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FREE TRADE AND PROTECTION

I.

THE Editors of the ECONOMIC JOURNAL have done me the honour of inviting me to express my views, in its pages, on the contest now dividing the political and scientific world of England with respect to that country's "fiscal policy." For several reasons I have hesitated before accepting the invitation, and in accepting still hesitate. The English people are launched upon a weighty quarrel, and a domestic one. It is scarce seemly for a foreigner to mix himself up in it. Any Englishman whose views are unappreciatively interpreted by foreign utterances, is naturally inclined to retort that Englishmen are more competent than foreigners to pronounce, on any point, which is the best policy for England. This, he might say, is a very different matter from that of Continentals summoning English engineers to build railroads at a time when none but English knew how to do so. On the contrary, the present emergency not only concerns home politics in which the foreigner is, generally speaking, comparatively incompetent to give fitting counsel, but it is also a matter in which England has for a long time been acquiring special experience and opportunity of judging, and is therefore the less in need of a foreigner's advice.

Such sentiments might be looked for even in the event of a great scientific authority being called upon to pronounce. In our case, unfortunately, and for this controversy there is no such authoritative voice, either national or international, to claim any special weight in deciding this vexed question. There may be men here and there who have invested themselves with a great halo. But unluckily the halo has a way of dispersing very quickly as soon as it is exposed to the sharp test of opposed interests and opinions in practical politics. Then that which was but just now a brilliant name in science sinks down to the level of barren book-wisdom and "grey theory."

Much more does all this apply when the person in question holds, as I do myself, the firm conviction that, in the present question, he can, under no circumstances, claim to speak with any authority.

Besides, there is another complicating circumstance. Were I to venture to express an opinion on the policy of England in the matter of railways with the presumptuous idea that the English would listen, my own country would in no way be affected by any controversy on such a subject. To Germany it is practically an indifferent matter whether England persists in her present system of land-transport, or whether she introduces changes therein. In questions of tariff policy, the opposite holds good. Here we are concerned with measures which at all times are facing both ways, domestic and foreign. That which was said above to amount to a foreigner's meddling with home politics becomes, in fact, an attempt to influence that home policy from the point of view, and in the interests of, that country to which the adviser belongs. Nay, more : the adviser will incur rebukes both from the foreigner and from his own country, according as his advice runs counter to the national sentiment on either side, or in as far as it seems adverse to the interests of the several economic sects, or at least conflicts with the views of individual party leaders.

These indications may suffice to explain my hesitation, and to win excuse for me, if I refrain from giving my views in such a form as might lay me open to misinterpretations such as I have described. In what I am about to say, I shall prefer to hold myself as far as possible aloof from points of practical politics actually under discussion, and just state the impressions which have been borne in on me, during the course of my scientific life, from the commercial policy of England and Germany. In so doing, I trust that I may be describing not individual impressions merely, but such as are to some extent held in common by a number of my colleagues and countrymen.

II.

At the time when I began to acquire independent views on economic science and its controversial questions—that is to say, about 35 to 40 years ago—opinions on foreign commercial politics mainly ranged themselves in Germany in two opposite camps. The one set of views had gradually won the upper hand in the national public opinion. It came from England as a result of the

new Free Trade movement. With it were associated the names of Richard Cobden and John Bright, as well as the recently concluded commercial treaties between France and England, and between Germany and France. It was promulgated in Germany through the agitation of the Congress of Political Economy, the heads of which were either partly English, like John Prince Smith, or had long resided in England, like Julius Faucher. Their literary organ was the *Vierteljahrschrift für Volkswirtschaft*, the contents of which became ever more and more the mould for the economic views of the Liberal and Progressive Parties of the Germany of that date.

The doctrine thus inculcated was Free Trade *sans phrase* : Free Trade both inland and abroad. Considered only under the latter aspect, and as an international gospel, uprooted from its English native soil, its more pronounced radical nature is clear, inasmuch as it takes no account of the historical conditions of each country, but claims to be valid for all countries and all times.

Essentially opposed to this doctrine was that teaching which is associated with the name of Friedrich List, and is set out in his *Nationales System der Politischen Oekonomie* (1841). This is, or was, the doctrine which mainly held the field among scientific economists in Germany, and grew up with the traditions of the German Zollverein. It may be defined as the theory (a) of the gradual historical evolution of each civilised country's economic mechanism ; (b) of the growth and nurture of the several branches of production, especially in large-scale industries ; (c) of the relativity of commercial policy as adapted to the specific grade of civilisation in a given economic centre ; (d) of the antithesis of Free Trade and Protection viewed as the historical outcome of that attempted adaptation.

