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Professor Shield Nicholson
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THE SCOTTISH GEOGRAPHICAL MAGAZINE.

BRITANNIC CONFEDERATION.

IV.—TARIFFS, AND INTERNATIONAL COMMERCE.

BY PROFESSOR SHIELD NICHOLSON.

“To expect,” wrote Adam Smith, “that the freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the public, but, what is much more unconquerable, the private interests of many individuals, irresistibly oppose it.”¹ This curious example of the danger of political prophecy should suffice to dispel the apathy generally displayed towards any consideration of the fiscal aspects of Britannic Confederation. It is surely absurd, in the light of the history of the United Kingdom during the present century, to put aside proposals for a closer commercial union with the colonies and dependencies on the ground either of the prejudices of the public or of the private interests of individuals. Yet nothing is more common than to speak of the complicated tariffs and the vested interests of the newest colonies as insuperable obstacles to any general fiscal reform. As a matter of historical fact, however, in much less than a century the commercial policy of the British Empire has passed, speaking broadly, from the extreme of central regulation to the extreme of non-interference, and there is, *prima facie*, no reason why a reaction should not occur if such a course is shown to be to the mutual advantage of the colonies and the mother-country.

The Declaration of American Independence and the publication of the *Wealth of Nations* were by far the most important events of the year 1776. Up to this time the monopoly of the colonial trade was regarded as one of the principal engines of the mercantile system. Most of the

¹ *Wealth of Nations*, bk. iv. ch. ii. p. 207, M'Culloch's edition.

great wars of the 18th century, as Professor Seeley¹ (following Adam Smith) has so well shown, originated in a struggle for trade supremacy in new countries—and trade supremacy really meant monopoly. The British colonies, which were allowed comparatively the greatest freedom, were still placed under very stringent regulations both as regards their exports and imports.² Certain colonial commodities were *enumerated* in various Acts of Parliament, and could only be exported to the home country, whilst even non-enumerated products were subject to restrictions of various kinds. But the height of regulation and monopoly was reached in the case of manufactures. “The more advanced or more refined manufactures even of the colony produce, the merchants and manufacturers of Great Britain choose to reserve to themselves, and have prevailed upon the legislature to prevent their establishment in the colonies sometimes by high duties and sometimes by absolute prohibitions.”³ To enforce this policy many curious restrictions were imposed upon the internal commerce of the colonies.⁴

Nor was the regulation of trade, strange as it may seem, considered by the colonists as beyond the legitimate right of the mother-country. The American revolt was not caused by the old-established restrictive policy, nor by any particular modification of an exceptional kind, but was due to an attempt on the part of the British Parliament to collect *revenue* for imperial purposes without at the same time granting representation. No doubt, in the natural order of development, the old restrictions on colonial trade would have been modified, and with the adoption of free trade by the United Kingdom the same system would naturally have been extended to the colonies; but it is extremely improbable that but for the American separation such a complete reversal of policy could have taken place as to allow the colonies to impose protective duties on the manufactures of the mother-country. The truth appears to be that American independence completely unnerved British statesmanship in respect to colonial policy from a commercial and fiscal point of view. For half a century the remnants of the old colonies, and those subsequently acquired by conquest, were governed from, rather than by, this country through despotic governors and powerless councils; but so soon as the growing strength of the colonies and the abuses of the colonial office made them demand

¹ *Expansion of England*.

² *Wealth of Nations*, bk. iv. ch. vii.

³ *Ibid.* p. 261.

⁴ The following is an example: “While Great Britain encourages in America the manufacture of pig and bar iron by exempting them from duties to which the like commodities are subject when imported from any other country, she imposes an absolute prohibition upon the erection of steel furnaces and slit-mills on any of her American plantations. She would not suffer her colonists to work in those more refined manufactures even for their own consumption. . . . She prohibits the exportation from one province to another by water, and even the carriage by land upon horseback or in a cart, of hats, and of wools and of woollen goods, the produce of America; a regulation which effectively prevents the establishment of any manufactures of such commodities for distant sale, and confines the industry of her colonies in this way to such coarse and household manufactures as a private family make for its own use, or for that of some of its neighbours in the same province.”—*Wealth of Nations*, p. 261.

