THE THEORY OF INTERNATIONAL VALUES.

I.

INTERNATIONAL trade meaning in plain English trade between nations, it is not surprising that the term should mean something else in Political Economy. In technical usage international is distinguished from home trade by the existence of barriers which prevent owners of the means of production in one region —or, more generally, sphere of industry—from employing those means in another sphere.[1] Or is it easier to say that home trade is distinguished from international by the tendency to equal remuneration of efforts and sacrifices: to an equality of profits, and an equation of the net advantages in different occupations?[2] The general conditions which determine equilibrium are the same for both species of trade; the only difference is that in the case of the home trade there are one or two more equations.

Such is I think the essential attribute of the term international trade as used by theoretical economists; the properties of geographical and political separation, though usually understood, are not those from which the principal conclusions flow.

The flexibility of this definition escapes from the objection that there is no difference in the present age between international and domestic trade. Let it be granted that capital and perhaps business power is free to flow to all parts of the earth.[3] Yet labour cannot be conceived as flowing so freely. The world is not yet in the condition of the American colonies where, if Virginia damnified Maryland by a tax, it is said that the in-

[1] 'The immobility of industrial agents,' as Professor Bastable says, in his admirable discussion of the definition in question.—*International Trade*, ch. 1.

[2] The plan of putting international before domestic trade—treating it as the rule rather than as an exception—may have historical as well as theoretical justification, if we agree with Professor Bastable that 'the first exchanges were international (or rather intertribal).' *Commerce of Nations*, p. 7.

[3] Business power at least, if not labour, has in several cases been transferred from England to foreign countries, in order to avoid hostile tariffs. See Diplomatic and Consular Reports, Spain 1893, C 6855, 112, p. 18. I have heard of other instances consequent on the McKinley Tariff.

habitant of Maryland would transfer himself to Virginia.[1] Presumably there may be a considerable difference in the level of advantage in different countries before labour flows from one to another.[2] Suppose, however, that the conditions of international trade proper ceased to exist, there would still remain the quasi-international trade between the parties to Distribution. There would still be a great gulf between employers and employed across which work is transported in exchange for finished products.

According to this view the fundamental principle of international trade is that general theory which Jevons called the Theory of Exchange, and Prof. Marshall describes as 'an inquiry into the balancing of the forces of Demand and Supply,'[3] which constitutes 'the kernel' of most of the chief problems of economics. It is a corollary of the general theory that all the parties to a bargain look to gain by it. Foreign trade would not go on unless it seemed less costly to each of the parties to it to obtain imports in exchange for exports than to produce them at home. This is the generalised statement of the principle of Comparative Cost, with respect to its positive part at least. The negative clause, that the value of articles in the international market is not proportioned to the cost—the 'efforts and sacrifice' —incurred by the respective producers, is superfluous, if the definition here proposed is adopted. Why should there be any correspondence between cost and value in the absence of the conditions, proper to domestic trade, on which that equality depends?

In a complete treatise on international trade it would be proper to dwell at length both on the general principle and the corollary; on the one hand contemplating the tendency towards maximum satisfaction,[4] which constitutes the grandest generalisation of Economics; and on the other hand applying the doctrine of Comparative Cost to explain the peculiarities of existing commerce—why such and such articles are exported from one country and imported to another.[5]

[1] *Quarterly Journal of Economics*, October 1892.

[2] *Cf.* Bastable, *International Trade*, p. 10.

[3] *Principles*, Book V. ch. III.

[4] The principle is employed by almost all mathematical writers on economics; among whom Professor Marshall may be distinguished as stating carefully the limitations, under the existing social *régime*, of the 'doctrine of maximum satisfaction' (*Principles of Economics*, Book V. ch. 12, § 7); and Dr. Irving Fisher as appreciating the mysterious analogies between the maximum principles in physics and in human affairs. ('Mathematical Investigations in the Theory of Value and Prices.' From *Transactions of the Connecticut Academy*, Vol. IX., July 1892).

[5] As Professor Taussig has done in his brilliant article on 'Aspects of the Tariff Question,' in the *Quarterly Journal of Economics* for 1889, p. 291.