List, who was, through and through, a man of practical propaganda and patriotic efficiency, created his doctrine with a view to aid the development of the German Zollverein, and German industry, in the fight with the commercial supremacy of far-ahead England. For him the protective tariff was the weapon by the aid of which Germany's young industry should fight not without hope in the competitive war. For him it was but the means whereby, in her own good time, Germany should attain the goal of Free Trade, which England had already reached, or for which at least she was already ripe.

List's doctrine was adequate for the purpose for which it was created. Besides, from a more general scientific standpoint, it lifted the aimlessness of the older Protective system on to a higher

plane. It converted ideas, uttered now and again by statesmen like Colbert, into the support of an economic theory, showing how the sacrifices imposed upon a nation by its Protectionist campaign might be duly proportioned to the corresponding advantages gained thereby. Instead of assuming Protectionism as an endless, aimless object in itself, List raised the question as to the end and aim of those sacrifices which it in every case demands. He asked, when and where should a protective tariff be rightly established? He asked further, how long should it be in force, to what pitch should it be carried, in order to make room for Free Trade? List fought for his German fatherland; nevertheless, England was for him the model where the sacrifices undergone for centuries had at length put her at the head of the nations in all the power of her industries and her commerce, rendering such sacrifices no longer necessary.

III.

List's theories were quite in keeping with the socialistic political tendencies put forward some thirty years ago by economists at the German universities. Both agreed in the prominence assigned to State intervention, whether for the purpose of raising the status of the working classes, or for that of fostering industrial productivity. A generation, however, had passed by since the time of List's practical efforts, and, for the social economy of Germany on the eve of becoming an empire, the practical consequences of his doctrine might take different forms. Indeed, there was a tendency, in scientific circles, in consequence of newly-won commercial treaties, to agree to an approach to Free Trade principles, and thus to assume that German trade for its part had begun to enter upon the stage of maturity.

By a concatenation of circumstances—not rare in history—this same current of political economy, by which the progressive tendencies of economic scholars became the predominating home policy of the German Empire, actually led to a system of Protectionism, which was justly termed Neomercantilism, being indeed a retrogression to an anterior stage of development.

The imperial tariff of the year 1879, by which this policy was inaugurated, conformed more especially to the “system of solidarity,” which was started in France at the time of the Restoration. Its object was so to distribute the bounties of the tariff as to give each branch of production a fair “look in,” without inquiring whether a given branch called for protection. Carried out

systematically, and raised to an international scheme of trade, it amounts to protecting each against each, and all against all. It engenders a general spirit of national narrow-heartedness, or augments such a disposition thereto as may already exist, setting up the object of pitting the strength of each nation against every other, on the irrational ground that the trade of highly developed nations is, for the importing nation, an evil; for the exporting nation, a benefit. Thus the political aim is made to lie in diminishing the evil as much as possible, and in finding the greatest possible compensation for the inevitable residuum of evil. As to discriminating between the several branches of production, as to a time-limit in protective measures, that is to say, in the sacrifices imposed, for this or that species of production, on the other species, as, in a word, to any definite goal, the question is not even raised. In fact, the system creates in the moral and economic consciousness a hothouse atmosphere, in which men forget how to breathe the pure air of liberty, and in which they fall back on imputing ever greater responsibilities to the State, whereby, in turn, is begotten a chronic condition of unsatisfied wishes.

A nation may, in spite of this policy, make great strides in productivity. But this is a proof, partly that such a nation has great capacity for progress in that direction, partly how limited is the effectiveness of every sort of legislation, even of the most harmless, over against the strength of a people. In my judgment it is never more than a *post hoc ergo propter hoc*, to assign this commercial policy as the cause of the advance in German industries during the last twenty-five years. To be sure it is another question whether production in Germany was at that time strong enough—as in England's case—for her to shake off the epidemic of this system of solidarity.

An essential portion of the system consists in the agrarian tariffs. They made a timid and modest beginning in the tariff duties of 1879. In a few years they rose. It is noteworthy that the rise and continuous growth of a feeling of insatiate discontent in German agricultural strata has only gone on since they were imposed. Specially remarkable about it is the fact that not even the opponents of the agrarian tariff have ever raised the question as to the limit of time for its imposition. The one thing demanded is its enhancement, and to cope with this perennial discontent of agriculturists has been the select diversion of the German imperial government for the last two decades.

