A, in its determination to be self-sufficing, were totally to prohibit the admission of any foreign goods whatever, its surplus of food productions could not be sent abroad at all, since nothing foreign was admitted in exchange for it. Its vent would be confined to the home demand, and the production would have to be cut down to the limit of that demand. The diversity of industries fostered by the self-sufficing system would exercise a blighting and fatal influence on the great staple industry of that country.

If this diversity of industries is promoted by Protection, it would be still far more completely promoted by total prohibition. Indeed, it would be yet farther promoted by cutting up the country into small districts, each to supply its own wants by its own industries. In this case, each little community would have its occupations diversified to the fullest extent, and the division of labour would be effectively impeded. The antagonism between the diversification of industries and the division of labour may be exemplified thus :—If 3,000 men be set to produce pins, needles, and thread, the former system diversifies the industries by setting each man to produce as many pins, as many needles, and as much thread as he can, by his separate and individual efforts, produce in a given time ; whereas the division of labour sets 1,000 of these men conjointly to produce nothing but pins, 1,000 to produce nothing but needles, and the remaining 1,000 to produce nothing but thread. By which of these two processes will the greatest quantity of pins, needles, and thread be produced within that given time? Can any one doubt the result? Will it not be 100,000 to 1 in favour of the latter? If the greatest possible diversification of industries be right, then the division of labour must be a mistake, and we must go back to the good old times when each family combined within itself a diversity of industries, raised its own food, spun its own clothes, and reared its own hovel.

Under a system of perfect freedom of commercial intercourse between country and country there would be such a distribution of industries as was consonant with the aptitudes, natural or incidental, peculiar to each country,

and on these the productive energies of each country would be concentrated. The total productiveness of each would be far greater, although there would be a smaller diversity in the variety of articles produced. Nature says, "Devote your efforts to producing abundantly those things which you can produce best." Protection says, "Produce a little of everything, whether they be things which you are most fitted, or things that you are least fitted, to produce." Left to themselves, capital and labour easily discover and promptly adopt those industries from which they derive the most productive results, and the diversity of industries thus naturally attained furnishes them with their most remunerative employment. On the other hand, Protection diverts them, to a greater or lesser extent, from that profitable employment to other industries which can only flourish by the imposition of a tax on the community at large; and to that extent, while the diversity of industries is enlarged, the wealth of the country is diminished. All diversification of industries which goes beyond its natural boundary, and which, instead of being the result of the regular course of things, is artificially extended by State ordinances, is an encroachment on the division of labour, and therefore an evil. To sum up, the truth is that PROTECTION FRUSTRATES THE DIVISION OF LABOUR BY ARTIFICIALLY LOCALISING THE GREATEST POSSIBLE DIVERSITY OF INDUSTRIES WITHIN LIMITED AREAS, WITHOUT REGARD TO THEIR NATURAL DISTRIBUTION.

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10. *Some protected nations are prosperous, therefore Protection is a benefit.* In this sentence the word "therefore" is entirely out of place. It involves a *non sequitur*. It might just as well be said that whereas some ignorant persons are clever, therefore ignorance is a benefit. We hold, on the contrary, that those protected nations which are prosperous are prosperous not because of, but in spite of, Protection—just as we hold that the ignorant persons who are clever, are clever not because of, but in spite of, their ignorance. No doubt, protected nations may and do attain a certain degree of prosperity in spite of Protection, for its evil influence only stunts without destroying their productive power. What we contend, is that they would be far more



prosperous if they adopted Free Trade. We have never said that protected nations accumulate no wealth, but simply that they would accumulate it much faster if they abandoned the protective system. If a property being badly managed yields an income of £1,000 per annum, whereas under good management it would yield £1,500, it does not follow that the owner is utterly ruined by his bad management, but it does follow that, through it, his income is £500 per annum less than it might be. Neither does it follow that, because a badly-managed property yields a comfortable income, "therefore bad management is a benefit." The owner is prosperous not because of, but in spite of, his bad management. By adopting a better system, he might add 50 per cent. to his income.