But it is proposed to confine this study to those portions of the theory which have at once some bearing on practice, and also a high degree of generality. I shall endeavour, in a first article, to express in as simple language as possible some propositions of this double character. A mathematical version of the same propositions will form the second part. The third part will contain a critical review of the principal writers on international trade.

Of the propositions relating to international trade which are at once general and bear on practice the most important, I think, are those which attribute advantage or detriment—whether for one nation or several—to changes in the supply of, or demand for, articles of trade. Such are the answers to the questions: Would a tax or a bounty, an improvement or deterioration in the means of communication, abundance or scarcity of an exported article, be beneficial to the home country, or to all parties? The answers to such questions vary with the data, which require to be carefully distinguished.

One distinction—which indeed hardly needs to be pointed out, since it is the similarity, not the difference, which generally escapes notice—is that which has been already indicated between international trade proper, relating to separated regions, and the analogues thereof which may be termed quasi-international trade. Another distinction, which one might have *a priori* supposed to be very obvious, is between the interests of the home country and that of the world at large. Yet, strange to say, a confusion between ideas so different as part and whole pervades many of the arguments in favour of Free Trade; the complaints of List[1] against 'the School'—the followers of Adam Smith—on this ground are too well founded.[2] The equivocation might be compared to that which it was reserved for Prof. Sidgwick to point out in the term Utilitarianism—referring sometimes to the Greatest Happiness of the individual, and sometimes to that of the whole.

[1] *National System.*

[2] The amiable confusion between one's own or one's country's exclusive advantage and that of the world at large may be attributed to Mr. Gladstone, when he asks—in his article on 'Free Trade or Protection,' in the *North American Review*, Vol. cl.—'why, if Protection is a good thing, it should not be adopted by the United States in their *internal* trade.'

Even the most clearheaded of writers, James Mill (*Elements of Political Economy*, ch. III. § 16, p. 159, ed. 1821) and Professor Bastable (*International Trade*, p. 123, and 'Incidence and Effects of Import and Export Duties,' in the *Report of the British Association* for 1889, p. 6 of the essay, p. 446 of the *Report*), seem not to distinguish very sharply the ideas of advantage to the world and to a particular nation.

Another important distinction is between *small* and *large* changes; the characteristic of the latter being such an alteration in the scale of production that the law of increasing returns is brought into operation [or the converse alteration]. Thus the 'improvement' in the process of manufacture of an exported article considered by Mill in his great chapter (Bk. III. ch. 18 §. 5) is presumably of the order 'small'; the change contemplated by him in an earlier section (§ 2), from a time 'when each country produced both commodities to an established trade,' may well be—but is not necessarily—large. Another distinction to which it is proper to call attention is between an impediment to trade [or an improvement] in general and that particular kind of obstruction [or encouragement] which a tax [or bounty] constitutes. The proceeds which may accrue from a tax form an item which is sometimes left out of account in the balance of advantages.[1]

Other principles of classification requiring no comment are the distinction between changes originating in the home country, or abroad; between those affecting primarily exports, or imports; between the case of two countries, and that of several countries; and so forth.

It will be sufficient here to select the most instructive cases; requesting the reader to attend carefully to the issue, and to stay condemnation, until appeal has been made to the tribunal of mathematical reasoning.

The simplest case is where the question is whether the advantage of the home country is increased by an increase in the supply of foreign articles, in the sense that the foreigner is willing to give a greater quantity of those articles in exchange for any the same quantity of native produce, the increase being supposed to be on a small scale.[2] Upon the general principle that a cheap market is advantageous to the buyer, the home country is benefited; whatever the cause of the increased supply, whether it is due to an improvement in the production of the foreign articles, or a greater desire on the part of the foreigners for the produce of the home country, or *ceteris paribus* an increase in their numbers. Conversely

[1] Thus the project of a differential tax on foreign produce (in favour of the colonies) is described by an eminent free-trader as a demand that 'England should tax herself to the amount of 10½ millions'; as if England would be a loser to that extent. In the view which I adopt the amount received by the Government is to be set against the amount paid by the people.