"responsible government," they obtained forthwith practical independence. Just at the very time when this country was abolishing the Corn Laws and preparing the way for general free trade, her own colonies were granted the opportunity of adopting protection, and whilst we have been reducing and simplifying, the colonies have been extending and complicating, the list of customs-duties. At the same time a specious justification of this timid inactivity was found in the easy popular dogmatism which passed current for an epitome of the *Wealth of Nations*. Adam Smith, who had pronounced the Navigation Laws the wisest of all the commercial regulations of England—"dictated by the most deliberate wisdom"—was supposed to have shown once for all that the only duty of the statesman, as regards things in general and colonies in particular, was to do nothing. The following passage from the *Wealth of Nations*¹ has been strangely distorted and cramped into the assertion that every colony should be allowed complete independence:—"To propose that Great Britain should voluntarily give up all authority over her colonies, and leave them to elect their own magistrates, to enact their own laws, and to make peace and war as they might think proper, would be to propose such a measure as *never was and never will be* adopted by any nation in the world. . . . The most visionary enthusiast would be scarce capable of proposing such a measure with any serious hopes at least of its being adopted. If it was adopted, however, Great Britain would not only be immediately freed from the whole annual expense of the peace establishment of the colonies, but might settle with them such a treaty of commerce as would effectually secure to her a free trade more advantageous to the great body of the people, though less so to the merchants, than the monopoly which she at present enjoys. By thus parting good friends the natural affection of the colonies to the mother-country, which perhaps our late (1776) dissensions have well-nigh extinguished, would quickly revive. It might dispose them not only to respect for whole centuries together that treaty of commerce which they had concluded with us at parting, but to favour us in war as well as in trade." Practically what we have done in the last half-century is to give up "all authority" without any attempt to secure the "treaty of commerce." And the curious thing is that the paternity of this policy should be ascribed to Adam Smith.

As a matter of fact this same Adam Smith propounded the most definite and most practicable scheme ever yet published of Imperial Federation. He was not afraid of substituting for the British Parliament the States-General of the British Empire.² "There is not the least probability that the British constitution would be hurt by the union of Great Britain with the colonies. That constitution, on the contrary, would be completed by it and seems to be imperfect without it. The assembly which deliberates and decides concerning the affairs of every part of the empire, in order to be properly informed ought certainly to have representatives from every part of it. That this union, however, could be easily effectuated, or that difficulties and great difficulties might

¹ *Wealth of Nations*, p. 277.

² *Ibid.* p. 425.

not occur in the execution, I do not pretend. I have yet heard of none, however, which appears insurmountable.”¹ Not content with a statement of general principles, Adam Smith actually examined the system of taxation in force at the time in Great Britain, especially the customs, excise, the land-tax, and stamp-duties, with the view of determining how far they might be applicable to all the different provinces of the empire, and he devised a scheme according to which “the British Empire would afford within itself an immense internal market for every part of the produce of all its different provinces.”²

It is of the utmost importance to observe that the question of tariffs embraces much more than protective duties and free trade (in the narrow sense of the terms). Trade may be cramped and petty jealousies may be created by taxes which are imposed avowedly for revenue only. A system of taxation may be thoroughly bad without a single differential duty. The great merit of Adam Smith as a financial reformer—or rather as the teacher of a succession of financial reformers—consisted not in his mere condemnation of protectionism pure and simple, but in his substitution of a few broad principles of finance in place of an unintelligible mass of historical survivals. If British statesmen had applied these principles as they were generally adopted by the United Kingdom to the rest of the Empire, Adam Smith’s Utopia of an immense internal market would have been already realised.

The consequence of the want of central control has been vividly presented in the admirable synopsis of the tariffs and trade of the British Empire by Sir Rawson Rawson, which reveals “the inexplicable and purposeless differences in the articles selected for duties and in the rates charged upon them in many parts of the Empire.” It is not to be wondered at that the process of compilation should have filled the mind of the compiler with dismay, and that he should write of the “few enthusiasts” who have dreamed of or longed for a common British tariff. But *testimonia non numeranda sed ponderanda sunt*, and one of the “few enthusiasts” is Adam Smith, who has foreshadowed most of the other economic reforms actually accomplished in the present century.

Encouragement may also be found in the fact that the present synopsis is to the corresponding synopsis of the United Kingdom, which confronted Adam Smith, as an unweeded garden to an untouched jungle. Every one knows Sydney Smith’s description early in the century of the taxed Englishman, taxed on every article that he used from the cradle to the tomb; compared with him the most taxed of colonists bears an easy load.

The main object of the present paper is to point out the principles and the advantages of the financial reforms of the present century in the United Kingdom, with the view of showing that—at any rate to a great extent—similar reforms might be carried out for the rest of the Empire. The question will be considered *first* from the point of view of Revenue (with the indirect consequences), and *secondly* from the point of view of Protection. The first and more important question has too often been

¹ *Wealth of Nations*, p. 281.

² *Ibid.* p. 425.

neglected in favour of the second, and an attempt may well be made to restore the due balance of emphasis.