The agrarian duties were introduced on the understanding that they were only to meet a transient emergency. Journeys of

investigation were made to the United States, with the pleasing discovery that the competition of American corn rested on a basis of stolen advantage, which would soon become in turn a disadvantage to America herself. The stolen advantage, however, continues still to be enjoyed, and there is not much prospect of being able to overlook it in the future.

IV.

Whatever the several conditions may have been which introduced the so-called "newer fiscal policy" in the year 1879, such as (a) the sharper severance of nations through the wars of 1866 and 1870; (b) the establishment of the French Republic, and, therewith; (c) the emancipation of the endemic fiscal efforts in France from the pro-Free-Trade rule of the Second Empire; (d) the after-effect of the crisis of 1873 on German industry, especially in iron and steel, and a similar effect on Austrian industry; (e) the complication of a fall in the prices of agricultural produce, as the result of foreign competition, with the simultaneous handicapping of industry; (f) the traditional influence of classes of society mainly interested in the high price of corn, and who, until then, and in the less developed trade of Germany and Prussia, had been all for an active export of corn, and thus for Free Trade—whatever, I repeat, were the conditions, such was the effect, and such was the atmosphere which was now diffused by the economic policy of the German Empire. It may be unquestionably true in both home and foreign opinion that German industries, during the last three decades, have undergone an unparalleled expansion. But it is no less true that, quite apart from the inexplicable causal connection, the economically political atmosphere of this same interval of time has been by no means gratifying. It neither was nor is an age of content and harmony, worthy of so great national results, but an endless series of complaints and grumblings. These were, as was only natural, most marked on the part of those classes of society who made the loudest claim for the help of the Empire and the State in every possible form, without rendering it possible to make progress similar to that in large-scale industry and commerce. It is in precisely these circles that the tendency of the treaties of commerce, concluded in 1892, for the reduction of protective tariffs, was criticised with growing resentment.

Now, whereas this condition of commercial politics in Germany

represents, more or less, the collective commercial politics of the Continent and the United States, England has, in the main, held firm to the policy of her commercial treaty of 1860. It is evident that this solitary Power has been contemplated with satisfaction by those who share my opinion on the commercial politics of the Continent.

We know, however, that England went over to a system of Free Trade, not from pure admiration for the doctrines of Adam Smith and his followers, but suffered nearly a century to elapse before carrying his prescriptions into execution. Nor was she moved by abstract preference for the ideal of free exchange of goods between nations. She waited before throwing open her borders to the competition of foreign manufactures, till the time when she was equal or superior to other lands in all, or at least in leading, commodities. She only admitted the competition of foreign raw produce, especially corn, when the preponderating interests of her trade had long ceased to lie with the producers of raw material.

Among the turning points of history may come another change in this relation of England to other nations; nay, to a certain degree, it has come already. The actual changes have already brought with them certain definite, if minor, heresies, opposed to the principle of Free Trade. Its precursor since 1880 has been the Fair Trade League. The Merchandise Marks Act of 1887 was the first legislative measure. However much it has been sought to disguise the causes of it, so as to conceal its Protectionist character—would Cobden have ever consented to such a measure? It was followed by the export duty on coal during the South African War, which is still in force to-day, and again by the duty on corn, which was taken off after the war. Both measures were justified by the financial exigencies of the war. But they are at the same time indisputably Protectionist measures, as is proved by the retention of the coal duty, in spite of the war having ceased.

Speaking generally, it is no aid to clearness in these questions to speak of the *Zollpolitik* (tariff politics) of Germany as “fiscal policy.” “Fiscal” belongs to that which is levied for purposes of revenue, not for purposes of commercial policy.

The “United Empire League,” with its most recent phases, is a movement dating from 1891. Its very complicated task is that of endeavouring to extend the idea of the *Zollverein* of Germany over the far greater proportions of the British world-empire. But it is for England yet one more step in the road leading away from Free Trade.

Is not the possibility in the air that influences, similar to those in other countries, are working in England, and that the power of national instincts, which elsewhere have wrought so mightily, may yet bring about in England a majority in favour of the old, much-worn-out, and yet ever again useful catchwords of Protectionism? When, over thirty years ago, for the purpose of study, I first stayed in England, an eminent jurist, with whom I was conversing, hurled at me the argument of the will of the majority. And I repeat that it is the "majorities" of our age that we have to thank for the commercial policy of the Continent and of the United States, which, in the eighteenth century, were ascribed to the despotism of governments. The commercial policy of England will also be presently decided by majorities. Will they follow in the wake of other nations?

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