The mere fact of a nation's comparative prosperity is surely no bar to improvements that may render that nation more prosperous still. It will be time enough to scout improvements and arrest progress, when we have reached (if ever we shall reach) the extreme limits of human perfectibility. Till then it is irrational to say, "We are prospering, and we therefore decline entertaining any scheme for the increase of that prosperity." To allege that the Free Trade scheme will not conduce to such increase of prosperity, affords a fair and legitimate subject for discussion. We contend that it will, and have adduced our reasons for coming to that conclusion. But to contend that Free Trade is an evil merely because a certain amount of prosperity has attended the opposite system, is an inconclusive inference, since it does not exclude the probability that a much greater amount of prosperity might have attended the Free Trade system; in which case, Free Trade would have been a benefit. No argument against Free Trade is deducible from that style of reasoning. Nations progressed at a certain rate before the application of steam to locomotion by sea or land, but afterwards the rate of that progress was greatly accelerated. So do we say that nations may prosper to a certain extent before the application of Free Trade to their international relations, but that when so applied that prosperity will increase in a greatly accelerated ratio.

The Protectionist proposition is a mere statement of



opinion, unaccompanied by any proof, and therefore our contradiction of it must partake of similar vagueness. The truth or fallacy of either opinion must be reasoned out on other grounds. Indeed, the issues raised have been fully discussed by us in other shapes. Mere assertion can only be met by counter-assertion, and therefore, to sum up, the truth is that SOME PROTECTED NATIONS ARE PROSPEROUS; BUT THEY WOULD BE FAR MORE PROSPEROUS STILL UNDER FREE TRADE; THEREFORE PROTECTION IS AN EVIL.

## CHAPTER V.

11. As to dependence on foreigners. 12. Free Trade a boon to the nation, whether others adopt it or not. 13. As knowledge spreads so will Free Trade.

11. *Protection renders a country independent of foreigners.* This is only another form of that principle of isolation which, if fully carried out, would convert the various nations of the world into so many hostile tribes. In what possible way could mankind be benefited if each country were really to be commercially independent of every other? The evils and privations which all would suffer from such mutual estrangement are too obvious to require pointing out, but what would be the counterbalancing advantages? We can see but this solitary one—that, in case of war, the country that had no commercial intercourse with other countries would be free from any inconvenience that might be caused by hostile interference with such intercourse. This might, perhaps, hold good if every nation were perpetually at war with every other nation. But such a state of things never did and never could exist. Even under the present very imperfect system of international relations, wars are only occasional, and are never universal. Where, then, is the wisdom of a nation voluntarily inflicting on itself for all time the evils and inconveniences of isolation merely to avoid their possible temporary infliction by an enemy in case of war at some future uncertain period? It is thus that the coward commits suicide from fear of death. Is a man to deny himself all present enjoyments because he may some day or

other be deprived of them by illness or misfortune? Are you never to carry about you in the streets a watch, or a purse, or a handkerchief, because it is possible that, sooner or later, they may be purloined by a pickpocket? If the mere fear of some future war is to divest us for ever of the benefits of commercial intercourse with other nations, it is one more to be added to the long train of evils which the war system inflicts on mankind.

Moreover, it is to be noted that full and free commercial intercourse does not imply the dependence of one country on the rest—it implies the mutual and equal interdependence upon each other of all countries. Interchanges presuppose benefit to both parties, or they would not be entered into. In the same way, the interruption which war would cause to such interchanges would prove equally injurious to both parties—to one just as much as to the other. The stronger the ties of mutual interest and the more numerous the points of pleasant and profitable contact, the greater will be the interdependence of nations upon each other. But that mutual interdependence does not place any one of them at special disadvantage as compared with the rest. If there be any disadvantage when war supervenes, it will be common to all. They will occupy in this respect the same relative positions which they would have occupied if they had, during all the time that they were at peace, deprived themselves of the advantages of foreign trade. It is true that the more nations are knit together by the ties of mutual interest, the greater will be the reluctance to break through them, and the more they will all lose by substituting hostile collision for peaceful commerce. But the reluctance will be felt, and the loss will be shared alike by all of them. If there be a shade of difference between them, it may perhaps consist in this. The more largely and closely a nation is in connection with the rest of the world, the more independent will that nation be, supposing that its foreign commerce were partially disturbed by war with one or more other countries. That commerce would still continue, and would be carried on partly through its old and partly through fresh channels. What articles it might no longer procure from its enemies would, through its organised intercourse with neutrals, be



abundantly poured in by the latter. Either from them or through them its wants would be supplied; and either by them or through them its productions would be taken in exchange.