"It has been the opinion of many people" (Adam Smith probably had in view his friends the French economists) "that by proper management the duties of customs might, without any loss to the public revenue and with great advantage to foreign trade, be confined to a few articles only."¹ This has been the guiding principle of British financial reform for a century, and has completely revolutionised our system of taxation. So early as 1787, "to obviate the trouble and inconvenience arising from the multiplicity of Acts relating to the customs, Mr. Pitt introduced a bill for their consolidation,"² and there is little doubt that, but for the gigantic wars in which the country was engaged, he would have gone much further in the simplification of the tariff. "No, we must stand till you are seated, for we are your scholars," is the saying attributed to Pitt when Adam Smith came in very late to a distinguished dinner party; and from Pitt to Gladstone all the great British financiers have been scholars of the Scottish Professor. As is usual with British institutions, growth took the place of revolution. The system of natural liberty was not applied like dynamite *à la Française*, but little by little like leaven was introduced until the whole lump was leavened. This style of argument may seem of the nature of ancient history, but it is not so—it is the key-stone of commercial federation. Let the people of the mother-country and the provinces only remember that the tariffs of the United Kingdom itself, even fifty years ago, were in a worse confusion than those of the Empire at present, and that a century ago the confusion was infinitely more confounded, and we should hear a good deal less of that "idea of impossibility" which, as Bacon said, is the greatest obstacle to any reform of any kind.

To return to the guiding principle. It is maintained that, so far as revenue from customs-duties is concerned, the provinces might with advantage tax few articles instead of many. It is hardly necessary to add that the smaller the number the greater scope there is for uniformity, and that every reduction brings us nearer fiscal consolidation. It is not easy to give the general reader an adequate notion of the confusion of the present system—he must refer to Sir Rawson Rawson's tables for a complete purview. Samples of chaos are rather curious than instructive, but even samples are better than purely general description. Take the case of *Live Animals*:³ In twenty tariffs they are all free, in eleven they are partially free. They are usually charged with specific duties, but in two instances they are charged *ad valorem* as unenumerated articles; in four some kinds are charged specific rates and others *ad valorem* rates; and in only five are all kinds charged specific rates. In one of them (the Bahamas) swine are charged by weight 2s. 9½d. per cwt. It is worth remarking that during the first part of this century live animals were on the British tariff list, but in spite of the strength of the landed interest they were taken off. To proceed: "The only article under the head of *Raw Materials* which is almost universally free is manures—guano and chemicals," and the latter, we are

¹ *Wealth of Nations*, p. 339.

² *Ibid.* p. 221, note.

³ *Synopsis of Tariffs*, p. 15.

reminded in a note, are not strictly raw material. Guano is an excellent beginning of freedom, but why should most tariffs include resin, tallow, tar, and timber? Timber, by the way, since a famous speech by Mr. Gladstone, is the classical example of the advantage of the reduction and final abolition of a customs-duty; as the duty (in this country) was increased the revenue fell, as the duty was lowered the revenue increased, and when at last the duty ended the indirect effects were soon proved to be productive of still greater revenue through the general increase of wealth.

Some colonies in regard to *manufactures* tax everything not specially enumerated as free, whilst others make a list of one or two hundred for taxation, and leave the rest free. A similar variety of treatment is accorded to *minerals* and *metals*. Coals are free in 23 tariffs. In 11 they are charged specific duties, and in 8 *ad valorem*. Salt is free in 13, it is charged specific duties in 21, and *ad valorem* duties in 8. Will any one seriously maintain that special circumstances, whether of climate, race, history, or prejudice, can justify such a curious diversity of principles and methods? Can any one give a rational answer to the question why *guano* and *books* should be almost universally free, but almost everything else liable somewhere or other to be hit with a tax? Guano is economically the simplest of raw materials, whilst books are the most complicated of manufactures. Any one who imagines that he has found an answer to this problem may go on to the question why prints and engravings are generally liable to the unenumerated rate.

It may be said with much appearance of justice that uniformity, in itself, has no real advantage, and that our income-tax is itself a congeries of indefensible anomalies.¹ Certainly no one acquainted with the elements of economic or constitutional history will lay any stress on uniformity as such; but the point is, that these tariffs furnish varieties not of good but of bad principles. From the nature of things a great mass of the articles taxed cannot pay the expense of collection, as was certainly the case with the 1000 articles on the tariff of the United Kingdom some fifty years ago. Government does not gain what the people lose. In this connection it must be noted that the cost of customs-duties is far greater than appears at first sight. In the United Kingdom, under the present simple system, it has been computed (by Jevons, Cliffe Leslie, and others) that the real cost, direct and indirect, of customs and excise duties is nearer thirty than the nominal three per cent. of the revenue collected.