[2] *Cf.* Marshall, *Principles of Economics.*

a diminution in the supply of foreign goods is detrimental to the home country.

The technical use of the term increase of supply must here be kept in mind. It is quite possible that the home country might suffer by the foreign customer becoming better supplied with commodities in general. It is well observed by Mr. Medley, an ardent free-trader, that the adoption of free trade by all nations—which of course, according to him, implies the increase of their wealth—might prove detrimental to England.[1] The poverty of the foreigner may quite conceivably be advantageous to the native.

Suppose a new country exchanging with an old one food for highly manufactured products. An increased deficiency in necessaries on the part of the old country, or of a large section thereof,[2] always supposing—perhaps an imaginary supposition [3]—that their efficiency is not thereby impaired, rendering them more eager for the supplies derived from the new country, is apt to benefit the new country considered as a whole. However, the particular section of the home country which supplies services analogous to those of the foreigner—considered as an isolated group—may well be prejudiced by the poverty of foreign labour.

This last consideration suggests a fresh topic—international competition; which may however be subordinated to the present one (the change in the supply of foreign goods) by observing that when a competitor with the home country deals with the foreigner, the 'supply' of foreign goods is diminished. Formal reasoning and common sense concur in regarding such competition as an evil to the home country.[4]

The solution is not so simple when we consider changes originating on the side of the home country. Such changes may be divided into two classes, according as they originate on the side of supply, or demand: exports, or imports. Under the former

[1] *Fair Trade Unmasked.*

[2] *Ceteris paribus*, of course: not supposing that, when the real remuneration of the foreign labourers is diminished, that of his employer is increased; as Mill and Cairnes do in effect; when, discussing the effect on international values of low wages in a foreign country, they use wages in the peculiar Ricardian sense (*Pol. Econ.*, Book III. ch. 25, § 4 and *Leading Principles*). These passages will be discussed in our Part III.

[3] Professor Walker in his powerful and impartial article on 'Protection and Protectionists' in the *Quarterly Journal of Economics* for April 1890, admits it to be quite possible that in some branches of American industry 'the manufacturers pay higher wages for a given quantity of labour than are paid abroad.'

[4] See Part II. Mill's paradoxically low estimate of this evil will be considered in Part III.

head the simplest case is where there has occurred an improvement [or the reverse], a diminution [or increase], in the cost of production of an exported article ; the case considered by Mill in the fifth section of his great chapter on International Values. As may be gathered from Mill's reasoning, the improvement may prove detrimental to the exporting country.[1] It is true that Mill obscures the subject by taking as the measure of the gain of trade the alteration in the rate of exchange between exports and imports rather than the truer measure of advantage which the principles of Consumers' and Producers' Rent afford. However, a representative case may be put which brings out the implication latent in Mill's reasoning. It will be recollected that Mill supposes an improvement in the production of linen which Germany exchanges for cloth imported from England ; in which case he shows it to be a possibility that 'Germany will obtain cloth on more unfavourable terms and at a higher exchange value than before' (*loc. cit.* § 5, par. 6). Now suppose that the same amount of productive forces are expended on linen by the German manufacturer before as after the improvement. If the increase in productivity has been ten per cent., where before there were 100 units of linen produced, there are now 110 units produced. But if the demand for linen be increased 'in a less proportion than the cheapness,' whereas the German used to receive, say, 100 units of cloth, he will now receive less than 100. For an equal outlay in the way of cost he receives a less return. Whence it follows, if we make the further supposition that linen is not an article of German consumption, that the exporting country is damnified by the improvement ; and by parity of reasoning may be benefited by a restriction of its exports. It is clear that the data which have been supposed may be considerably modified without the conclusion being destroyed.

But indeed, without invoking Mill's stupendous chapter, the proposition is sufficiently supported by common sense. It is a commonplace that a bad harvest is good for farmers in the absence of foreign competition. As Ricardo says, 'if we lived in one of Mr. Owen's parallelograms and enjoyed all our productions in common, then no one could suffer in consequence of abundance ; but as long as society is constituted as it now is, abundance will often be injurious to producers, and scarcity beneficial to them.'[2]

[1] This view and some others here adopted seem to differ from those of an eminent living economist, whose writings on International Trade will be noticed in the third part of this study.