In reference to this subject, we may quote a speech delivered by Macaulay in 1842. In answer to the argument that England ought only casually to be dependent on other countries for food supply, he said that he "preferred constant to casual dependence, for constant dependence became mutual dependence. . . . . As to war interrupting our supplies, a striking instance of the fallacy of that assumption was furnished in 1810, during the height of the continental system, when all Europe was against us, directed by a chief who sought to destroy us through our trade and commerce. In that year (1810) there were 1,600,000 quarters of corn imported, one-half of which came from France itself." Napoleon's Berlin decrees were far more oppressive and intolerable to the continental nations from which they nominally emanated than they were to England, against whom they were directed.

Thus that "independence of foreigners," on which Protectionists lay such stress, is a privilege acquired at an immense sacrifice of annual wealth, and which, when war supervenes to test its value, is found to be worthless. To secure it we are, according to this doctrine, to do without foreign trade during peace in order to teach us to do without it during war. We are to forego it when we can reap its benefits in order to inure us to the privation when we cannot. To sum up, the truth is that INDEPENDENCE OF FOREIGNERS REALLY MEANS COMMERCIAL ISOLATION, WHICH NULLIFIES INTERNATIONAL DIVISION OF LABOUR, DISCOURAGES PRODUCTION, AND FOMENTS A HOSTILE SPIRIT AMONG NATIONS.

12. *Free Trade would be a special boon to England if all nations adopted it; but till then it is a disadvantage to us.* We maintain, on the contrary (1) that if all nations adopted Free Trade it would be, not a special boon to England, but a general and equal boon to all mankind; and (2) that meanwhile, till other nations adopt Free Trade, it is a special boon to us. Let us examine these propositions.



(1) Free Trade simply means unrestricted, and therefore far more frequent and extensive commercial interchanges than at present, between the various populations that tenant this globe of ours. Now, all such interchanges, whether they be few or many, are quite voluntary. None need either buy or sell unless he reaps, or hopes to reap, some benefit from the transaction. Self-interest guides both parties in every commercial dealing. Both expect and believe that they are gainers by it. To forbid, or to curtail, or to discourage commercial interchanges, is to deprive both the parties (not one of them only) of the advantages which they would, if left alone, reap from them. To remove all impediments to such interchanges between the people of all countries, and to leave to the parties dealing together full and free scope for their operations, is to allow both these parties (not one of them only) to reap the advantages which such operations afford. How, then, can this latter policy be said to be a boon to any one country? We know that such a notion does exist; but it is none the less an absurd, misleading, and pernicious error. England can only share with other nations, and not one jot more than other nations, the benefits which these extended interchanges would confer.

It may be said that, if Free Trade were universally adopted, England would export more goods to the world at large. Very true; but the world at large would at the same time export more goods to England. For what could England take in return for her increased exports? Gold? Certainly not. It has been demonstrated over and over again that specie only migrates from country to country in homœopathic quantities as compared with the amount of commercial dealings. It would be goods, then, that England would take in exchange. In that case the foreign producers, sellers, and exporters of those goods would reap at least as much profit from them as the English would from the goods for which they would be exchanged. Where is the special boon to England? A policy by which all parties benefit equally is a universal boon to all—not a special boon to any one of them.

(2) While other nations are debarring themselves from the advantages of Free Trade, those advantages are being specially

enjoyed by ourselves. From a number of such advantages thus accruing to us, we shall content ourselves with specifying three. (a) Cheapness of living to our people, who, while they earn higher wages than their continental comrades, have their wants supplied at a cheaper rate. (b) Cheapness of production; for as all the materials which we work upon or work with come to us untaxed, we can undersell our rivals in all neutral markets, and thus secure all but a monopoly in these. (c) Cheapness in naval construction and equipment, which gives to us another all but monopoly of the lucrative ocean-carrying trade. Lack of space prevents us from detailing the numerous other direct and indirect advantages which we enjoy through our present monopoly of Free Trade. Indeed, some able men have argued that we derive greater advantages from being the only Free Trade country than we should enjoy if all other nations were also to become Free Traders. While dissenting from this view, it is undeniable that, under the present system of Free Trade here and Protection everywhere else, we have secured an unexampled pre-eminence in international commerce. Our foreign trade (combined imports and exports) now forms no less than one-fourth of the total foreign trade of the world at large. To sum up, the truth is that FREE TRADE WOULD BE A GENERAL BOON TO ALL NATIONS IF THEY DID ADOPT IT; AND MEANWHILE IT IS A SPECIAL BOON TO ENGLAND, THAT HAS ADOPTED IT.

