

CHAPTER V.

ARGUMENTS IN FAVOR OF FREE TRADE.

1. THE following are the main arguments in favor of free trade:—

1. It is said to be *the method of nature*. There is a great variety in the relative advantages possessed by different countries for the production of different commodities. "For instance, the mixture of coal and iron-stone in alternate seams gives England a striking advantage in the manufacture of hardware. On the other hand, a country like France has peculiar facilities for the growth of wheat: her land is fertile, and her labor is cheap. It may therefore be assumed, that in England iron is comparatively less costly to produce than wheat, and that in France the production of wheat is comparatively less costly than that of iron. In order to explain the advantage which each of these derives from trading with the other, let it be supposed that in France the production of a ton of pig-iron requires as much labor and capital as the production of twenty sacks of wheat; but that in England the same quantity of iron requires as much labor and capital as would produce ten sacks of wheat; then iron estimated in wheat is twice as valuable in France as in England. England, therefore, might say to France, 'It will be greatly to our mutual advantage if you will let me supply you with iron, and receive from you wheat in exchange for

it. For, suppose you give me fifteen sacks of wheat for each ton of iron, then we shall each gain five sacks of wheat on every transaction. If you manufacture the ton of iron yourself, it would cost you as much as twenty sacks of wheat; whereas you have only to give me fifteen sacks. On the other hand, I should only be able to get ten sacks of wheat for a ton of iron, if I sold the iron in my own country. We, therefore, each of us obtain a profit upon the transaction which is represented in value by five sacks of wheat. This is a great gain and saving of wealth, for the gain is made at no one's expense.'"¹

2. Free trade is said to *conserve and increase the productive power of labor*, by causing it to be applied to those particular branches of industry for which each community has the greatest natural advantage. It is admitted by every one, that it would be a great waste to attempt the introduction of certain industries into places which furnish no natural facilities for them, and where no facilities can be created. To essay the cultivation of oranges in Minnesota, or cotton in Iowa, instead of raising wheat in both and exchanging it for the oranges and cotton, would be obviously preposterous. If it would be altogether unprofitable to undertake the cultivation of a new product where the facilities are wholly wanting, would it not be to some extent unprofitable where they are partly adverse? Hence all industries whose introduction depends upon artificial measures and considerable expense are regarded as so far forth uneconomical. If successful in their establishment, it is said, they can but divert labor and capital from those employments for which better conditions exist, and thus diminish the productive power of the community.

3. "*The right of property implies freedom for every one to do what he will with his own, provided he does not infringe*

¹ Henry Fawcett: Manual of Political Economy, pp. 372, 373.

on the rights of others." Any restriction of this freedom is *prima facie* a violation of a natural and inherent right. Every man is entitled to use the products of his own labor as may seem most for his advantage, to exchange them with citizens of his own country or with foreigners, as he may get for them the largest compensation. Any interference with this right bears the semblance of robbery.¹

4. "All obstruction to the exchange of commodities between any two countries desiring each other's products must injuriously affect the interests of both." This is clearly seen in the case of natural obstacles. Mr. Amasa Walker makes use of the following illustration: "Two communities dwelling near each other are separated by a lofty chain of mountains, which renders transportation between them so difficult as to nearly preclude all intercourse. On one side of the mountain the soil is so admirably adapted to cereals that wheat (and other grains in proportion) can be produced at the rate of one bushel for a day's labor; while fuel is so difficult to be obtained, that six days' labor are required to produce one ton of coal.