[2] *Protection to Agriculture*, § 4, *sub fin.*

Let us assume, according to Gregory King's law,[1] that a deficiency in quantity by a tenth may raise the value of the harvest by three-tenths. Now, suppose that the harvest has been an average one; but that, as the grain is sent to market, a tenth leaks out, or is intercepted by robbers (to use a favourite free trade metaphor). The total value will be, as before, raised; so beneficent (to one party) may be the effect of what Cherbuliez calls artificial dearth.[2]

An example of an impediment to export, other than a tax accruing to the exporting country, is a transit duty levied on the exports from one country to another by a third party. It is conceivable that the native states of India might be benefited by the duty which we levy on opium passing through our territory, if China had no other means of satisfying her demand for opium.

A similar effect might be produced by an increase in the cost of transporting the exported article from the locality of its production to the port, supposing that there is no corresponding drag on importation.[3]

The effect of a variation in the cost of transport generally will be compounded of different tendencies: since an impediment on exportation and on importation in general affects both countries, so far as each both exports and (in return voyages) imports. Since, out of the *four* tendencies thus compounded, one only (variation in the cost of exportation by natives)—and that one only on certain conditions—would lead to a benefit for the natives from an aggravation of the cost of transport, it may be presumed that in general such an aggravation is very unlikely to be advantageous to the home country.

The case of an improvement in the process of manufacture[4] of an article which is both exported and consumed at home, is also a compound between the certain gain to the native consumer and the possible loss to the home country in the way of foreign trade. It is quite possible that the latter tendency may prevail over the former, just as in the case of farmers[5] who may gain more as producers, than they lose as consumers, by a bad harvest.

An instructive example of the principle under consideration

[1] See Jevons' *Theory*, p. 168. 2nd edition.

[2] *Dictionnaire d'Économie politique.* Art. 'Disette.' *Cf.* Art. 'Abondance,' by Bastiat.

[3] As might well occur in a round-about trade.

[4] Mill, *Pol. Econ.*, ch. 18, § 5.

[5] Above, p. 40.

is afforded by the question whether a diminution of the output of the home country's exports consequent upon a limitation of working hours is necessarily injurious to the country. That this question is to be answered in the negative is well argued by Mr. Sidney Webb in his article on 'Limitation of the Hours of Labour' in the *Contemporary Review* for December 1889.[1] It is noticeable that the advocate of socialistic measures dwells on propositions relating to the trade between two nations; he does not bring on the scene a third country competing with the socialistic one. An advocate on the other side would probably represent the whole argument as vitiated by this omission. The judicial position is intermediate between these two. If the demand of the foreign customer for our goods, prior to, or abstracted from, the existence of a competing country, is such as to render a restriction of exports advantageous to the home country, it may still be possible, notwithstanding the existence of competition, to obtain that sort of advantage though in a less degree. As Professor Marshall says with reference to this question, 'the influence of foreign trade competition in this connection can be proved to be different from what it at first sight appears.'[2]

It should not be conceived, I think, that the conditions favouring the successful restriction of exports are altogether exceptional. Mill, after distinguishing three varieties of conditions inquires 'which is the more probable,' and decides in favour of that variety which, as we have already seen, is favourable to the policy of restriction.[3] Accordingly, if each nation could only deal with one other, either of the pair might often play the game of restriction with advantage. But no doubt the existence of competition modifies the foreigner's law of demand for the native articles in such wise[4] as to render that game much less gainful.

It is to be observed that the advantage which has been described results from a drag on exports which need not be a tax. *A fortiori* of course when the impediment is a tax accruing to the exporting country. The latter proposition is much more generally accepted, I think, than the former.[5] It is often stated with the unnecessary limitation that the home country

[1] See p. 878, Vol. LVI.

[2] *Principles*, 2nd edition, p. 745, note.