13. *Other countries are too wise to follow the example of England, and adopt Free Trade.* We submit that for the words "too wise," we ought to substitute "not wise enough." But, indeed, "wisdom" has had little to do with the discussion of the subject abroad. The great bulk of the people composing civilised nations have never studied, never considered, and perhaps hardly ever heard the name of, Free Trade; and yet it is the great bulk of the people who are most interested in it, and to whose welfare it would most conduce. Of the wealthier and more leisured classes, part are the capitalists who have embarked their fortunes in, and identified their interests with, the protected industries, and all their influence is directed against any change; while the rest are, for the most part, indifferent to the sub-



ject, absorbed in other pursuits, and averse to trouble themselves with dry questions of political economy. As to the governing classes, they chiefly devote their attention to those topics which more immediately press on them—such as party triumphs or defeats, foreign politics, financial devices, religious contentions, dynastic intrigues, and other matters of statecraft. As to whether the people they govern would prosper better under Free Trade than under Protection, why should they trouble themselves about that, since the people, who are the greatest sufferers, do not move in it? Why should they lose votes, and perhaps power, to introduce changes which the many whom these changes would benefit do not ask for, and the few whom they would inconvenience loudly cry against?

Nevertheless, from all these various social strata there come forth in every nation a certain number of thoughtful, truth-seeking men who do study the subject, and whom that study has made Free Traders. These men, whose convictions are founded on research, are by no means inactive in promulgating the truth. But they are as yet comparatively few, and their voice only reaches a small part of the multitude itself, whose earnings are being clipped and pared by protective taxes. Gradually and steadily, however, nations are becoming leavened by Free Trade doctrines. A small but increasing number of active politicians in every country are clustering into a compact Free Trade party, and their labours in the cause are entitled to our warmest appreciation and sympathy. They have up-hill work before them. In their endeavours to benefit their countrymen they meet with apathy on the part of those whom they wish to serve, with obloquy on the part of those interested in the abuse which they wish to correct, and with neglect on the part of the rulers whose policy they wish to influence. All honour to their glorious efforts! This passing tribute is amply due from us, who have gone through the struggle, to our brother Free Traders in protective countries who are going through it. That they will succeed in breaking through the barriers of ignorant indifference and interested opposition, no one who sees how irresistibly the wave of progress is rolling onward throughout the world, can for a moment doubt. To



sum up, the truth is that THE MOMENT THE MASS OF THE PEOPLE IN OTHER COUNTRIES SHALL BECOME AWARE THAT PROTECTION TAXES THE MANY FOR THE BENEFIT OF THE FEW, FREE TRADE WILL BECOME UNIVERSAL.

## CHAPTER VI.

14. Increase of wealth under Free Trade. 15. That increase not due to the gold discoveries. 16. As to threatening foreign countries with retaliation.

14. *England has not prospered under Free Trade, and is living on her former capital.* Both statements are the reverse of true. As to the first, the marvellous expansion of England's prosperity and wealth within the last thirty years is so notorious, and has been so clearly, amply, and conclusively shown by statistical records, that it is mere waste of time to dwell upon it. The great wonder to us is that any man should be found so blind as not to recognise, or so bold as to deny, the fact. As to the second, the only ground on which the statement is based is the permanent excess of our imports over our exports—a fact which, far from proving, effectually disproves the statement that England "is living on her former capital." For, as we have before put it, how can receiving a hundred millions per annum more from abroad than we send away be a cause of impoverishment? Or, rather, how can it be other than a splendid accession to our wealth and capital?

It is said that this excess of imports has been partly paid for by the redemption of American Government bonds, and that consequently the indebtedness of the world to England is to that extent less. Let us examine this assertion. It is quite true that the United States have paid off a portion of their national debt, some of which was held in England; and all honour be to them for it! But how can the creditable liquidation of their debts prove

a source of impoverishment and diminution of capital to us? "They now owe us less," is your feeble moan. Why not? How can it be a loss and a grievance to you that a high-minded debtor should take the earliest opportunity of repaying what he owes you? If it be an injury to you to have solvent debtors, then long live the Turks and Egyptians! As regards them, you will ever be free from the nuisance of having the world's indebtedness to you diminished. But how the repayment of a loan can injure a creditor passes conception. Because our Anglo-Saxon brethren in the other hemisphere have repaid a portion of their national debt, does it follow that the aggregate indebtedness of the world to you (on which you lay such stress) has diminished? Not at all. Both in financial circles and on the Stock Exchange (the best, and indeed the only, authorities on the subject) the verdict is (1) that a larger sum than has been repaid to us by the United States in one form has, during the same period, been invested by us in other American securities, and (2) that, in addition, England has been, year by year, making fresh loans to, and large investments in, other countries (chiefly her own colonies). The result is—and it will relieve the fears of our timorous friends to know it—that the present indebtedness to England of the world at large is greater than it has ever been before. Paying us off is a very rare operation; borrowing from us a very frequent one.

