once in a thousand cases are foreign goods paid for by direct export of specie.

To sum up, the truth is that ALL COMMERCE IS BARTER; FOR IT IS AN INTERCHANGE BETWEEN THE COMMODITIES SOLD FOR MONEY AND THE COMMODITIES WHICH THAT MONEY WILL BE USED IN PURCHASING.

CHAPTER XIV.

Excess of Imports mostly a sign of Wealth—4. Imports and Exports (except those for Loans or Repayments) balance each other—5. Protection Discourages Native Industry.

3. *Permanent excess of imports impoverishes, ana permanent excess of exports enriches, a country.* This is the reverse of the fact. It would not be true even if such excess of imports had to be paid for by the receivers, or if such excess of exports implied a return payment of some kind. But this is never the case. For had such excess to be paid for, the payment must necessarily be either in goods or in specie. Now, it could not be in goods, as then, *ex hypothesi*, the goods exported would equal the goods imported, and how could there be an excess either way? Neither could that payment be made in specie, for it has been shown over and over again that the displacement of specie between country and country is confined within a very narrow range, that it is almost exclusively governed by circulation requirements, and that balances due by one country to another are never paid, unless to a mere fractional extent, in specie.

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The fact is that these permanent excesses of imports over exports, or *vice versâ*, consist of non-mercantile operations which are not repayable. They consist of national loans (repayable at indefinite periods, but scarcely ever repaid), of investments in foreign undertakings, of interest and dividends on such loans and investments, of subsidies to allies (less in fashion now than formerly), of war indemnities (that of France to Germany in 1871 to wit), ocean freight earnings, and other similar disbursements which are outside of, and in addition to, ordinary commercial interchanges.

"How," the Protectionists ask, "can a nation go on buying more than it sells without at last (like a spendthrift who lives beyond his income) becoming utterly ruined?" The answer is simply that no country ever does buy more than it sells, or ever does sell more than it buys. The trade of a country consists of the aggregate operations of individual traders, which are always equal, co-ordinate, and self-balancing; and which necessitate to a mathematical certainty (with the exception of bad debts) an import as a counterpart to every export, and *vice versâ*. As we have already shown, all commerce is direct or indirect barter. Whatever a country permanently exports beyond what it imports, it gets no return for; whatever it permanently imports beyond what it exports, it gives no return for. Such excess goes either to liquidate old international debts or to contract new ones. Whatever is brought into a country over and above what is sent out from it is either a payment or a loan. If a payment, it is

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retained for ever; if a loan, it will be retained till repaid at some future indefinite period. Of the rare and exceptional case of a nation paying off its foreign indebtedness, we shall treat elsewhere, but it does not invalidate the general principle that a permanent excess of imports over exports is not paid for, and must, therefore, far from impoverishing the country, add to its present wealth if the excess represents a loan; or to its permanent wealth if it represents a payment.

How it comes to pass that this excess of imports or of exports takes place, we have already in great measure explained. Beside the normal commercial profits which naturally contribute to make what comes in of greater value than what goes out, wealthy nations which have lent money to foreign states, or otherwise invested money in foreign countries, have annually to receive large amounts for dividends on those loans and investments. These amounts are periodically remitted to them in goods (not in specie), which figure in their statistical returns as excess of imports. Let us take the case of England. She has yearly to receive about £60,000,000 from abroad for interest on foreign investments. She has also to receive some £40,000,000 to £50,000,000 more for ocean freight (gross) and charges, because two-thirds of the entire ocean-carrying trade of the world is conducted by her mercantile navy. Now, since England has to receive about £100,000,000 per annum from abroad in goods, for which, as they constitute a payment to her, and not a sale, she has to make no return, it is clear that these will figure

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in the English Board of Trade returns as imports without any corresponding amount of exports. They will appear as an excess of imports over exports to the extent of £100,000,000. But how can receiving £100,000,000 a year, and keeping it without making any return, be either a cause or a symptom of impoverishment? By what peculiar twist of the mind can this be made the subject of regret or alarm? At all events, this excess of imports must continue, and probably increase, as long as England possesses both an annual income from abroad and the ocean-carrying trade. Even if England were to double or treble her yearly exports, her imports must of necessity continue ahead of them by that £100,000,000, or probably more.