[3] *Pol. Econ.*, Book III, ch. 18, § 5 last par.

[4] *Cf. Ante*, p. 39.

[5] The latter is explicitly admitted even by McCulloch; the former not even by Mill.

must have an absolute monopoly of the exporting article.[1] That she should furnish a considerable portion of the total supply might suffice.

Coming next to changes originated on the side of imports (to the home country), let us consider a restriction on importation such as a transit duty imposed by a third power on imports into the home country. Such an impediment on imports, unlike one on exports, is never advantageous to the home country.[2] The duty levied by the Indian Government on opium transported through Bombay from the Native States might conceivably benefit those States, but not the Chinese.

A tax indeed on imports the proceeds of which accrue to the home country may be beneficial to that country: but not in so many cases, not with as great probability, as a tax on exports. The positive part of this statement is proved by Mill;[3] but the negative part is less easy to establish by the purely literary method.

A sense of this difference between the effect of a tax on exports and one on imports is perhaps traceable in the division of opinion with regard to the question whether a tax on imports can fall on the foreigner—a division of opinion greater than exists with regard to the corresponding question concerning exports.[4] That a tax on imports may prove a net gain to the home country is admitted by the χαρίεντες, but it is denied by the common free-trader and even by competent economists when expressing themselves carelessly. It may be as well to adduce instances of these contrary judgments; so that my argument in favour of the proposition in question may appear neither paradoxical nor otiose.

In favour of the proposition the following high authorities may be cited:—Mill (*Political Economy*, bk. v. ch iv. § 6).

'A tax on imported commodities almost always falls in part upon the foreigners.' . . . . 'Those are in the right who maintain that taxes on imports are partly paid by foreigners.'

Senior. (*Outlines*, 184).

'A part of the taxes received by the Government of one country is often paid by the inhabitants of another.'

[1] *E.g.* Rogers, *Six Centuries*, p. 79, 'there must be no other source of supply.'

[2] For the evidence of this asymmetry I must refer to the forthcoming Part II.

[3] *Pol. Econ.*, Book V. ch. 4, § 6, passages quoted below, p. 47.

[4] McCulloch, for instance, admits the latter, but denies the former (*Principles of Pol. Econ.*, Part II., ch. v., *sub finem*).

Seligman (*Incidence of Taxation*, ch v.).

'It will be seen how erroneous is the doctrine of those extremists who maintain that the loss to the consumer is measured by the proceeds of the import duties.' . . . 'The price of Sumatra tobacco has risen by only a fraction of the tax.'

Compare the admissions made by Professor Bastable in his paper on 'Incidence and Effects of Taxation' so often referred to, and Professor Nicholson's reasoning in his masterly paper on 'Tariffs and International Commerce.'[1]

On the other side Mongredien (*Pleas for Protection Examined*):

'Import duties on foreign goods fall on the consumers of the importing country and are paid by them.'

Sydney Buxton (*A.B.C. of Free Trade*) :

'Duties on goods are paid for by the people who consume those goods, and not by the people who produce them.'

Sir J. Lubbock at the Congress of the Chambers of Commerce of the Empire, 1892, says, 'I maintain the proposition that the duties are paid by the consumer.' (*Chamber of Commerce Journal*, July, 1892, *Supplement*, p. 28.)

The opinion is not confined to Free-Traders. Mr. McKinley (*North American Review*, cl. p. 742) writes—

'If the duty is put on the non-competing foreign products, the consumer in the United States will pay every dollar of that tax.'

An instructive statement of the common free trade opinion is found in Mr. Strachey's singularly brilliant report on the effect of the German tariff (Parl. Papers, 1884-5, LXXXI.). Mr. Strachey speaks of

'The axiom of political economy that a tax on foreign commodities is borne by the importing country. No one could so much as state [the contrary] without exposing himself to the charge of having no sense of humour.'

