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OUR TRADE PROSPERITY AND THE OUTLOOK ¹

THE great prosperity of the present time, by common consent, has something alarming in it. We have the feeling about it expressed in Rudyard Kipling's "Recessional" at the time of the Diamond Jubilee, *Lest we Forget*. It may be the case as a matter of fact that great prosperity is not always followed by adversity, either in the case of individuals or of nations, but I mention the common feeling merely to give as strong an impression as possible of the degree of prosperity—a prosperity which excites a kind of superstitious misgiving.

This is not to be a statistical paper, but it may be useful to present a few figures by way of confirming the popular impression and giving an idea of the nature of the prosperity itself. The fact which appears to me very striking is that when we look back a short period, say for ten years or so, we find there is a remarkable growth upon every side, and then this remarkable growth is followed in the last year of all by a sudden and rapid improvement constituting the boom of the present time.

The returns of Railway Traffic in the United Kingdom form one of the best tests of the general course of trade in the country. These returns show, as between 1888 and 1898, an increase of business from 72·8 millions sterling to 96·2 millions sterling, which is an increase of rather more than 30 per cent. in ten years. Then in 1899 we find that the figure is 101·6 millions sterling, an increase of no less than 5 per cent. in one year, following upon the great increase for the previous ten years.

The movements of shipping in the Foreign trade, which are also a fair test of trade generally, are to the same effect. The clearances with cargoes from the United Kingdom increased

¹ Address delivered at a private meeting on July 5, 1900.

between 1888 and 1898 from 31·6 million tons to 39·5 million tons, an increase of about 25 per cent. ; and then in 1899 there is an increase over 1898 of about 3·6 million tons, or 9 per cent.

The production of coal, whose importance as an instrumental article need not be dwelt upon, increased between 1888 and 1898 from 170 million tons to 202 million tons, an increase of 20 per cent. ; and this is followed in 1899 by a further increase in one year of about 10 per cent.¹

The imports of the country show an increase between 1888 and 1898 from 387 million sterling to 470 million sterling, which is an increase of $21\frac{1}{2}$ per cent., and the increase in 1899 is about 15 millions, or about 3 per cent. more. In this case, it may be mentioned, there is a further enormous increase during the current year, amounting in the six months ending June last to about 8 per cent.

Contrary to what is generally the case with the trade figures, the exports of British and Irish produce show no increase between the particular years mentioned, viz., 1888 and 1898. The total in each year is about 234 million sterling. In reality, I believe there is a real increase in the Foreign Export trade in the period, which has been concealed by the effect of the reduction in the prices of raw materials imported which are contained in the articles exported, particularly the reduction in the price of raw cotton. But however that may be, there is in 1899 a sudden remarkable increase. Omitting new ships which are included for the first time in the returns for 1899, we find that in that year the exports have risen to 255 millions sterling, which is an increase of 22 millions over the previous year, or 9 per cent. Here again, also, there is a remarkable increase in the current year over 1899, amounting roughly in the early part of the year to something like 16 per cent.

The exports of coal are an especially important part of our foreign export trade, and the facts regarding it are at present especially noteworthy. Between 1888 and 1898 the quantity of coal exported increased from 27 to $36\frac{1}{2}$ million tons, which is an increase of about 35 per cent. At the same time, the increase in value was from 11·3 millions sterling to 18·1 millions sterling, which is an increase of about 60 per cent. In 1899, again, the exports of coal increased in quantity from $36\frac{1}{2}$ to 43 million tons, an increase of 18 per cent. The value at the same time increased from 18 to 23 millions sterling, an increase of 28 per cent. Thus, the increase in the quantity of

¹ Estimated only ; the official figures not yet being published.

coal exported has been enormous, but the increase in value is something much more, and is really astonishing. In the present year there is a further increase of about 5 per cent. in the quantity exported, but the increase in value is more considerable still, being about 62 per cent. compared with last year! We may say, approximately, that in the present year we are exporting about 45 million tons of coal at a value of not less than 37 millions sterling; whereas, in 1888, the export was 27 million tons, at a value of 11·3 millions sterling only. The increase in quantity is two-thirds of the former amount, but the increase in value is twice the total amount exported in 1888, or an increase of over 23 millions sterling in this one article alone; so great is the change in a very few years.