¹ Compare Mr. Gladstone's Financial Statement, April 18, 1853. The income-tax was first imposed as a war-tax by Pitt, and "dropped along with the purpose of the income-tax in 1816." But it was destined to be revived, and in 1842 Sir Robert Peel "called forth from repose this giant, who had once shielded us in war, to come and assist our industrial toils in peace. . . . It has been the instrument by which you have introduced and by which ere long I hope you may perfect the reform, the effective reform, of your fiscal and commercial system; and I for one am bold enough to hope and to expect that in reforming your own fiscal and commercial system you have laid the foundations of similar reforms—slow, perhaps, but certain in their progress—through every country of the civilised world." Yet Mr. Gladstone added that in his opinion the income-tax was not well adapted for a permanent portion of our ordinary financial system, and he proposed a plan for its abolition, which was to come into effect in 1860!

There are, perhaps, only two general arguments which can be advanced in favour of customs-duties of a heavy and extensive kind. In *the first place*, the convenience to the consumer may be set against the inconvenience to the trader; and *secondly*, they may be supposed to encourage native industry. As at present we are only concerned with revenue taxes, the argument of convenience must be considered first. Now it is no doubt perfectly true that when a tax is imposed upon some article of general consumption, the tax-payer does not notice the little instalments of which his contribution is made up so much as he does when subjected in some form or other to the "odious visits" of the tax-gatherer. This is especially true when the tax is an old tax, for it is then considered as part of the natural cost of production or of acquisition. "An old tax is no tax" is so far at least a true saying. Probably not one man in ten thousand, as he drinks a glass of beer, could tell how much of the cost was due to taxation; whilst the whole ten thousand regard the income-tax and various rates as muleting them directly in so much money for which apparently there is no return. Direct taxes savour of compulsion, whilst indirect taxes are always accompanied by the pleasures of consumption.

At the same time, however, it is easy to exaggerate this element of convenience and this apathetic ignorance of the tax-payer. The consumer loves cheapness and abundance, as was well illustrated recently in the reaction against the M'Kinley Tariff. It is safe to say that no argument founded on convenience would induce the people of this country to submit again to a tax upon bread. Even the shilling registration-duty was forced to follow the rest of the Corn Laws. Colonies which desire to encourage immigration must know very well that the people whom they wish to attract always try to form some idea of the scale of living. Because colonies are young nations, it does not follow that colonists are young children, and ought to be treated as such. Colonists above all people are robust and fitted to bear present inconveniences for future advantages. Colonial statesmen who wish to spend extravagantly may find indirect taxation highly convenient; but convenience of this kind is not generally to the interest of the public.

The argument founded on convenience to the tax-payer in his contribution to the revenue obviously loses all significance, or rather may be advanced on its opposite side, when the duties are practically unremunerative; and this must generally happen when the tariff-list is very extensive. By a very natural process taxation on commodities tends to spread from one thing to another—and this for several reasons. There is an idea, which to some extent is well founded, that if taxation is spread over a large surface it will be less felt, and that the yield will also be larger and more stable. British statesmen have several times called attention, with an appearance of apprehension, to the small number of our sources of revenue. Mr. Lowe was induced thereby to invent the Match-Tax, with its elegant motto, "*Ex luce lucellum*"; and Mr. Goschen's Wheel-Tax had doubtless a similar origin, and deserves for its epitaph, "*E vectura vectigal.*"

If one article is taxed, all possible substitutes must be taxed also. If

we consider that there are many modes of supplying most wants, and that material things like natural species run into one another, the logical outcome of this principle of taxing substitutes is to tax everything. Certainly the tariff-list tends to become longer at a rapidly increasing rate. Then there is a kind of popular idea of justice which demands that if the consumption of one class is taxed other classes shall be taxed in like manner. Thus, in the end, the idea of convenience is lost sight of, and in the vast majority of cases customs-duties are levied not simply for revenue, but at the best as supports and protectives for other taxes which do yield revenue.

It must be observed, however, at this point, that probably no practical politician would seriously propose to abolish customs-duties altogether.¹ In the United Kingdom about 22 per cent. of the general revenue is due to that source; but then there are practically (making allowance for substitutes and varieties) only four or five articles on the tariff. The principal reform advocated is an approximation to this simplicity by the colonies, especially in the abolition of their general taxes on unenumerated articles, and—where enumeration means taxation—in the curtailment of the list. In Tasmania, for example, 10 per cent. is charged on 155 articles, besides other rates on 30 more articles; whilst in Newfoundland and Canada 20 per cent. is levied on unenumerated articles, and enumerated articles pay *ad valorem* rates of 5 to 50 per cent. It is plain from simple arithmetical principles that, for the purposes of revenue, such duties are too numerous and too high.

Before passing altogether from the question of the convenience of revenue-duties, some attention must be given to a specious popular argument which will also serve as a transition to the question of protection and retaliation. With many people customs-duties find favour above all other modes of taxation, because they fondly imagine that such taxes are paid by the foreign producer or trader, or in some way by the foreigner in general.