No one certainly will bring this charge against Mr. Strachey; for his report is probably the wittiest blue-book in existence ; one of the wisest too, if we except this particular passage. Mr. Strachey seems to himself to have proved his case when he has demonstrated —by some very interesting statistics—that the price of the taxed

[1] *Scottish Geographical Magazine*, September, 1891.

article in the importing country exceeds its price in the exporting country by just the amount of the tax, abstracting cost of transport. But *quis dubitavit?* If, as is or was recently the case, there is a tax of two dollars per ton on hay imported from Canada into the United States, the cost of transport being here insignificant, the price per ton on the American side of the frontier will be two dollars higher than on the Canadian side. The question is whether it is the American price that has gone up, or the Canadian price which has gone down. The latter happens to be the case.[1]

A similar *ignoratio elenchi* is committed by a still higher authority, Roscher, when he argues that Germany must pay the full amount of the tax which she imposed on wheat imported from America; for that the price in Germany (account being taken of cost of transport) exceeds that in England by exactly the amount of the tax.[2] But how does he know that the imposition of the tax did not cause America to offer her wheat to England on better terms than before? It may be the American price which has gone down, not the German price which has gone up.[3]

Probably the highest authority and weightiest argument in favour of the proposition in question are those of McCulloch, who holds[4] that the project [of obliging foreigners to contribute to the revenue of the nation] 'is wholly imaginary, and that duties on imports are always paid by the importers, and never by the exporters'; the reason being that the exporters must obtain the rate of profits prevailing in their country, and therefore cannot after the tax lower the price which before the tax only just afforded the ordinary profits.[5]

Let us examine this reason.

[1] As shown in the *Report of the Subcommittee of the Committee of Finance* (Senate U.S.) by Senator Merrill (Rep. 788). Here are some extracts from the evidence: 'The duty of five cents per dozen imposed upon eggs by the McKinley tariff is paid by the foreign producer not by the consumer.' . . 'They have dropped the valuation on most farm products just about the amount of the duty imposed by the McKinley bill.' . . . 'No question they have to take 30 per cent. less for their horses.'

Mr. Edward Atkinson in his comments on this Report (*Taxation and Work*, ch. xxv.), after ridiculing the 'delusion that one of the effects of a duty imposed in this country upon a given import is to depress the price of that article in the country in which it is produced, and that by such reduction the burden of our tax is put upon that country' (p. 193) admits (p. 194), that 'our duties upon the products of Canada have unquestionably had that effect.'

[2] *Finanzwissenschaft*, p. 411, Note 4.

[3] *Cf.* Bastable, *Incidence*, p. 3.

[4] *Principles of Political Economy*, Part I., ch. v., *sub finem*. *Cf. Taxation and Funding*, Part II., ch. v.

[5] McCulloch's argument is employed by Mongredien (*Pleas for Protection*) and other extreme Free-traders.

First, as pointed out by Prof. Bastable,[1] price may be lowered without profits being diminished, if the cost of production varies with the margin. Thus a tax imposed by the United States on certain kinds of agricultural produce imported from Canada[2] might result in the diminution of the quantity, the cost of production, and the price of that produce. This idea of a freely sliding margin is indeed highly theoretical, but so is the objector's idea of equal profits in all occupations.

More important in practice, if less familiar in theory, is the analogous case in which the burden falls—not on rent proper—but on 'quasi-rent.' Suppose an import tax laid on tin plates. The tax might be paid out of the surplus gains of the more successful foreign manufacturers,[3] while the less successful would be driven out of the field.

No doubt if the tax imposed were a very heavy one, such as is now fashionable, say 50 or a 100 per cent., it is not to be expected that the foreign exporters should lower their price to that extent. The price of tin plates then will rise in the home country. Accordingly a net loss corresponding to that rise of price appears to be inflicted on the home country. But it appears so only while we confine our attention to immediate effects. When an engine pushes against a carriage the immediate effect is that the buffer of the carriage is pressed back. When the buffer has been pressed back to a certain point the carriage begins to move, and the buffer of the next carriage, and in fine the whole train. The propagated influence of a tax may be similar, in a case where the demand of the foreigner for the products of the home country—say food and raw materials—is very urgent. The export of tin plates being checked, the foreigners find a difficulty in paying for the imports which they so much require. To restore the equation of international trade they are constrained to offer their exports other than tin plates—exports in general—on terms less favourable to themselves. It is quite conceivable that the gain which the home country derives from this readjustment of trade may exceed the loss which it derives from the rise of the value of tin plates. As Mill says in his splendid and candid section on Protectionism: 'A country which prohibits some foreign commodities does, *ceteris paribus*, obtain those which it does not prohibit at a less price than it would otherwise have to pay.'

