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Sugar and the Tariff

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NOTES AND MEMORANDA

SUGAR AND THE TARIFF ¹

It was natural that an inquiry into the present state of the sugar industry should resolve itself into a discussion of the merits of the Brussels Convention—an international agreement for bringing to a close a fiscal system which dominated the fortunes of the industry for nearly fifty years. The Tariff Commission, having set out to ascertain the verdict of the trade upon the working of this unique experiment, has reached the following conclusions:—The Brussels Convention abolished State bounties; and, in consequence, Kartells became impossible. It has checked imports of refined sugar into the United Kingdom, and encouraged supplies of raw cane sugar from the Colonies and elsewhere; it has stimulated British exports of machinery and confectionery, and has steadied prices. To establish these excellent results the Convention should be maintained; but its usefulness might be extended by the substitution of countervailing duties for prohibition and by the adoption of a system of reciprocal imperial preference.

The evidence of witnesses, replies to forms, an abundance of statistics, and some special Memoranda furnish the basis of these conclusions. "Confectionery" might have been more strongly represented among the "witnesses," but the *Sugar Users' Journal* has made us familiar with the opinions of this section. The "replies" are more comprehensive; indeed, interested persons, as sugar refiners, manufacturers of confectionery, chocolates, jams, syrups, and aerated waters, as well as produce merchants and brokers, present such a medley of facts and arguments that there is some difficulty in reconciling conflicting views and in adjusting the various claims. There are one or two conspicuous omissions from the statistical evidence: tables showing comparative total and per head consumption in various

¹ See Report of the Tariff Commission: Vol. 7, Sugar and Confectionery.

countries and the comparative growth of production in cane and beet countries would, we think, have been more useful for general reference than some of those supplied. The Memoranda contain an excellent summary of the Kartell and bounty systems, and statements by the West India Committee and the British Sugar Refiners' Association.

We are not sure that conclusions flow so readily from the premises as the report suggests. The simple fact that sugar is either a finished article or a raw material according to the individual standpoint creates antagonism at many points and robs the evidence of cumulative weight.

The abolition of the bounties has not affected bulk imports of sugar and molasses into the United Kingdom. The annual average for the five years, 1902-6, expressed in terms of raw sugar, was 34,763,000 cwts., as against 34,717,000 cwts. for the period 1897-1901; but the percentage of refined sugar has declined from 58·8 to 56·5. This is *primâ facie* evidence that, while consumers and the sugar-using industries have not suffered, increasing imports of raw sugar have given employment to British refineries and a stimulus to auxiliary trades; but other factors, *e.g.*, prices and sources of supply, must be considered before any definite statement is made.

Undoubtedly, since the bounties were proportionately larger on refined sugar, the margin between quotations for raw and refined sugars has improved—a change which tells in favour of the refiner; but as regards the general level of prices, we agree with a witness who says “that the direct result of the Convention could not do more than raise the price to 9s. 6d. per cwt. . . . the natural cost of production” (131).¹ It should be remembered, however, that the sugar duty was re-imposed when prices were abnormally low. Prices have risen to a natural figure, but the tax still remains—as sugar users deplore.

It is of some consequence to the manufacturer of sugared goods whence he draws his raw material. There has been a slight diversion of British imports of raw sugar from the Continent to cane countries. Total average imports of raw sugar into the United Kingdom in the last two quinquennial periods have increased from 13,598,000 cwts. to 14,094,000 cwts., but the proportion from beet countries has fallen from 70·5 per cent. to 65·8 per cent. The increased cane supplies come mainly from Java, Peru, and the British West Indies, but are a very fluctuating quantity. There is a general feeling in the trade that the

¹ The figures in parentheses refer to paragraphs in the Report.

prospects of the West Indian industry are still precarious, and one reason is given by a witness in these words:—"Hitherto they have shown little inclination to adapt themselves to the necessities of the case and to supply the class of sugar principally used in this country" (153).