The converse applies to over-exporting countries; their excess of exports generally represents the amount which they have to pay to the world, as borrowers, for annual interest, &c. The fact, in brief, is that all lending nations must necessarily import in excess of their exports, and all borrowing nations must export in excess of their imports; and the alarm which some feel at our over-importations should be converted into exultation at the wealth which they imply, and to which they minister. To sum up, the truth is that THE WEALTHIER A NATION IS, THE GREATER WILL BE THE PERMANENT EXCESS OF HER IMPORTS OVER HER EXPORTS; AND A PERMANENT EXCESS OF EXPORTS IS A SURE SIGN OF INDEBTEDNESS.

4. *It is false that imports and exports balance*

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each other, since many countries import more than they export, and vice versâ. Why it is that some countries over-import and others over-export, we have just explained. But if we leave out those exports which are sent to pay a previous debt or to create a new one, we shall find that all other exports are balanced by corresponding imports. For, indeed, how otherwise could they possibly be paid? That they are not paid for in specie, we have seen; so that, if they are ever paid for at all, it must be in kind. All commercial transactions resolve themselves, directly or indirectly, into interchanges of commodities; so that, as we have said before, all commerce is barter; and there can (loan and investment payments excluded) be no import without an export to same amount, and *vice versâ.* Every purchase implies a corresponding sale.

It must be borne in mind that in speaking of the imports or the exports of a country we of course mean the total imports or the total exports of that country from, and to, the world at large, and not those from or to any one particular other country. Some have misapprehended this, and have applied what had reference to the total foreign trade of a country to the special trade between that and a single other country. The aggregate commercial imports and exports of each country must, as we have seen (that is, debt-payments excepted), balance each other, but it does not at all follow that the separate dealings between two individual countries will show a similar result. Over-imports from countries A, B, &c., will be counterpoised by over-exports to countries C, D, &c., and, in the

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aggregate, one will make up for the other, and the equilibrium between the total commercial imports and total commercial exports of each country will be maintained. To sum up, the truth is that FOR EVERY EXPORT OF GOODS TO THE WORLD AT LARGE, EXCEPT WHAT IS SENT TO PAY A PREVIOUS DEBT, OR TO CREATE A NEW ONE, THERE MUST BE AN IMPORT OF GOODS FROM THE WORLD AT LARGE TO THE SAME AMOUNT, AND VICE VERSÂ.

5. *Protection promotes native industry by providing fresh channels for the employment of native labour.* It would be well if this were all, but truth requires the addition of the following words: "It at the same time destroys more of the old channels for the employment of native labour than it provides new." Such is the fact, and in its suppression lies the fallacy. Ceasing to import foreign goods means ceasing to export those native goods which were sent in exchange for the former, and throwing the producers of such native goods out of work. A country that adopts the Protective system ceases to import, and produces for itself, certain articles which we may call X Y Z, and thus capital and labour acquire "fresh channels for employment." So far, so good; but this good inseparably brings with it an evil that far more than counterbalances it. When the nation in question imported the articles X Y Z, it exported in exchange for them other articles of native manufacture which we may call A B C. But when the nation ceased importing the former, it necessarily (for imports and exports are, as we have seen, correlative) ceased exporting the

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latter. What is the consequence? The articles A B C are no longer produced, or are produced in diminished quantity, and the capital and labour which produced them remain idle. The capital may afford to wait; but what of the labour-sellers who are thrown out of work? Instead of "native industry" being "promoted" it is "the old channels for employment" that are "destroyed."