There are also other proofs patent to every one who looks around him that, far from England's living on her capital, that capital is yearly increasing at a rapid rate; for it is accumulating before his eyes. Every year the fixed capital of the country is, visibly and tangibly, receiving a vast accession by the construction of new dwelling-houses, new ships, new factories, new railways, new harbours, new docks, new warehouses, &c., &c., of which the aggregate value is enormous. Every year vast sums are invested in new commercial enterprises, both at home and abroad. Every year our population increases at the rate of about 1,000 a day; while food, clothing, lodging, &c., are more easily and abundantly supplied to them than ever, for pauperism has decreased 19 per cent. since 1870. And it is in the



face of these facts that we are told that England is living on her capital! Out of what fund, then, if not from our annual savings (excess of income over expenditure), does the money come to provide these enormous annual additions to our national wealth? To sum up, the truth is that UNDER FREE TRADE WE HAVE ACCUMULATED WEALTH WITH UNPRECEDENTED RAPIDITY, AND ARE YEARLY MAKING VERY LARGE ADDITIONS TO OUR CAPITAL.

15. *England has no doubt prospered, but that prosperity is due, not to Free Trade, but to the gold discoveries in California and Australia.* If, instead of California and Australia, the gold discoveries had been made in Yorkshire or Cornwall, one might more easily understand how England would have specially benefited by them; but that the decay of England should have been arrested by, and the huge fabric of her prosperity have been erected upon, the discovery, thirty years ago, of auriferous deposits in territories thousands of miles distant, is an assertion that bears on the face of it the stamp of absurdity. The effects of that increased production of gold have been much over-rated. They no doubt did enrich the people of America and Australia; just as the discovery of new copper mines or petroleum wells enrich the people who own them. But the profits on gold production are by no means excessive. The labour which it absorbs is abstracted from the production of wealth in another form, and the average net result is not considerable. No doubt, the consequent increase in the world's stock of gold tended to arrest the general fall of prices, and even in some degree to enhance them. It thus, for a short time, gave some stimulus to the trade of the world. But such effects, limited as they were in extent and transitory in duration, were common to all countries. England merely shared that influence with others, and derived from it no special or exceptional advantage. We should hardly have adduced for confutation so weak a plea as the above, but that some Protectionists (not many) have, from some peculiar turn of mind, considered that there was something in it. To sum up, the truth is that ENGLAND SHARED WITH THE REST OF THE WORLD THE BENEFICIAL INFLUENCE, SUCH AS IT WAS, OF THE GOLD DISCOVERIES IN



CALIFORNIA AND AUSTRALIA, BUT DERIVED FROM THEM NO ADVANTAGE SPECIAL TO HERSELF.

16. *By threatening to impose import duties on foreign commodities we shall induce foreign countries to reduce, or remove, their present import duties on ours.* To such a threat the foreigner might probably reply to this effect, "You urge Free Trade on us, gentlemen! Good. But do you urge it upon us as being a benefit or an injury? If you really and sincerely deem Free Trade to be a benefit, then you certainly will not carry out your threat of adopting Protection if we decline your proposal. If, on the other hand, you believe it to be an injury, then your proposal is—well, self-answered." We cannot just now find the proper repartee to this. Meanwhile, the Protectionists may exclaim, "It is not fair for foreign nations to saddle our productions with Customs' duties while we admit theirs free." Why not? When we adopted Free Trade it was with a view to our own interests, and not in order to please or favour foreigners. On what plea, then, can you ask them to discard their own policy (good or bad) in order to please or favour you? We can imagine the foreigner answering you thus, "If you, O Englishmen! prefer Free Trade, be it so. We do not seek to control you. We do not come to you, and threaten that unless you adopt Protection we will lower our import duties and become Free-Traders. That would be casting a stigma on the sincerity of our belief in Protection. Like the fox in the fable, you have cut off your tail, and you now want us also to cut off our own; but the very urgency with which you press us begets the suspicion that you yourselves repent the operation. If you do repent having Free Trade, your remedy is easy—replace your tail—re-enact Protection; but do not be so inconsistent as to threaten us that unless we participate with you in what you assert to be the benefits of Free Trade, you will participate with us in what you assert to be the evils of Protection."