[1] *Incidence* p. 3, *Cf. International Trade* p. 45. See also Sidgwick, *Pol. Econ.*, Book III. ch. v. § 3.

[2] Above, p. 45.

[3] See Bastable, *Incidence and Effects*, [*Report of the British Association* for 1889], and Sidgwick, *Pol. Econ.*, Book III. ch. v. § 3.

An import tax in the case supposed would resemble the export tax before considered, in tending to check the exports from the home country. For a country so circumstanced it might be disadvantageous to 'grow more cotton and cereals,'[1] as Mr. Gladstone recommends the Americans.[2] How should the native labour, which but for the check to exports would have been employed in producing them, be now most advantageously employed? Quite possibly on 'tin plates'; thereby rendering the native demand for foreign goods less pressing, and thus more fully satisfying the conditions which must exist in order that the foreigner may be taxed.

These arguments are not affected, or rather become *a fortiori*, by the existence of 'invisible' exports or imports of the nature of capital lent, or interest paid. For by the operations which have been described the value of money will have been increased in the foreign country and decreased in the home country.[3] Accordingly the natives as lenders or debtors will now have to give less of their own produce, and as borrowers or creditors will receive more of the foreigner's produce.

It has been shown that under conceivable circumstances advantage may result to the home country from a tax on exports or imports. But will it result under given circumstances? A negative answer, I think, may be given in some concrete cases; in many 'the only answer is that an answer is impossible'; as Professor J. S. Nicholson demonstrates in his essay on 'Tariffs and International Commerce.'[4] The affirmative answer is described by him as 'part of the casuistry of economics,' like the discussions of moral philosophers concerning the occasional justification of mendacity. 'Free trade, like honesty, still remains the best policy.'

This analogy seems singularly just to one who agrees with Mill as a moralist that 'even this rule [truth], sacred as it is, admits of possible exception' . . . . that 'the exception ought to be recognised, and, if possible, its limits defined';[5] and with Mill as an economist, that in particular cases 'taxes on imports

[1] *Cf.* F. Bowen, *Principles of Political Economy*, p. 467, *et sqq*.

[2] In his article on 'Free Trade and Protection,' in the *North American Review*. See Mr. Blaine's criticism of his advice. *Ibid.*

[3] See Ricardo, *Pol. Econ.*, Bk. III. ch. XXI. § 2. Mill, *Pol. Econ.*, penultimate par., *sub finem*, Bk. V. ch. IV. § 6, par. 4, latter part. Bastable, *International Trade*, ch. III., and p. 118. *Incidence*, p. 3, par. 2.

[4] In the *Scottish Geographical Magazine* for September, 1891.

[5] *Utilitarianism*, ch. I.

are partly paid by foreigners.'[1] 'England will gain at the expense of Germany not only the whole amount of the duty but more '[2] by an export tax.[3]

Bounties being 'negative taxes,' as Cournot says, it might have been expected that in cases where a tax is detrimental, a bounty would be beneficial. It is not so however; a bounty, whether on exports or imports,[4] takes more from the Government than it gives to the public;[5] so long as we confine our attention to changes which are not organic in the sense already explained.[6]

But when we consider large changes apt to be attended with a reorganisation of trade, many of the preceding propositions no longer hold good. An increased supply, a greater cheapness of foreign goods, may now, I think, prove disadvantageous.[7] A bounty may prove advantageous upon principles indicated by Prof. Marshall,[8] by calling into play the law of increasing returns. Upon similar principles, a tax on imports may foster native industries, it may be advantageous in its ulterior as well as its more immediate effects; in the way of protection, as well as in the way of what may be called in a large sense[9] revenue.