It is a curious illustration of the original sin of all taxation, that the idea of taxing the foreigner, instead of appearing contemptible, as it ought to do, and at any rate unworthy of a great nation, seems to have a peculiar attractiveness both for people and statesmen. It is apparently a survival of the time when in all languages the words for stranger and enemy were identical. It is worth recalling some instances of the manifestation of this robust barbarism in British history in former times. Probably the earliest form of taxing the foreigner was by levying tolls on passing bridges, entering markets, etc., and the first free traders were merchants who obtained from the king (for a consideration) licences of free passage through his dominions. The much-vaunted clause in Magna Charta, which apparently gave free trade to all merchants "saving the ancient customs of the realm," was really intended to secure the rights of the towns and lords of manors in the exaction of dues.

¹ Cliffe Leslie, in an essay on Financial Reform, published by the Cobden Club, proposed the abolition of all indirect taxation, but few other reformers have gone beyond the 'free breakfast table.'

Next to tolls were import-duties. These at first took the form of the exaction for the use of the king of a certain proportion of certain things, the levy being at first made in kind. Like other proportional payments, however, they gradually were converted into money, and also became fixed. Thus the origin of the "ancient and great customs" is to be found in the right of the king to tax the foreigner. The same leading idea is found in the case of export-duties. For a long period our principal exports were wool and other raw produce, and the king was entitled to a certain proportion. In process of time this proportion gave place to money payments, and to facilitate and ensure the collection of this revenue the export of these "staples" was confined to "staple" towns. These towns were in foreign countries, so that the foreigner was not only taxed but actually taxed in foreign parts. It is hardly necessary to recall the barbaric customs as regards shipwrecks, the piratical exploits in the Spanish main, the Navigation Laws, "really founded," as Adam Smith says, "on national animosity," and the long list of differential commercial treaties, to illustrate further the position that for centuries the idea of taxing the foreigner, directly or indirectly, was considered in the highest degree laudable. It is by no means easy to uproot the sentiments and prejudices that have grown up with the national life, and it is very doubtful if "good-will" to the foreigner, and "peace on earth" were more than pious war-cries in the battle of free trade. If any British statesman, even at the present time, could formulate a practicable scheme by which other nations were compelled or induced to pay the principal part of our taxes, that statesman would be the most popular man in the country.

Fortunately, however, for the interests of peace and the development of international trade, taxing the foreigner is very like "shearing the wolf." It is quite true that *theoretically* under certain conditions one nation might obtain from other nations, either by export or by import duties, a considerable part of its revenue, but it is equally true that these conditions are extremely unlikely to arise; and even if they did arise, it is still more unlikely that the wisdom of statesmen would be equal to the task of taking advantage of them. It is important to observe that theoretical exceptions may be admitted whilst the practical application is denied, for no greater harm has been done to the spread of "Free Trade principles" in the broad sense of the terms than by the attempt to reduce them to a fictitious simplicity. To assert that every import-duty must *necessarily* fall on the home consumer is as false as to assert that every export-duty must necessarily fall on the foreign consumer; it is equally untrue to say that *necessarily* the import-duties fall on the foreign producer and the export-duties on the home producer. As a matter of fact the incidence of export and import duties, especially when the indirect effects are considered, is the most complicated and difficult problem in economics. It is so difficult, indeed, that one of the strongest arguments in favour of a very simple system of customs-duties is to be found in the uncertain and indeterminate effects to which, especially indirectly, all taxes on commodities give rise.

It is impossible, in a paper of these dimensions, to discuss the theory fully, but sufficient may be said to demonstrate the position that, *prima facie*,

the incidence of import-duties is indeterminate, and that the effects are very wide-reaching. Suppose, then, that a nation suddenly imposes an import duty upon some important article of commerce. The immediate effect is to raise the price of the article: that is to say, the importers and the foreign producers endeavour to go on with their trade without any loss of profit. But the natural effect of this initial rise in price is to check the demand. The degree of the check, however, depends on the kind of article. It is conceivable that if the demand is very "inelastic"—if the article, for example, is a necessary, the quantity of which consumed may be regarded as a first charge upon the national income—the rise in price may have very little effect upon the quantity demanded. In this case it is possible that the whole tax would be paid by the home consumer. But suppose, as is possible, that the demand falls off, the question arises: Will the competition of foreigners induce them to lower their prices in order to get the same market as before for their wares? In this case, again, it is possible that the market of the taxing country is so important relatively to other markets that the foreigners cannot better themselves elsewhere, and to find an entrance must themselves pay the tax—at any rate in the first instance. Between these two extremes any degree of division is *theoretically* possible. We have to consider the intensity of the home demand, the demand of other nations, and the possibility of the use of substitutes of various kinds. The tax may kill the trade altogether, or directly and immediately, so far as demand is concerned, it may have very little effect. For a time at any rate, in the former case, the foreign trader may sell his stock at a loss, and in the latter the consumer may disregard the rise in price.