The increase in the national revenue is not less remarkable. In 1888 the Chancellor of the Exchequer, apart from the local taxation funds, received 90 millions sterling; and in 1899, that is the year ending March 31st, 1899, the figure is 108 millions sterling; the apparent increase being, thus, 18 millions sterling. During this period, however, there was a net loss to the revenue by changes in taxation amounting to 2 millions sterling, so that the real gain in the interval is 20 millions, or 22 per cent., which is about double the increase of population in the period.

In the year ending 31st March, 1900, there was a further growth of revenue of an astonishing kind. The increase now is from 108·3 millions to 119·8 millions, which is quite over 10 per cent. Part of this increase, perhaps one-fifth, is due to the payment of duties on the withdrawal of goods from bond in anticipation of the Budget, and the real increase should perhaps be put at 8 millions, or $7\frac{1}{2}$ per cent. But this is still a most remarkable growth following on the preceding growth which has been described.

In connection with this growth of revenue, we find there is an equally remarkable growth of the property subject to direct taxation. Comparing the gross assessments to income tax, which is the most convenient figure to take, we find that there is an increase in the ten years ending 1897-8 from 629 to 729 millions sterling. The real increase is also greater than this. Owing to certain changes which have been made in Schedule B, a correction is required in the earlier figure, so that for purposes of comparison it should be 592 millions sterling, upon which sum the increase to 729 millions sterling is nearly 25 per cent. Later figures are not before me, but probably there has

been a great enhancement this year corresponding to the general growth of the Revenue.

Summing up these remarkable figures, we may say that the growth of our prosperity in recent years is quite on a par with the growth in former periods of leaps and bounds. I am especially impressed by the growth of the Income Tax assessments. In the ten years prior to the period now dealt with, these assessments showed a smaller rate of increase than they had done for some time before, or have done since. Whatever may have been the cause of slackening in the rate of growth after the early seventies, they would seem not to have been operative in more recent years. We have got back to the wonderful experience of the early seventies themselves.

The question that I now wish to put, having regard to the common feeling expressed at the beginning of this paper, is, "What are the prospects of this great prosperity continuing?" It can hardly be called abnormal prosperity, because the growth has been going on for generations, and the abnormal time was rather from about 1875 to 1887, when there was a slackening of the rate of growth. But whether abnormal or not, the prosperity is certainly remarkable for the vigour of the growth which has been displayed.

In answering this question, there appear to be two points of view from which it may be considered. One is the point of an extended survey in which we should look at the general problem of our continued prosperity during several generations—the question in other words of a chronic change. The other point of view is the point for a narrower survey, in which the question rather is as to an ebb succeeding the present flow and how far that ebb will run. There appears to be sufficient evidence in economic experience of a flow and ebb in trade recurring at intervals which used to be reckoned as about ten and eleven years, but which some authorities lately have felt inclined to reduce, though I believe this last experience of all tends rather to support a ten or eleven years' period. Accordingly, there may be ups and downs which have to be disentangled from the greater movements apparent on a wider survey, and it may be also interesting to consider at any point of the cycle in trade what the conditions really are and what the next change will probably be.

When we look at the question from the first point of view, we may easily be committed to a very wide discussion. Such topics as the possible decay of the national character owing to the cor-

ruption engendered by prosperity itself are not foreign to it, while every one is aware of the prophecies of evil which are made in many quarters in connection with German and American competition, and also in connection with the decay of our supremacy in the coal and iron industries.

To discuss such topics fully would require a book and not an essay. In any case, the changes to arise, if any, from such causes would be changes of a chronic nature not likely to be traceable for a good many years or perhaps for generations to come; and meanwhile there may be many ups and downs in business, such as are apparent on a shorter view. The latter question seems, thus, to be of the most immediate interest, and I shall therefore merely indicate the nature of the discussion involved in the study of the subject from the first point of view.