"On the opposite side of the mountain-range, so little is the soil adapted to the culture of grain that three days' labor are required to produce a single bushel of wheat; while the facilities for mining coal are so great that one day's labor will purchase a ton. Under such circumstances, it would evidently be quite advantageous to both communities to exchange products, if there were no obstacles to prevent their doing so. Owing, however, to the resistance which the supposed mountains interpose, the transportation of a bushel of wheat is equivalent to two days' labor; so that the wheat would cost three days' labor when brought to the coal country, and for that amount of labor the inhabitants could procure it

¹ Chapin's Wayland's Political Economy, p. 356.

themselves. So of the coal: to transport a ton which cost but one day's labor at the mines, would require the labor of five days; and therefore the people in the grain country, who can produce it by six days' work, would gain nothing by getting it from abroad. For these reasons, there would be no trade or exchange of products, so far as those articles were concerned, except in case of some accident, — as the failure of a crop, or an unexpected obstruction to the process of mining, by which the cost of the supposed commodity should be enhanced. Virtually there would be no profitable trade between the two communities, although in one coal was six times as dear, and in the other wheat was three times as dear, as in the neighboring country.

"If, however, we now suppose a railway to be made which reduces the *transportation* of a bushel of wheat to one day's labor, and the freight of a ton of coal to three days', we shall have conditions under which an advantageous trade will be sure to spring up: since the wheat-grower of the grain country can now get a ton of coal for the labor of four days, thus saving two days on each ton, equal to thirty-three and one-third per cent; and the coal-miner can get a bushel of wheat for two days' labor instead of three, thus saving, as far as his consumption of wheat is concerned, one-third, or thirty-three and one-third per cent, of his labor."¹

That in such a case the removal of the obstruction, though at a very great cost, would result in far greater profit to both communities, has already been clearly shown in the chapter on the "Promotion of Commerce." It is claimed to follow from this, that, if the removal of obstructions to the freedom of commercial intercourse is beneficial, the creation of obstructions or restrictions, in whatever form, must be deleterious and damaging.

¹ Science of Wealth, pp. 94-96.

5. "Free commercial intercourse between the nations of the earth tends evidently to establish their mutual relations upon a basis of peace and good-will. By the mutual exchange of values, different peoples become acquainted with each other; and the feeling of interdependence creates a common interest, out of which grow the bonds of abiding friendship. Within the last two hundred years, international law has come to the dignity of a distinct science. Its development and growth have been coincident with the expansion of commerce under the improved facilities secured by recent inventions. The spontaneous and necessary intercourse of nations originates international law, and leads to the establishment of rules for governing that intercourse. The more the principles and rules of this department of law are studied, the more clearly does it appear, that, through free commercial relations, the separate interests of all nations are bound together in one, so that each is concerned in the welfare of every other, and each is induced to place itself in an attitude of friendship rather than of enmity towards others. Free trade, then, appears thus the promoter and pledge of peace in the world. The broad competition which it incites tends to swell the sum of human comforts and joys, and to impel every branch of the race to improve to the utmost the conditions of human living."¹

2. Some of the strongest arguments in favor of free trade will, from the very nature of the case, be found in the form of *objections* to protection. Some of these I will briefly set forth.

1. Protective duties *violate the right of every man to do what he will with his own*. He has the natural right to buy where he can buy at the best advantage; and if the Government, by any kind of restriction, prevents his doing this, it

¹ Chapin's Wayland, p. 357.

goes beyond its authorized limits, and does him a positive injury.

2. Restrictive duties are *of the nature of a tax upon all the other industries, for the support of those protected*. This may be illustrated by the instance of the duty on iron. As was seen in the previous statement of the case, a duty of five dollars a ton on the foreign product would enable the American producer to compete with the foreign manufacturers. The objection claims that *all* iron — not only that imported, but that manufactured at home — is five dollars a ton higher in price by reason of this duty. That is, supposing that one hundred thousand tons are imported: the duties paid to the Government amount to five hundred thousand dollars. But suppose there are also three hundred thousand tons made here: this being also five dollars a ton higher than without restriction, the aggregate additional amount paid will be fifteen hundred thousand dollars, none of which goes to the Government as revenue, but all to the manufacturers as bonus; and all of it must be contributed by the users of iron.

3. It is objected further to the restrictive system, that *it causes a diminution of exports* from the country adopting it. The argument is, in brief, that, by restricting the imports, the country loses the opportunity of selling to foreign producers, since they must pay for commodities purchased of the former with goods of their own; and, if their goods are not taken, they cannot purchase others.