I hope it may be allowable to define my subject so as to exclude a detailed examination of the free-trade controversy. On the general issue I have nothing to add to what I have learnt from the first-rate writers who have treated of the subject, in particular Mill, and Prof. Sidgwick,[10] and Prof. Marshall.[11] As I read, protection might procure economic advantage in certain cases, if there was a Government wise enough to discriminate those cases, and strong enough to confine itself to them; but this condition is very unlikely to be fulfilled.

1 Book V. ch. IV. § 6.

2 *Ibid.*

3 Of course I agree with Mill and living writers that for one nation to benefit itself at the expense of a greater loss to others is contrary to the highest morality, which takes the greatest happiness of all as its end. 'The justice . . . . . of destroying one of two gains in order to engross a rather larger share of the other does not require discussion' (Mill, Book V. ch. X. § 1). But, in an abstract study upon the motion of projectiles *in vacuo*, I do not think it necessary to enlarge upon the horrors of war.

4 Of which Adam Smith gives instances (*Wealth of Nations*, Book IV. ch. 8).

5 See Part II.

6 Above, p. 38.

7 Once more I can only offer a proleptic reference to my Part II.

8 *Principles of Economics*, Book V. ch. 12.

9 Including producers' and consumers' rent, as well as the receipts of the Treasury.

10 *Pol. Econ.* Book III. ch. v.; and *Scope and Method of Economic Science.*

11 Presidential Address to Section F. of the British Association, *Report of British Association*, 1890, and *Journ. Stat. Soc.* Dec. 1890.

So far we have been regarding exclusively the advantage of the home country. When we take in the interest of all parties we are met with the axiom that any interference with exchange diminishes the sum total of advantage resulting to all parties concerned. The axiom, like most of the propositions with which we are concerned, presents two aspects according as we consider small or organic changes. With reference to the former case it may be accepted without qualification, except so far as the level of utility, so to speak, is regarded as different in different countries;[1] the exports of one country as compared with another costing more labour, and the imports exciting more satisfaction.

When we consider large changes, developing new industries, it is conceivable, as Prof. Sidgwick has argued[2] that an interference with the 'natural' course of international trade may be beneficial to all parties.

Much of what has been hitherto said refers primarily to the case of trade between two countries.[3] But the transition to the more general case is easy. As Mill says, 'trade among any number of countries must take place on the same essential principles as trade between two countries. . . . Introducing a greater number of agents precisely similar cannot change the law of their action' (*Political Economy*, Book III., ch. xviii., § 3).

The preceding propositions relate especially to international trade proper. But many of them may be transferred to that quasi-international trade of which the principal example is the transaction by which the national produce is divided between the owners of the agents of production. The principal characteristic peculiar to international trade proper is, I think, the possibility of a nation benefiting itself by a tax on exports and imports. There may indeed be a tax on the transactions between 'nations' in the generalised sense—such as a tax on wages—but the proceeds of the tax would accrue to the community, not to one of the groups.

It is useful, I think, to contemplate the theory of distribution as analogous to that of international trade proper. It is seen, for instance, that the intention which seems to inspire some of the leaders of labour to raise wages by restricting the supply of

[1] Compare Professor Marshall, *Principles*, Book III. ch. VI. § 2, par. 3.

[2] *Pol. Econ.* Part III., ch. v. § 1.

[3] It will be recollected that the competition of a third country was treated as affecting the *demand* of one of the two countries; above p. 39.

labour is *primâ facie* quite consistent with general principles. But a doubt may occur whether the special conditions are favourable for carrying such a policy to any great length; when the transaction between the *entrepreneur* and the workman, who supplies an agent of production in return for a share of the produce, is likened to that sort of international trade which England used to have with the Southern States of America, when she imported materials (cotton) and exported the finished article.

Again it is instructive to regard the transaction between landlord and farmer as a sort of international trade. The familiar proposition that 'rent does not enter into price,' or into cost of production, may thus be seen in a clearer light. But this is one of the topics which may better be treated in the mathematical part which is to follow.

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