Contrary to the opinion which is very widely entertained as to the approaching decay of our prosperity from general and permanent causes, I am disposed to hold that the conditions of prosperity in this country are generally stable, and this view, it may be added, appears to be confirmed by experience. The conditions of our prosperity, such as they are, have existed for about two hundred years at least, in which national and individual prosperity have gone on increasing, and increasing apparently at an even greater rate in the most recent periods than at earlier dates. These general conditions are the industrial quality and capacity of the people working in an age of invention, reinforced for many years past by a great accumulation of capital, which is like an easily worked mine producing a large income to the community without much exertion. Special developments have no doubt occurred from time to time. At one time, wool; at another time, the woollen manufactures; at another, cotton manufactures; at another, the iron and coal industries; and at yet another, the shipbuilding and shipowning industries—have all been leading features in the business of the country, upon which everything else appeared to depend. We have also gained specially at certain periods by such external events as the colonizing of America and Australia, and latterly of South Africa, the commercial development of India, and even such events as the Franco-German War. But always the main causes, I maintain, have been the quality of the people at home and the accumulation of capital. Some of the developments abroad on which attention has often been concentrated as the causes of our prosperity at home have in truth been

effects and not causes. I refer, for instance, to such an economic development as the prosperity of the West Indies in former times. This prosperity was simply due to the fact that the people of the United Kingdom bought a great deal of sugar from the West Indies at a high price. In the same way, it is the people of this country who cause much prosperity in foreign parts and in our colonies at the present time, not so much the foreign and colonial possessions which cause our prosperity, though of course there is always action and reaction.

As regards the particular causes now dwelt on for our chronic decay, the most important is the alleged deterioration of the national character in consequence of the prosperity itself. Possibly certain classes suffer from things being too easy for them; they do not show the inventiveness, or keenness, or thrift manifested by their predecessors. But although there are evidences of a falling off amongst certain portions of the community, what I would suggest is that at all times for generations past, as any student of social conditions must have observed, there have been great numbers of wastrels in the community—children of people who have made fortunes and who have not been able to retain them—so that the phenomena now witnessed of which so much is made are by no means new. The question is one of degree simply, and I perceive no sign that the members of the community generally are disposed to sit down and enjoy themselves, and are not as disposed to engage in the exertions which their predecessors engaged in as if they were those predecessors themselves. The form of the struggle and the things to be done are different, but the keenness in commercial circles and in the City has by no means slackened.

With regard to another cause mentioned for our chronic decay, namely, foreign competition, it may be pointed out generally that in its essential nature, apart from special circumstances, foreign competition is not of a nature which is likely to produce the decay that is apprehended. The idea that competition is a bad thing for a particular class of business or a particular individual in business is an idea of the market place which is apt to produce an altogether untrue impression when extended into a general theory. Each competitor in a business naturally looks at the proceedings of all the other competitors, and if any one gets ahead of him he concludes that disaster is approaching. This is the rule of business. But when we come to examine the effects of competition from the outside, we find that many competitors seem all alike to thrive, and that the competition itself is

in fact beneficial to society, resulting in an orderly sequence of production, distribution and consumption which could not exist without it. What is thus true of competition generally must be true of foreign competition particularly. We see in fact that the foreign competitor, just like any other competitor, in enriching himself enriches the whole community. The people who buy from him have a larger surplus for other purchases than they otherwise would have, and if his business is to supply more efficient tools and instruments of production, there is immediately an increase of wealth which is beneficial not merely to the particular community which gains the wealth, but all others from whom they are, or may be, purchasers. As a matter of fact, it has also been found that from time immemorial in this country, during all the period in which our prosperity has been increasing, there have been incessant complaints of foreign competition from which disaster and ruin were anticipated, and yet the beginning of the disaster has never even been witnessed.