4. It is also objected, that, while the system is advocated as a protection to infant industries, these *never come to maturity*. It is said that some industries that have been thus fostered for thirty, forty, or fifty years, are still as clamorous as ever for protection, and that they are no nearer going alone now than at the beginning.

5. The question is asked, "If restriction is good as between different nations, why is it not good between different communities of the same nation?" The United States is cited as a magnificent example of free trade over a large part of a continent, and of the prosperity and development which is consequent upon such a system.

6. The last objection to be mentioned is, that it gives *monopoly privileges*. By this evidently is meant that it gives advantages to a few, which are denied to the many. The protected industries are supposed to be favored, as has before been seen, at the expense of those not protected.

3. It has been the design to present the arguments on both sides, as clearly and forcibly as possible with the limits at our disposal. Some of the arguments on both sides are specious rather than conclusive; though, of course, different writers see in them severally different degrees of force. It is not improbable that much more stress has been laid upon the protectionist argument of the prevention of the degradation of labor, than belongs to it. While labor is better paid generally in the United States than in almost any other country, it is not therefore necessarily any more costly to the employer; since the costliness of labor is estimated not so much by the amount paid for it as by its greater or less efficiency. We have already seen, that, while in England wages are higher than on the Continent, the same *effect* of labor costs less in the former than in the latter. So if we compare the European Continent with Southern Asia. Doubtless the same comparison will furnish analogous results as between this country and Great Britain. Still, if it be true that the unequal competition which would result under free trade prevents the development of industries for which a community has good facilities, the growth of capital would thus be hindered, and labor would be at a growing disadvantage.

4. On the other hand, there is some force in the objection to protection, that the success of free trade, as applied to the different parts of a great country like the United States, would seem to indicate the propriety of applying it to the different communities of the world. There is, however, this difference,—that this country is, in an important sense, one community, having a common financial system, a common system of domestic commerce, and many other interests in common. For this reason it might seem that the policy demanded here is widely different from that applicable to nations in their mutual relations.

5. There are two or three of the arguments against and objections to protection, that seem *fallacious*. The reason given in favor of free trade, that it is *the method of nature*, is one of these. The theory is certainly very simple and natural. But it is said, simplicity and naturalness, if these terms imply the exclusion of art, do not by any means indicate superiority. If they do, we must give the preference to barbarism over civilization. All improvement and development involve the application of art and artificial methods. It is no argument against a system, that it is partly artificial instead of exclusively natural; provided only that art shall work with nature, and not against it. In actual life, no one thinks of leaving nature to create industries or remove obstructions. We have a good illustration of this in the fourth argument for free trade. Mr. Walker there supposes the case of two communities of diverse productive capabilities, but separated by a range of mountains which rendered commerce impracticable. He has no hesitation in approving the building of a railroad to remedy this difficulty. He does not for a moment think of waiting for *nature* to do it, but would resort to art, and incur great expense, in order to bring the two kinds of producers into close proximity.

6. One of the most popular and effective objections to protection is, that it is of the nature of a tax on other industries. Yet it seems to me to be specious and fallacious. The assumption is, that the consumer pays for the protected article a price equivalent to that which it would be if there were no duty, plus the duty. As a matter of fact, there are very few instances in which this is really the case. It is true, that, in many instances, the price of a protected article will rise, and for a time continue higher, because of the duty imposed. The idea of protection implies this: it is a sacrifice made in the present, for the sake of future advantage. Yet there are instances in great numbers where the price, instead of increasing, diminishes on the imposition of a protective duty. Nor is this any thing abnormal, but perfectly in accordance with economical laws, as we shall see in a few illustrative examples.

"Years ago," says Mr. Greeley, "under a low duty, we imported most of the starch used in this country, making a little capriciously when the market, from whatever cause, was bare; but soon a fresh importation would flood our ports, shutting up our starch-factories, and driving our workmen to find employment at something else. Of course they acquired no proficiency in the art, and our starch was undoubtedly inferior in quality to its imported rival. But the tariff of 1842 imposed a duty of two cents a pound on imported starch; and at once a leading house in this city [New York] resumed its long-suspended manufacture of starch, called in its scattered workmen, made a good article, and put it on the market half a cent per pound below the price previously ruling. This was done on purely business principles, because starch could be afforded for less in a large and steady market than in one contracted and capricious."