But while the confectioner has found West Indian sugar unsuitable to his requirements, he has also no grounds for preferring English refined sugar. He relies almost universally on German "granulated," because it is of uniform quality and does not need to be tested. Another reason is stated as follows:—"Importers will not continue to pay freight upon raw unrefined sugar when sugar can be refined with every facility abroad, with freights paid only on the finished and pure article" (153).

Refiners, in pressing for a "reasonable British fiscal policy," hope for "the extensive cultivation of sugar beet in agricultural England," and, apparently, reconcile this happy event with the development of the "great potential supplies of cane sugar in the West Indies and elsewhere" (125). It would be interesting to hear the views of colonial planters on this point.

Summarising very briefly the results of the Brussels Convention, we should say that, while it has given a little stimulus to the home refining industry, the net gains to the sugar-using industries and to the West Indian colonies are inappreciable. The former find that cheapened continental sugar has increased its uses and created formidable competition; the latter merely share the advantages with rivals who are better equipped and quite as keen to seize the occasion.

The Report gives us to understand that the Convention is an advance on previous policy, and that the comparative poverty of its results is due not to any unsoundness in its principles, but to their faltering application. Hence, it approves the refiners' demand for a countervailing duty, not merely in substitution of the prohibition of Russian and Argentine sugar—a very trifling matter—but such an increase of the existing duties on imported refined sugar, variously estimated at from 1*s.* to 4*s.* 2*d.* per cwt., as would "counteract the remaining bounties, which consist in reduced continental railway rates, subsidies to foreign shipping, &c., also preferential through rates granted by British railway companies, local rates, and Imperial taxation" (252)—not to mention the "foreign surtax of 6 francs" and "conditions of labour which would not be countenanced by public opinion in Great Britain" (236). A "small surtax on foreign refined

sugar " seems scarcely appropriate or adequate to cancel all these differential advantages—some of which cannot be included in the bounty category by any amount of straining of fiscal definitions; but, in its original acceptance, the Brussels Convention gave implicit sanction to the policy of using the tariff as a means of meeting unfair competition, and the proposal to build up a defensive tariff is a perfectly logical development of that position.

Although refiners are unanimous in demanding a surtax on foreign refined sugar, they do not agree as to the probable results of such a duty. Here are two representative opinions:—"The first effect would be to occasion a rise in the price of nearly the full amount of the duty, but while some [of our directors] think this would be maintained, others are of opinion that the increased production which would be stimulated would soon reduce the price again to the normal" (Lyle, 252). Again, "It would not reduce the cost of production, nor would it increase employment or wages. . . . The position would be unaltered with the exception of placing the British manufacturer on an equality with his foreign rivals" (Tate, 256).

On the other hand, sugar users condemn the proposal with one voice. The re-imposition of the sugar duty in 1901 already has enhanced the cost of their raw material, and they have not been compensated by an adequate increase in the price of sugar manufactures. In fact, the demand of the sugar-using trades for the abolition of the duty is quite incompatible with the refiners' demand for its increase. There are important distinctions in the two positions. First, the demand for sugar as a necessary food-stuff is inelastic, and, therefore, a small rise in price need not disturb the refiner; but for sugar regarded as the raw material of certain non-essential foods and luxuries the demand is variable, and experience shows that increased prices spell decreased sales. Secondly, the relative importance of the two branches of the industry must be borne in mind. If all the foreign refined sugar consumed in the United Kingdom—three-fifths of the total consumption—were refined at home, it would give additional employment to 7,000 persons (254); the sugar-using industries, which were in their infancy in the mid-eighties, employ, on a very moderate estimate, 100,000 persons. Moreover, "a very large proportion of the labour in a sugar-house is unskilled" (103); wages range from 25s. to 30s., and discharged hands drift easily into other trades (110). But a good operative confectioner is a skilled workman earning from £2 to £3 a week (145), and the cry of the trade is for more "men of sound know-

ledge, reliability, and thoroughness" (152). Some transference of capital and labour from a lower to a higher form of employment, happily, has resulted from the chaos of the bounty system, and any action, fiscal or otherwise, which would arrest this development must be deprecated.