"This is all very fine," you will say, "but this Free Trade of ours is one-sided. We buy freely at the world's shop, while the world refuses to buy at ours." Divest yourself of this error. The world buys of you just as much, neither more nor less, as you buy of the world. No trade can pos-

sibly be one-sided. The essence of trade is to give and take. All commerce is barter. If you buy freely from the world, the world is compelled, from the very nature of things, to buy just as freely from you. It cannot help itself. The goods you buy will and must be paid for, directly or indirectly, in the goods you sell. The debts due to or by a country by or to other countries, whether for goods, or loans, or interest, or anything else, are not—never were—and cannot be—paid in gold. But this has been demonstrated so repeatedly and so clearly before that we need not further dwell on it.

What Protection does is, not to sell more to us than we sell to the protected world (for that is impossible), but to prevent each protected nation from selling as much to the rest of the world (by preventing it from buying as much from the rest of the world) as it would do under Free Trade. International exchanges, which constitute foreign commerce, and by which both parties would profit, are discouraged, checked, and curtailed. The loss of that profit is not one-sided but two-sided. The protected nation and the rest of the world are both equal losers; and the evil is due to Protection, not to Free Trade. The curtailment of those mutually beneficial international exchanges would become all the greater if we ourselves adopted Protection. By so doing we should no doubt punish the protected countries, but we should punish ourselves in the same degree. We should diminish their foreign commerce, but at the same time diminish our own. Surely the very worst way of increasing international exchanges must be to adopt the very system which we complain of in others as curtailing them.

As to what are the foreign articles that are to be taxed, in the improbable case of the Fair Traders, *alias* Protectionists, getting their own way, they are by no means agreed among themselves; and no wonder. The people at large decidedly object to have their food taxed, the manufacturing classes decidedly object to have their raw materials taxed, and the general consumers decidedly object to have the miscellaneous articles taxed. What is to be done? Well, as the general consumers are a long-



suffering and patient race, let us suppose that they are sacrificed, and miscellaneous articles of foreign manufacture are to be selected for taxation in order to constrain foreign countries "to reduce or remove their present import duties on our commodities." But here comes another difficulty. The amount of foreign manufactures imported by us from each country is too small to afford the required leverage. They consist of about 2,000 various articles, coming from about fifty different countries, and ranging in amount and importance from silks down to sarsaparilla. They constitute in value about one-tenth of our total importations; or, as some make it, by rating such things as confectionery, and works of art as manufactures, about one-eighth: it matters very little which. The aggregate value of these 2,000 foreign taxable articles is from £40,000,000 to £50,000,000 annually, which amount is cut up into small portions, not only by its distribution among a multiplicity of articles, but by its further subdivision as coming from various countries. The idea of frightening foreign nations into making a change in their fiscal policy by taxing, or threatening to tax, such comparative trifles, is sublimely ridiculous.

The Protectionists also talk of introducing differential duties, to be less on the productions of some countries and more on those of others; and these would occasion fresh subdivisions and complications which it would require an army of Custom-house clerks and revenue officers to detect and apportion. The practical difficulties of assessing and collecting duties on these fragmentary objects of minute taxation would bewilder the greatest financier of the age, Mr. Gladstone himself; and the Fair Traders, *alias* Protectionists, would have to evolve a Chancellor of the Exchequer of 10-Gladstone-power to cope with them. To sum up, the truth is that TO THREATEN FOREIGN COUNTRIES THAT WE SHALL ADOPT THEIR FISCAL POLICY UNLESS THEY ADOPT OURS, IS TO LEAVE TO THE DECISION OF OTHERS WHETHER WE ARE (RIGHTLY OR WRONGLY) TO ADHERE TO FREE TRADE OR REVERT TO PROTECTION.

## CHAPTER VII.

## CONCLUSION.

BESIDES the sixteen pleas for Protection which we have now discussed, there are (for error is hydra-headed) a number of minor and subordinate ones. But these are either so trivial as to have no weight, or so obviously unsound as to carry with them their own refutation. Almost all of them, moreover, are branches of, or correlative to, those of which we have treated, and we shall, therefore, refrain from passing them under review.