Special importance is now attached, however, to the decay of our predominance and even pre-eminence in the iron and coal industries. Other countries, as is quite obvious, especially the United States, have become serious competitors with us in the production of iron and coal, and the United States has not merely come abreast of us in the production, but has now passed us in the race. If, indeed, the production of iron and coal were the foundation, and the sole foundation of our prosperity, there would be something to be alarmed at; but can it be said that our more favourable position in the production of iron and coal has been in past times a condition of our prosperity generally, apart from the more general conditions which have been referred to? We are no doubt at a disadvantage now, in comparison with other countries, in the means of producing food, and raw materials like coal; but we have been food importers, and to some extent raw material importers, for generations, and yet our prosperity goes on increasing as we increase our imports. Why should the process change?

It seems evident that generally it is less important for a particular community than ever it was to be in possession of cheap food and raw materials produced within its own domain. The cheapness of transport has equalised matters throughout the world so that now people can live, and manufactures can be carried on, where climatic and other conditions are most favourable, and not necessarily in the places where the food and raw materials

are produced. As to coal in particular, it appears important to observe that the increased efficiency of the article makes the actual possession of the raw material itself less and less necessary to a manufacturing nation. Say at one time it took £50 worth of coal to produce £100 worth of goods, which sell for £105. Clearly in such a case a difference of 10 per cent. in the cost of producing coal to the advantage of a foreign competitor would be enormous. The difference would be equal to the whole profit upon the business done. But if, owing to inventions, £50 worth of coal suffices for producing £1,000 worth of goods, which at the same rate of profit sell at £1,050, then the difference of 10 per cent. in the price of coal would only affect the profit to the extent of one-tenth, and there would be greater play for the factors other than coal in the total cost of production. Some change of this kind I believe has happened in more than one manufacturing process. While in the manufacture of gas and other processes, coal remains specially important, in the textile manufactures and others, owing to the very great superiority of the machines, the price of coal is becoming a less and less important part of the total cost of production; and the variations in its price in different localities, and at different periods, consequently affect less and less the profits upon the total produce which are determined mainly by other factors.

The general conclusion, then, is that it is a mistake to fix on specific industries as necessary to a particular community which has a great variety of population, great industrial and commercial capacity, and large capital. Under the latter conditions hardly any specific trade seems indispensable. The community ought, in fact, to follow the times and to be continually changing, so that the "indispensable" industry of one period may sink to quite a secondary place at a later date, and perhaps altogether disappear.

I have to answer, accordingly, in the negative, the question as to the chronic decay of our prosperity from the present time. As yet, at least, there is no visible sign of such decay commencing, and I can see nothing in the alleged causes to indicate the approach of such decay. The one thing to apprehend is, I believe, a possible change in the national character resulting from the very magnitude of the accumulation of capital. An increasing part of the nation may be living upon its capital, and not taking part in the actual everyday work of the world. It would appear, however, that such a class would be a class apart in the nation, and would by no means constitute the whole community, which might

continue to work and improve its conditions outside the special class living upon its means.

I come next to the question of what is likely to happen immediately, apart from the question of chronic changes. Is there a probability of an ebb in trade in a short time to take the place of the present flow? To put the question is almost to state the answer. If there be a flow and an ebb in these affairs, to show that the tide is full is to indicate the approach of the ebb. There are not wanting, however, some precise indications at the present time.

(a) The remarkable stringency in money last autumn and winter was in its nature and circumstances a sign of general commercial change such as follows a period of rapid growth in business and rising prices attended by great speculation. Rapid growth such as we have described is always followed by Money Market stringency, and the stringency, which may be continued for a year or two, betokens a coming change in the opposite direction. In the present case the stringency was especially noticeable in Germany, among the more important countries in the world, and Germany, as is well known, has developed industrially and financially with wonderful rapidity in recent years, so that a set-back was to be looked for. But monetary stringency cannot in these times be confined to any one country, and its effects are far-reaching. At the present moment there has been a return of ease in the Money Market, but this ease will probably be short-lived.¹