The competition of articles imported and sold below cost of production in the country of origin is very limited. By-products of sugar manufacture do not come within the scope of the Convention, and American glucose and syrup are sold here at a non-competitive figure. Also, sugared goods, such as peels, preserved in glucose, encouraged by concealed bounties, find their way even from Convention countries. Otherwise, competition is restricted to special lines: *e.g.*, Swiss milk chocolates—the manufacture of which is assisted by cheap water-power; and to inferior stuffs which cater for a low-class trade.

The application of the Brussels Convention to by-products is a fit subject for submission to the Permanent Commission or for diplomatic treatment, but as regards competition in sugared goods there is no general desire amongst British manufacturers for a retaliatory duty. Such a duty could only be considered in relation to a general tariff embracing such articles as bottles and paper which the confectioner wishes to import as cheaply as possible. The balance of advantage to any given trade under a general tariff is a doubtful quantity, and the manufacturing confectioner, for one, lays much greater stress on having unlimited supplies of duty-free raw materials. Granted this, he will fight foreign tariffs with his own weapons.

Finally, there is the question of colonial preference. British refiners would like to share in any benefits accruing to the West Indies from Canadian preference by its extension to all British refined sugar; they propose to attract colonial raw sugar by means of a preferential tariff, and refine for export to Canada under the preference to Great Britain. What does the Canadian refiner say to this idea? And of what value is the Canadian preference to the West Indian planter when "practically the whole of the rebate is deducted from the price offered by the refiners" (272)?

The President of the Clyde Sugar Refiners' Association says:—"We do not look forward to any development of our export trade. The Cape is getting sugar from America and the Mauritius; and in Australia they grow and refine just about what sugar they want" (109). Messrs. Lyle say:—"We find that our colonies protect themselves so highly that we can do

no trade with them"; Messrs. Tate:—"We do not think that colonial or other preferential tariffs have benefited us in any way" (275). The export trade is, indeed, an insignificant matter, amounting to but three-quarters of a million cwts., out of thirty-two million cwts.

Similarly with regard to sugared goods. "The duties have generally been fixed so high on confectionery that even with the preference the wall is insurmountable except for special lines" (280). The export trade is estimated at 10 per cent. of the total, and, though the main outward drift during the past five years has been to British possessions, we note that free-trade India is responsible for 283,000 out of 483,000 cwts. of sugar and for £167,000 out of £674,000 worth of confectionery.

It is not clear that we have forfeited any substantial advantage under the Brussels Convention by undertaking to grant no preference to colonial sugars; and, seeing that the confectioners' grievance has been removed by our withdrawal from the penal clause, it becomes, if not a highly useful, at least a harmless instrument.

E. COZENS COOKE

THE EFFICIENCY THEORY OF WAGES.¹

THE point of departure of this article, as well as the sense in which the word *efficiency* is used, will be made plain by reviewing a few points in Professor Marshall's treatment of the theory of wages.

After noting that the "phrase, the 'efficiency of workers,' has some ambiguity," Professor Marshall defines efficiency-wages as "earnings measured, not as time-earnings are with reference to the time spent in earning them, and not as piecework earnings are with reference to the amount of output resulting from the work by which they are earned, but with reference to the exertion of ability and *efficiency* required of the worker" (*Principles*, 4th ed., pp. 630-631). So far as I am aware, this description of efficiency wages is as near as Professor Marshall approaches to a formal definition of efficiency. He has recorded his objection to "bold and rigid definitions" in economics as not compatible with the nature of the subject matter, and as being the origin of mis-

¹ Several technical points in this paper are more fully treated in an article on "The Differential Law of Wages" which will appear in an early number of the *Journal of the Statistical Society*.