But demand is only one side of the problem; for the complete solution we must look at the conditions of supply. If the home consumer bears the whole tax the conditions of supply will of course be unaffected; but if there is any check to demand, and some part of the tax, in the first place at least, falls on the foreigner, it is most important to consider what will be the effect upon his production. And here arises the question: Who is the foreigner who is called upon to suffer by the tax? In other words, will the tax in the first place fall upon the profits, or the wages, or the rents earned by the particular industry? Can the loss in the profit of the merchant be transferred to the manufacturer or producer? Can he in turn indemnify himself by transferring the loss to wages, or, in the case of raw produce, to rent? Finally, in any case can the particular class injured by the tax eventually transfer this loss to the foreign community in general? Now a little reflection will show that there is no general answer¹ to these questions, but that the particular answer must depend upon the particular conditions, as, for example, the mobility of labour and capital in the industry concerned, the total or partial monopoly of the product, and the scope for the expansion of industry in other directions.

So far, however, only comparatively immediate effects of the particular tax have been considered. There are also important ulterior effects resulting from the fact that all trade is reciprocal and inter-dependent. If

¹ The recent reports on the immediate effects of the M'Kinley Act upon various German exports show that whilst some have suffered severely, others have been hardly affected.

by taxation importation is crippled, in some branch or other the export trade must be similarly affected. If, to take an extreme case, the United States were to prohibit all importation of foreign wares, it is plain that exportation must also cease. No country would export without a return; in trade nothing is given for nothing. And what is true of the extreme is true in a less degree of the less extreme. If you check imports, *ipso facto* you check exports. But then as soon as exports begin to suffer, a similar series of questions arises as to the distribution of the loss. Suppose, for instance, that the general effect of the M'Kinley Act is not to prohibit absolutely but simply to check importation into the United States. The foreigner will suffer, but in what manner and in what degree? Exportation from the States must also be diminished, and American producers will suffer; but, again, in what manner and in what degree? Which will suffer most—the American or the foreigner? The number of these questions might be indefinitely extended, and the only answer is that an answer is impossible.

At the same time, however, it is possible to indicate in a general way some important practical results, which are confirmed by historical or actual conditions. The first and most obvious is that every tax upon commodities is so far a barrier to trade; it is with manufactures like an increase in the cost of production, with raw materials like an impoverishment of natural resources or deterioration of climate. In whatever way the loss is distributed trade must be injured. There can be no doubt that the heavy duties imposed upon British goods by foreign nations not only affect the foreign consumer but indirectly at least the British people. "Take care of the imports, and the exports will take care of themselves," is a proposition that may easily be turned round, and we may ask: "If the world were to refuse our exports, how should we obtain our imports?" But every foreign customs-duty is a partial refusal.

As regards the primary incidence of import-duties, although theoretically it is indeterminate, there can be little doubt that as a rule these duties raise the price of the article to the home consumer. This arises from the fact that there are very few monopolies in foreign trade, and that unless the home consumer pays the greater part of the tax importation will cease. And here it must be observed that by well-known principles the article rises in price by more than the amount of the tax. It is clear, for example, that unless the tax is collected immediately before the article goes into the hands of the consumer the burden is cumulative. Merchants must have trade profits upon advances made for taxation, and these profits must include insurance against risk. This loss may be partially mitigated, but can never be wholly neutralised, by bonded warehouses and similar devices; but the broad fact remains that practically, as a rule, indirect taxes take more from the people than they furnish to the Treasury.¹

¹ "Therefore, for every penny of duty we ask you to surrender, we feel that we are giving nearly double that advantage to the consumer, and a great impetus to trade."—Mr. Gladstone on the *Soap Tax* in Financial Statement, 1853. He went on to show that one indirect effect would be to diminish African slavery, by encouraging the export of palm-oil, and thus the spread of legitimate commerce.

The great evil of indirect taxation is to be found in the indirect effects. It ought not to be necessary to reiterate arguments which British economists have expounded over and over again, and enlightened with a wealth of illustration.¹ Unfortunately, however, there is a tendency to believe that truths lose in force as they lose in novelty, and well-established maxims have often been driven out temporarily by re-discovered errors. The two young gentlemen who, according to Swift's diary, "discovered that there is no God," were probably wrong in their reasons; and in the affairs of the world also wisdom is slowly accumulated. Let the sceptical reader refer to Mr. Dowell's excellent volumes on the history of taxation; and if any one thinks the incidence of taxes an easy matter, let him look up his Mill (bk. v. ch. iv).