(b) In certain directions business is already falling off. The Traffic Returns of the leading railway companies during the first half of the current year show a smaller progress than at any period for some years past, and even an actual decline, the change being in contrast with the remarkable growth down to 1889 which has been described. We shall not have the official figures as to the traffic in 1900 till the end of the year, but these figures as to the principal lines are significant enough. The increase on the average is about 2 per cent. only, and the increase in the case of the London and North-Western Railway is no more than about 1 per cent., while other companies, such as the Brighton, North London, South Eastern, and Chatham and Dover, either show no increase at all or only nominal amounts. The facts are not yet shown in statistics, but it is also well known that there is a

¹ Since this was written there are already signs of stringency reappearing, and the Bank rate has been raised to 4 per cent.

falling off in the orders on the books of manufacturers in the iron trade, and particularly a falling off in the orders for private ship-building. Generally also it may be said that if we allow for the increase of the price of coal and iron and other commodities, the apparent growth of our foreign exports at the present date would be found not to be a real growth, or real to a small extent only. In other words, there is a check to business which is concealed in some of the usual statistics by the rise in values.

(c) The circumstances of the wheat harvest and of other agricultural production throughout the world appear to be such as to foreshadow an early advance in agricultural prices, and an advance in such prices is *pro tanto* unfavourable to prosperity. There has already been a sensible rise in wheat. I doubt whether the unfavourable circumstances are likely to have a great degree of effect, but the indications as far as they go are not favourable.

(d) The great rise in coal and iron to which attention has been incidentally drawn must foreshadow, as in 1873, a turn in the opposite direction. The boom in trade causes the rise in the price of the great instrumental articles of trade, and the rise itself tends to begin a movement in the opposite direction. The obvious result is that profits in many trades are diminished by the rise. The expense of production is immediately increased, and the charges to the consumer cannot be advanced *pari passu*. The difficulty is well illustrated by what is happening in gas, an article closely dependent upon the price of coal. The gas companies enjoying a monopoly are able to recoup themselves in part by charging more to the consumer. But other manufacturers are in a different position. Railway companies, for instance, are unable for various reasons to advance their charges, and shareholders have to submit to an immediate loss of dividend. Such a loss of profit, however, when diffused throughout trade generally, diminishes enterprise, and trade is also indirectly affected by the diminution of the accumulation which capitalists are able to make. Whatever may be the exact explanation, it can certainly be affirmed that a rise in coal and iron such as has now taken place is invariably followed at no very long interval by slackness in general trade.

(e) Another reason for anticipating an ebb in the volume of trade is to be found in the widespread political unrest which prevails. We have the authority of Lord Wolseley for the statement that affairs abroad are making more heavy calls upon our Army and Navy than at any previous time in our history. Apart from this there are signs of apprehension and disquiet which are even

more injurious to business than actual outlay for military purposes in order to achieve some definite object. People may take different views, but for myself I confess to great apprehension as to the immediate future in international politics. The broad ground for this opinion is that the three great military governments, Russia, Germany, and France—particularly Russia and Germany—are taking a novel interest in the affairs of distant countries which are important to us as countries with which we have a great deal of trade, and are acting from a point of view, that of a military monarchy, which makes their action dangerous to peace among themselves and to peace with this country. No concession we can make will permanently satisfy them, not even the partition of our Colonial possessions amongst them. This is a permanent cause of disquiet. Peace, if it is to be preserved, will only be preserved by a difficult diplomacy in the midst of continual alarms.¹

Much trade goes on, of course, in the midst of such alarms, but less energy is shown by merchants and manufacturers than there would otherwise be, and there is a smaller investment of capital; the assurance of peace is needed for undertakings requiring a long period to carry through.

These are all indications, then, that a period in which trade will not develop at the recent rapid rate, but may even go back a little, is at hand. We expect an ebb after such a flow as there has been on general principles, but quite apart from general principles, we may also perceive that there are already appearances of slack water.