The same effect was seen in the case of cotton fabrics.

The increased duties amounted to nearly one hundred per cent on importers' prices; and, according to the theory of the objection under consideration, it should have nearly doubled the price. But instead of this, the prices in the Lowell manufacturers' lists were lower by from one-fourth of a cent to a cent and a half per yard. It was for the same reason as that adduced in the case of the starch, — a steady and uniform market, occasioned by a restrictive duty, enabled the manufacturers to produce cheaper than with the contrary conditions.

The history of the Bessemer steel-rail manufacture in this country is another notable example. In 1864, there was no manufactory of this kind in this country: all the steel rails used were imported from England, and sold at a hundred and fifty dollars per ton in gold. There was a duty of forty-five per cent *ad valorem*. Certain parties interested in extending the use of these rails on our roads went to England to negotiate for the purchase of a quantity of them, but could make no more favorable terms than those above mentioned. Upon their return, a company was organized, works involving great expense were constructed, and workmen were imported. All this time the English rails were selling at \$150 to \$162. But the American product was put at \$130, when instantly the English article was offered at the same price, and, soon after, at \$120. Two years later, when the increase of the manufacture threatened to drive out the foreign article, the price of English rails was put at \$110, and, soon after, at \$80. This was below the cost of production to our manufacturers, and their mills were in danger of being closed at an enormous loss of capital. At this point, fifteen of the *consumers* of steel rails petitioned Congress to increase the duty. Attention is called to the fact that these petitioners were consumers, persons interested in

a diminution, and not in an increase, of prices; and it was in this interest that they petitioned. They knew, that, if this competition were destroyed, prices would again rise exorbitantly. The request was granted, though only to the extent of about four per cent, but enough to secure the American enterprise from being overborne. Under the stimulus of this action, there has been an extraordinary development of the manufacture; and the prices have constantly tended downward, till now steel rails are sold for about thirty-five dollars a ton.

If it be said that much of this diminution comes from the improvements in methods of manufacture, this may be freely admitted; and yet it is tolerably evident that a very large proportion of these improvements came from the establishment of the manufacture in America, and the sharp competition occasioned thereby. It is also clearly evident that no such improvements took place, within two or three years, as to reduce the price from a hundred and sixty-two dollars to a hundred and five dollars.

The same phenomena, though less marked, are found in connection with the protected manufactures of silk, of worsted, and many others, where prices have steadily declined, and almost in a ratio with the increase of the industry here. It is useless to say, that, in so many cases, this diminution is owing wholly to other causes. So many instances, and under such varied circumstances, would seem positively to indicate some common cause.

7. The objection that protection *causes a decrease of exports* is largely insisted on by many writers; but there are many others who deny that it has any force. In the first place, it is said, if it were true that the protected country had no need of the goods from abroad, by reason of manufacturing them at home, it would also have no need to send

its own products abroad; since there would be, by the very fact before mentioned, all the larger demand for them at home. It is not necessary to import simply for the sake of importing, nor to export for the sake of exporting. But in the second place it must be admitted, that, after each nation has exhausted all its own facilities of production, there will still be many desirable things, which, if had at all, must be imported. It is also true again, that those communities which most largely and judiciously multiply their own industries, and thereby cultivate societary completeness, are the communities which have the largest variety of productions peculiar to themselves, and liable to be wanted by other communities. Hence it is that those nations which have the greatest diversity of industries are those whose foreign trade is also the largest. It is in accordance with this principle, that we find, that, in the nations in which the protective policy prevails, the foreign trade, instead of diminishing as the objection assumes, increases more than in the unprotected, or slightly protected, countries. Take the United States as an example. In the decade from 1870 to 1880, under a tariff exceptionally high, and having many other exceptional features,—a tariff under which, if under any that was possible, the unfavorable effect under consideration should have been conspicuous,—we find that the exports increased from \$420,500,275 in value, to \$841,501,388, or a little more than a hundred per cent; and the imports, from \$376,616,473 in value, to \$741,501,725, or a little less than a hundred per cent.