Another point of practical importance arises in connection with the fallibility of statesmanship. Industrial conditions are constantly changing, and to adjust complicated tariffs to complicated changes is well-nigh impossible.² It is one thing to make out a hypothetical case on paper, and quite another to put it into practice. It is a remarkable fact that the very part of the old protective system which received praise from Adam Smith—namely, the Navigation Laws—was the first part to be attacked by practical free traders. The simple reason was that other nations retaliated, and that attempts were then made to arrange reciprocity treaties until such an entanglement of interests and jealousies was created that the whole system fell to the ground. Similarly it is safe to predict that if any general system of customs-duties is to be established for the whole Empire, it must be on broad, simple principles. To suppose that a concession or restriction in one part must be met by some reciprocal operation in another, and that masses of local prejudice must be conciliated in different ways, is to confess that commercial and fiscal union is impossible. Fortunately, however, there can be little doubt that in the provinces as in the centre simplicity would be more productive of revenue than the present complexity.

Hitherto the question has been treated as far as possible simply from the point of view of revenue; but to many people the question of revenue seems of far less importance than that of free trade and protection. What they demand is not so much free trade within the Empire as restriction against the rest of the world, and they apparently assume that this would be the natural development of our present colonial system. Before, then, proceeding to examine briefly the protectionist ideal, a short passage on the present state of affairs may be quoted from Sir Rawson Rawson.³ "With regard to the question of duties imposed for the protection of local interests, agricultural or manufacturing, it is not easy to trace them in these tariffs except in two or three prominent cases.

¹ "The statesman who should attempt to direct private people in what manner they ought to employ their capitals would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it."—*Wealth of Nations*, p. 200.

² *Synopsis of Tariffs*, p. 16.

It requires local knowledge to determine whether here and there some particular duty has been imposed or incurred for the purpose of encouraging local interests, or whether a generally high rate of duties on manufactures has been imposed for fiscal or for protective purposes. In general the method of favouring such interests has been by abolishing or remitting the duties on articles required for their use—as, for instance, the admission free of duty into several of the West Indian Islands of machinery used in the preparation of colonial products. . . . The three decided exceptions appear to be Malta, Victoria, and Canada, to which must now be added South Australia.” Again, the first sentence in the summary of results runs:—“As it is clear that the duties, with few exceptions, have been imposed mainly for fiscal purposes. . . .”

Even if the present state of affairs in the Empire at large were far more protectionist than appears to be the case, it would be superfluous to enter into any general discussion of the principles of free trade. For any action must depend not only on principles, but upon facts and actual conditions. As regards principles, the advocates of free trade have unquestionably damaged their cause by dogmatism and exaggeration. By attempting to prove a universal negative—that in no circumstances whatever could a State gain by retaliation or differential duties or other devices of protectionism—they have made their opponents believe that the general case for free trade is destroyed if one particular exception can be proved. But, theoretically, as economists of the first rank, from Adam Smith¹ and Ricardo to Professors Sidgwick and Marshall, have admitted, it is easy to point out, not one, but several exceptions. For practical purposes, however, so far as the British Empire is concerned, these exceptions are simply part of the casuistry of economics; they are like the discussions by moral philosophers of the justification of occasional mendacity. Free trade, like honesty, still remains the best policy. And it remains the best policy not only because any other policy to be equally successful would require the perfectly wise despot, but largely also, no doubt, because its principles, as applied to ordinary cases, are generally sound. To couple free trade within the Empire with protection against the rest of the world is to destroy a practical proposal by the addition of a proposal utterly impracticable. This has been abundantly proved, implicitly if not explicitly, in the preceding paper of this series by Mr. Chisholm. Is the United Kingdom likely to tax raw materials such as cotton and wool, or food-products such as wheat and mutton, simply with the hope, that a policy of this kind would please the rest of the Empire, or, rather, certain portions of it? Would the colonies consent to send all their produce to our markets and so deprive themselves of foreign wares? A glance at the facts showing the magnitude of the foreign trade of the Empire is enough to prove that the ideal—even if otherwise attractive—is impossible. A petty uniform duty on all foreign products would simply be a source of irritation, and is not worth considering.

¹ Adam Smith's four exceptions are well known. *Wealth of Nations*, bk. iv. ch. ii. Compare also Sidgwick's *Principles of Political Economy*, bk. iii. ch. v.; Marshall's *Principles of Economics*, bk. x. ch. xii.