The slackening of trade must also be attended in the usual course by some diminution in the rate of growth of the revenue, if not by an actual decline. Decline of revenue, according to past experience, rather comes after the slackening of trade itself, but if trade has already received a check, and will be less next year or the year after than it is now, the stoppage of the growth of the revenue will inevitably follow, as it has followed in former times. I should not anticipate, however, any actual decline, or, at least, any great decline, in the revenue itself, though that is not a contingency to be altogether put out of sight, if the ebb in trade should be to a lower mark than we have been accustomed to think of in recent experience, just as the flow has been to a higher mark than usual. Of course it will be understood we are

¹ Since this was written the China crisis has broken out, and this fact of course accentuates what is here said, as providing an occasion for international ambitions and jealousies to make themselves felt.

here only speaking of a temporary depression. There may be many ebbs and flows before the chronic causes referred to earlier can begin to have perceptible effect, if they do have such effect at all.

There is one special circumstance also, applicable more particularly to the revenue, though it is also applicable more or less generally, to which attention may be given. This is the possible influence of the gold discoveries in maintaining and increasing prices and wages, and so neutralising some of the effects of a period of depression by arresting the incidental fall of prices. There is some probability that such an effect will be experienced now as it was in the fifties and sixties, and as it has been, I believe, in the last few years, during which there has been a marked contrast, as we have seen, to the experience of the depressed period 1875—87. Not much Transvaal gold will come forward in the current year, as the war is not being finished in time to permit of the full resumption of the industry before the year expires. Afterwards, however, the annual product of 20 millions sterling which was reached before the war will be quickly increased to 50, some say to 100 millions. The figure of the annual production of the Transvaal will undoubtedly be enormous. Looking then at the production of gold throughout the world independently of the Transvaal, we must anticipate an enormous production altogether, which cannot but enhance money prices, profits, and wages, and this enhancement in a period of depression will neutralise to some extent the appearance of depression itself. The national revenue, it appears, will also be particularly affected in this way—that a larger part of the revenue than was ever the case before is now derived from direct taxes, that is, Income Tax and the Estate Duty; and as Income Tax assessments and Estate Duty valuations will be swollen with rising money profits, the special returns to revenue from this source will increase from period to period, and will meanwhile be prevented from falling in a time of depression as much as they would otherwise do. This may not be a real advantage in the end to future Chancellors of the Exchequer, because the causes which swell the revenue will also swell expenditure nominally, as long as prices, wages, and salaries advance; but the first effect, which is the one we are more immediately concerned with, will apparently be advantageous.

The practical lesson of all these considerations hardly requires statement. Whether we agree or not that there are seeds of

chronic decay in our trade prosperity, the expediency of diligence in business and care of our resources is in no way in doubt. The fear of decay should act as a stimulus, and in any case in this changing world supineness and neglect are sure to bring about "some time" the commencement of decay where it has not already begun. With regard to the more immediate dangers apprehended, the lesson to all business men is, of course, the need for caution. Heavy commitments in proportion to resources, and undertakings extending over long periods, which are things rather to be avoided at the best of times, unless under special circumstances, are now to be most carefully eschewed. The trade barometer must return to set fair before speculation like that of the last few years can again be entered upon.

ROBERT GIFFEN

P.S.—A friendly critic has remarked that the statement on page 299 as to the steady growth of prosperity in this country for two centuries past is too sweeping, and that there was a real interruption to improvement, and an actual going back among the masses of the people, during the war period at the beginning of the century, with its accompaniment of bad harvests and high prices. Even admitting the truth of this statement, I doubt if it qualifies materially the general argument in the text. It is quite possible that in a long course of improvement there may be temporary changes for the worse, especially from such wholly external and unavoidable causes as bad harvests occurring to a community that is still in the economic condition when much depends on the harvest. But the movement of advance, when long periods are reckoned, may nevertheless be observable. This has been the case for the last two centuries in our history. The retrogression at the beginning of the century, granting it to have occurred, was retrogression from a period just before, and not more than that, while there was rapid improvement almost immediately after. Including all classes of the population, moreover, and not merely the agricultural labourers and the unskilled labourers in the towns, I should doubt whether *on the average* there was any retrogression at the beginning of the century, or for any other considerable period in the long history. R. G.