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"Constructive Economics"

Author(s): George W. Gough

Source: *The Economic Journal*, Vol. 14, No. 55 (Sep., 1904), pp. 466-468

Published by: [Wiley](#) on behalf of the [Royal Economic Society](#)

Stable URL: <http://www.jstor.org/stable/2221384>

Accessed: 02/01/2015 01:53

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“CONSTRUCTIVE ECONOMICS.”¹

MR. GARVIN, from whom this title is borrowed, thinks that “*laissez-faire* attempted political economy with the politics left out.” He accordingly puts it in again and leaves out the economics. The result is well displayed in this sentence: “Two and a half per cent. wrung from the prosperous pockets of those who now send every year £140,000,000 of wholly and partly manufactured goods into this country would cover every year the complete cost of three new battleships.” Constructive economics, it seems, will perform the miracle of making the foreigner build the navy with which he is to be wiped out.

Mr. Garvin’s politics are of the stupendous kind. “Pan-Americanism” and “Pan-Germanism” are the spectres that affright him, or the bogeys with which he seeks to frighten others. Astute Americans take to wheat farming in Canada, enthusiastic Germans dream of incorporating Holland and Austria; Mr. Garvin calls on patriotic Britons to seek a way of escape in constructive economics.

Construction is based on destruction, and Mr. Garvin’s competency to build may be illustrated by his attempts to destroy. It should be understood that he is avowedly attempting to create a theoretical basis for the suggested alterations in our fiscal policy. He scouts the notion that they are unsound economics. It is not with him, as with Mr. Balfour, a question of a possible collision between Free Trade and greater issues. In his view the policy of 1846 was a disastrous departure from the national policy inaugurated by Elizabethan statesmen, and the sooner we return to it the better. The belief that it was a sound policy involves a theory of the stupidity of our ancestors, whereas, we are told, “Bacon, in the discussion of economics, could have given J. S. Mill a very bad quarter of an hour.” Mr. Garvin clears our ancestors from the charge of stupidity by implying that our fathers were rare fools!

The complicated question as to the incidence of import duties is settled by a mere *ipse dixit*: “the foreigner will pay the tax, or we shall take the trade.” This dictum is blandly described as “clearing away the sophistical superstructure of economic platitude,” preparatory to a frontal attack on the fundamental fallacy that imports must be balanced by exports. Instead of

¹ “Principles of Constructive Economics as applied to the maintenance of Empire”: a paper discussed at the Compatriots’ Club on April 22, and printed as a supplement to the *National Review* for May.

this, Mr. Garvin deviates into a denial of the fantastic statement, which is treated as an integral part of current economics, that if exports balance imports there must be equal benefits conferred upon both sides of the trade. Later on, having forgotten that it was a "fallacy," he distinctly accepts it as a "fact," that every import must develop a corresponding export, but adds, "it would, of course, be utterly false to say that our manufactured imports stimulate by their increase our manufactured exports." It would be equally false to say that they do not. Pure theory, of course, can trace no connection between them, being obliged to ignore that classification of imports which is the gospel of the new Protection. Facts, however, aid us a little; throughout all the changes of the German tariff since 1881 the imports and exports of manufactures almost invariably rise and fall together.

Of Mr. Garvin's extraordinary dealings with Mill's "heretical paragraph," the only remark that need be made is that, like all of his class, Mr. Garvin is careful not to quote it in full—a proceeding which is beyond the needs of comment.

Mr. Garvin also quotes portions of the Merchants' Petition of 1820, and gives his answers in parallel columns. The merchants state that, for a nation as for an individual, the best policy is to buy in the cheapest market and sell in the dearest. Mr. Garvin comments thus: "We may revise this famous principle as follows: Buy in the fullest market and sell in the largest." He forgets that previously he had half revised it thus—"Buy in the cheapest market and sell in the biggest." Normally, it is obvious that the fullest market is the cheapest, and the largest the dearest. To "revise" a formula by substituting synonymous terms is not a new proceeding. What is new is to find the author of so common a trick regarding it as a masterstroke of argument.

When Mr. Garvin begins to construct it is disappointing to find that his elaborate terminology only serves as a thin disguise for doctrines that are familiar, even hoary. The "first positive principle" is done with in a flash—"tariffs for tariffs." The "foundation principle" may be found in any decent shilling textbook—"the larger the output the lower the cost"—whence the weighty doctrine is deduced, "the larger the output the larger and cheaper, relatively, the export surplus." Separated from the hysterical politics with which they are involved Mr. Garvin's economic doctrines are as follows:—

(1) The State must become the commercial brain of the nation; a national tariff may be contrived which will produce certain benefits and avert certain evils; there is no *laissez-faire* in

commerce; international trade is a war in which tariffs are the weapons. The answer to all this lies in the appeal to experience. The actual motive of all tariff changes is sectional, not national, interests.

(2) The power of nations is the main factor in increasing the wealth of nations; the chief advantage of a national tariff is that it creates aptitudes. The classical economists apparently gravely erred in their analysis of production—omitting warships and taxes. The answer to this doctrine would require either a volume or a monosyllable.

(3) Constructive economics narrowly scrutinises the quality as well as the quantity of our international trade; the vital point is what you exchange for what; the great practical aim is to import the minimum percentage of manufactures and to export the maximum; if an import is a competitive manufacture, something that might conceivably have been made at home, it is *ipso facto* a curse. Mr. Garvin illustrates this doctrine as follows: Germany makes £1,000 by sending competitive manufactures into England. We make £1,000 by sending them coal, “but may simultaneously lose £1,000 through injury to some collateral industry by the German competitive import.” He evidently believes that his national tariff would enable us to keep the coal and make the goods into the bargain. It would be unreasonable to fill these pages with refutations of such crude fallacies. Throughout Mr. Garvin writes as if the one object of our national existence was to import raw material and export manufactures. It has apparently never occurred to him that when an article has once left our shores a foreigner consumes it. If by some miracle our imports remained constant, while our exports sank to zero, Mr. Garvin would cry out that we were being ruined, whereas we should soon be choked with wealth. We are kept poor by the unpleasant necessity of having to export to pay for our imports. Mr. Garvin habitually overestimates not only the total efficiency of Protection, but the relative importance of our foreign trade.

(4) Mr. Garvin’s determination to be downright at last lands him in the following propositions: “Under Free Trade a country cannot have new industries; if Protection, as Mill admitted, raises you from a lower to a higher plane of economic life, the level at which you can be legitimately expected to stop is beyond the competence of any Cobdenite to define.”

GEORGE W. GOUGH