We cannot conclude without adverting to two curious phenomena in connection with the subject under discussion.

1. Here is a matter of science, in which the facts or data are numerous and well-authenticated. The inferences from these data are by no means abstruse or recondite; and the arguments on either side have been abundantly, if not always very luminously, set forth. And yet, of those who have more or less inquired into the subject, while nine out of ten have arrived at one conclusion, the remaining one-tenth have arrived at a conclusion diametrically opposite. By what peculiar twist of the brain is it that the same data lead one man to a direct affirmative and another to as direct a negative? No admission on either side that there is something to be said on the other! There is no neutral tint. All is either jet black or refulgent white. The reasons for such contradictory conclusions from ascertainable facts may, we think, be traced to some of the following explanations, which apply to imperfect reasoners on either side of the question: viz., 1. Some persons treat unsupported assertions as admitted facts. 2. Some shrink from statistics which they find troublesome, and therefore call them misleading. 3. Some only take those figures which tell in their favour, and leave out the rest. 4. Some ignore, or forget, a portion of the essential data, and conclude from incomplete premises. 5. Some admit a proposition, but afterwards go on reasoning as if they had refuted it. 6.



Some confine their attention to local and transitory topics, but reason as if they were general and permanent. 7. Some, biassed by self-interest, look obliquely instead of straight at the data before them. 8. Some, clinging to foregone conclusions, shut their eyes to new facts and their ears to new arguments. 9. Some resist an argument, not as being unsound, but simply as being adverse. 10. Some grant that the formula  $2 \times 8 = 16$  is quite correct in theory, but contend that it is inadmissible in practice. 11. Some fancy that what is verbose and obscure is profound, and that what is concise and lucid is shallow. But we need go no farther. These and similar logical shortcomings may serve to explain the curious discrepancy noticed above.

2 Through what marvellous coincidence does it happen that nearly all English Free Traders belong to the Liberal, and nearly all English Protectionists belong to the Conservative party? Here is an economic question, purely scientific, the discussion of which, and the conclusions in regard to which, can only rest on considerations intrinsic to the question itself. If different persons arrive at different conclusions upon it, such differences should be the outcome of a diversity in their reasoning power, not of a diversity in their party proclivities. And yet, by some peculiar elective affinity, we find one set of conclusions identified with the Liberal party and the opposite set with the Conservative party. This cannot be the result of mere chance. Are we to infer that the peculiar mental organisation which impels a man to be a Liberal is precisely that which will impel him to be a Free Trader? Or that the special form of brain which predisposes a man to adopt Conservatism happens to be the very brain formation that will evolve Protectionism out of his economic inquiries? These inferences are hardly admissible, and we fear that the coincidence in question is due to less recondite and more vulgar causes. The fact is that the so-called convictions of many, both Free Traders and Protectionists, are not owing to independent, fearless, truth-seeking inquiry, but are the result of old traditions, early education, immediate surroundings, class interests, spirit of comradeship, and generally of influences extraneous to the abstract question of truth or error.

While few Liberals are Protectionists, many, especially of the leading, Conservatives are from conviction Free Traders ; and to these the alliance of their party with an effete theory must be distasteful and embarrassing. They would, perhaps, not be sorry were a friendly voice to address the rank and file of their party in something like the following terms : —“ Beware of identifying yourselves with a scientific heresy. Protection is a defunct fallacy which no amount of political galvanism can resuscitate. How long will you continue to encumber yourselves with its dead body ? You compromise the future of your party by hampering it with a discarded policy. By so acting the triumph of Free Trade becomes the defeat of Conservatism ; and if Free Trade be a scientific truth, you are pledging yourselves to the adoption of a scientific error. It is as though the Conservative programme were to include a belief in astrology, or to involve a repudiation of the Copernican system, and a return to the good old times of Ptolemy. Pray do not make it anti-Conservative in a man to assent to the binomial theorem.”

But whatever party be in power, one thing is clear. The people of England have made up their minds. They will not go back to those miserable and memorable times when Protection taxed their food, curtailed their foreign trade, crippled their industry, and periodically spread starvation, destitution, and despair throughout the land. You might as well exhort the emancipated slave to resume his fetters. We have adopted a living principle ;—under it we have thriven, and to it we will cleave.



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