The objector may, of course, refer to the policy of the United States, and may argue that the British Empire might with advantage follow the same lines of development. But the conditions are wholly different. The foreign trade of the United States is comparatively unimportant, whilst that of the United Kingdom is, with its increasing population, essential to its existence. And even as regards the United States it is doubtful if it can long retain its commercial independence, and its present system is due much more to accident than design.¹ It furnishes also a warning, on a colossal scale, of the principal evil connected with protection—namely, the difficulty of getting rid of vested interests, and the tendency of one protective duty to beget a multitude. Even Adam Smith admitted that “when particular manufactures by means of high duties or prohibitions upon all foreign goods which can come into competition with them, have been so far extended as to employ a multitude of hands, humanity may in this case require that the freedom of trade should be restored only by slow gradations and with a good deal of reserve and circumspection.”² But this is surely the strongest argument against the creation by new countries of barriers which, when conditions have changed, it will be so difficult to remove. *Ocurrere morbo* should be the motto for those of our colonies which have to some extent yielded to protection: the old country is far too seasoned to be inoculated.³

Those who advocate any reform must remember that the most fatal obstacle is the exaggerated emphasis laid upon the difficulty of making any change. Get rid of the “idea of impossibility,” and the task is more than half accomplished. There are, it is true, economic laws which cannot be sent to Saturn, as every nation has found to its cost by numberless experiments, but no system of taxation is by nature eternal and immutable. If little by little colonial statesmen would follow the example set by the great British financiers of this century, and reduce and abolish their duties, it would be easy to establish a fiscal union. Such a union would bind far more closely than a nominal association for defence. It would naturally lead to the creation of other commercial ties, and silently and insensibly would weld together the fragments of our so-called Empire. For it is as true now as it was when Adam Smith wrote that “this empire has hitherto existed in

¹ See an admirable paper by Professor Taussig in the *Economic Journal* for June 1891, on “The McKinley Tariff Act.”

² Book iv. c. ii.

³ A striking instance is given by M'Culloch (Edit. of *Wealth of Nations*, note xxv.), of the evil effects of forcing a colonial trade:—“The trade with Canada may be referred to in proof of what has now been stated. It employed a large number of ships and seamen, and seemed to a superficial observer to be highly valuable. In truth and reality, however, it was very much the reverse. A half of this trade was forced and fictitious, having originated in the excess duty which was formerly charged on the Baltic and other foreign timber. The high duty on foreign timber tempted the merchants to resort to Canada, New Brunswick, etc., whence they imported an inferior article at a higher price. . . . By refusing to import the timber of the North of Europe, we proportionally limited the power of the Russians, Prussians, Swedes, and Norwegians to buy our manufactured goods; while by forcing the importation of timber from Canada, we withdrew the attention of the inhabitants from the most profitable employment they could carry on.”

imagination only. It has hitherto been not an empire but the project of an empire, not a gold mine but the project of a gold mine. . . . It is surely now time that our rulers should either realise this golden dream in which they have been indulging themselves, perhaps, as well as other people, or that they should awaken from it themselves. If the project cannot be completed it ought to be given up. If any of the provinces of the British Empire cannot be made to contribute towards the support of the whole Empire, it is surely time that Great Britain should free herself from the expense of defending those provinces in time of war, and of supporting any part of their civil or military establishments in time of peace, and endeavour to accommodate her future views and designs to the real mediocrity of her circumstances." Such is the concluding passage and, for Britons, the culmination of the whole argument of the *Wealth of Nations*, a work which, alike in speculative genius, breadth of view, and practical wisdom, stands alone in political literature. We must choose between federation and disintegration, and, if we wait for the pressure of a great calamity, the warning of history is that the alternative will no longer be offered.

THE GEOGRAPHY OF SOUTH-WEST AFRICA.

(Read at Meeting of British Association, 1891.)

BY DR. HENRY SCHLICHTER.

MANY parts of South-West Africa—by which in this paper we mean the the countries between Cape Colony and the Cunene and Okavango rivers—are still very imperfectly known or even entirely unexplored on account of their sterile and inhospitable character. The land along the entire coast is of the most barren and desert nature; north-west of the Herero country extends the so-called "Kaoko-field," which implies "field without water;" whilst the barren plateaus of the vast Kalahari hem in the mountainous districts of the Herero- and Nama-country east and north. Thus we see that the more fertile parts of South-West Africa are entirely encircled by regions which are difficult of access, and therefore offer great obstacles to exploration; and the result has been that the routes of many travellers who have visited these countries are confined to limited areas, and avoid the unknown parts of the above-mentioned territories.

In studying the history of South-West Africa we see that at three distinct epochs great, but more or less spontaneous, efforts have been made to open up the interior, and hence three periods of exploration are easily discernible. The first of them, which refers to the time before the discovery of Lake Ngami in 1849, has hitherto generally been believed to have been very short, for before Captain James Alexander's explorations in 1836 and 1837 hardly anything was known of the interior of South-West Africa. Quite recently, however, Mr. Theal has proved, from the archives of Cape Colony, the extraordinary fact that not only the Orange River had been discovered as early as the middle of last century (1760), several years before Gordon reached it, but also that almost