Take the case of France. More than fifty years ago, the "Edinburgh Review," in an article on French industry and commerce, predicted, that, under the protective system then in operation there, the foreign trade of that country would be nearly ruined. During the decade in the middle of

which this prediction was made, the exports of France averaged but little more than 500,000,000 francs. In 1854, about twenty-five years later, they amounted to 1,400,000,000 francs, having nearly trebled. In 1874, France having then recently greatly increased her protective duties after a period of relaxation, her exports to Great Britain and Ireland alone amounted to 1,907,212,655 francs; being nearly three times the value of the British exports to France.

8. It is undoubtedly the fact, that the protective system has been often perverted from its legitimate purposes, and that any tariff arranged with reference to this principle will operate with great inequality. This is also the case with every system of taxation. Still, in view of the arguments on both sides briefly presented, it seems apparent, that, to such a nation as our own especially, far more good than evil would come from a judicious application of the principle of restriction. That our present system is greatly imperfect, and that in many instances it is excessive, is not at all unlikely. But that the country would find advantage in the entire abandonment of the system, is vastly improbable.

CHAPTER VI.

THE INSTRUMENT OF EXCHANGE.

1. WHATEVER aids in increasing the facilities of association enhances the power of man over nature. The necessity of *money* as such a means is easily made manifest. The design of commerce is, that each person, while producing but a single commodity, or, at most, but a very few commodities, may equitably avail himself of the many commodities that he needs. We have seen, that, though one man may produce but one thing, he may produce enough of this to supply a thousand persons. At the same time he may need a thousand things which he does not produce. Hence a thousand men find opportunity to minister to his support.

2. The first exchanges in primitive times would naturally be by barter, each one exchanging the surplus of his own products for such surplus of others as he himself might desire. But the necessity of some other method would early evince itself. It would be found to be inconvenient and expensive for the shoemaker who has made a dozen pair of shoes, to go with them to all the other producers whose wares he may just at that time particularly want. Even if the expense could be in some way mitigated, there would be still other serious embarrassments. He might want a hat, but perhaps the hatter does not at that time want any shoes. He desires a coat; but the tailor may only want a single pair of

shoes, while an equal exchange would require six or seven pairs. Thus, to find purchasers of his own commodity among those whose commodities he desires in quantities corresponding to those of his desired by them, would be a protracted and tedious business.

A partial remedy for this inconvenience would be found in the agency of *trade*,—the establishment of places where all kinds of commodities would be taken by the merchant, and where within certain limits one would be reasonably sure to find whatever was desirable in return for products brought in. This might be further supplemented by book-account. But, greatly as these devices would abridge and expedite the business of exchange, it would be found that not only an *agency* is necessary, but also an *instrument*,—a medium readily receivable for all commodities, and in exchange for which all desirable commodities would be readily taken.

CHAPTER VII.

THE PRECIOUS METALS.

1. THE great majority of political economists agree as to certain characteristics which should belong to any substances used as the medium of exchange. The mere enumeration of these indicates the reason why certain metals have been almost universally accepted for this purpose. 1. It is said that the material should have value, aside from its use as money. 2. It should be generally uniform in value; that is, the value should not be greater in one place than in another. 3. It should comprise much value in small bulk. 4. It should have some close approximation to constancy of value. 5. It should not be easily destructible. 6. It should be divisible into small portions, which can be re-united without loss. 7. It must be of universal use. 8. It must be capable of receiving and retaining stamps and marks indicating its current value.

These characteristics are attributed to gold and silver. 1. They have a natural value, aside from that implied in their use as money. They are employed in the arts, though to a less extent than for the purpose of money. On this account, should either of them be demonetized to any considerable extent, the value would greatly diminish. 2. Being simple substances, and, in proportion to their value, easily transportable, it has been generally held that they were of the