Eventually, the displacement is partially remedied by the absorption of the disorganised capital and labour into the new industry. But is the change which has been effected through this displacement a benefit? Certainly not. Quite the contrary. The advantages which the division of labour confers have been set aside. The capital and labour which were employed in the production of articles A B C, with which the foreign producer could not compete, are now diverted to the production of articles X Y Z which cannot compete (else, why protective duties?) with the production of foreigners. In other words, men are taken away from what they can do better than others can, and set to work on what others can do better than they can. The capital and labour which used to be employed remuneratively are now producing a loss which has to be made up by a public subvention in the shape of an import tax.

If, instead of taking the instance of a nation that is adopting the Protective system, we take that of a protected nation that is adopting Free Trade, we arrive at analogous results. Such nation, by abolishing the import duties on certain articles X Y Z, imports them from abroad, where they are

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cheaper, and discontinues their production at home. Thus capital and labour lose some of their old channels of employment. But let us look at the other side. Now that this same country imports instead of making the articles X Y Z, it necessarily exports in exchange for them (for every increase of imports necessitates a proportionate increase of exports) other articles of native production, which we may call A B C, and thus fresh channels of employment are created. The capital, fixed and floating, and the labour, which have become disused by ceasing to produce the articles X Y Z, are utilised in producing the articles A B C, for which an export demand is created by the importation of the articles X Y Z. And now let us inquire—Is the change which has been effected through this displacement a benefit? Yes! and a very decided one. The same capital and labour that was before unprofitably employed in producing the protected articles X Y Z, which the foreigner could produce cheaper or better, are now profitably employed in producing the articles A B C, which suit the foreigner's market, and which he readily takes in exchange for his own. Hence the capital and labour which used to be devoted to losing are now devoted to remunerative industries, the consumers enjoy the benefit of cheap goods instead of dear ones, the division of labour is effectually carried out, and a great impulse is given to foreign trade. In this way the producer gains, the consumer gains, the national wealth is increased, and the general commerce of the country is extended.

The fresh industries which Protection creates

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are created at the expense of the staple old industries which Protection curtails. The former can only exist by taxing the entire community; the latter were self-supporting. A country cannot at the same time cease importing foreign articles, and go on exporting the native articles which used to be sent in exchange for them. Free Trade says, "Go on exporting the cheap native article and importing the cheap foreign one." Protection says, "Leave off producing the native article which you produce so cheaply, and turn to producing the foreign article which you can only produce at a high price, and the law will compel the consumers to pay you that extra price by laying a heavy import duty on the cheap foreign article." Were the principle of opening new losing industries at the expense of old profitable ones fully carried out, England might create a fresh industry by producing her own wines, and thus being independent of France; France, by producing her own cotton, and thus being independent of America; Germany, by producing her own silk, and thus being independent of China, &c., &c. The absurdity of such a policy is palpable, but the absurdity is equally positive, though not so palpable, in every case wherein nations discourage the industries for which they are best adapted in order to create others for which they are less fitted.

Protection, therefore, does not promote native industry, but simply displaces it from a good to a bad position. We have dwelt at some length on this topic because the fallacy of the Protectionist proposition is not immediately obvious, and many

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honest inquirers have been temporarily misled by it. The key to its solution is in the fact that just in the proportion that a country curtails its imports, in that same proportion it curtails its exports. To sum up, the truth is that PROTECTION DISCOURAGES NATIVE INDUSTRY, BY CLOSING PROFITABLE CHANNELS FOR ITS EXERCISE AND SUBSTITUTING FOR THEM UNPROFITABLE ONES.

CHAPTER XV.

6. Import Duties on Foreign Goods fall on the Importers. 7. Free Trade supplies Native Industry with Cheap Materials and Cheap Living.

6. *Import duties on foreign goods fall on the foreigner, and are paid by him.* This is absolutely the reverse of the fact, but the assertion has been frequently made, with a jaunty indifference as to its truth, in order to coax the consumer into acquiescence with levying duties on foreign goods. He is told, "Let us lay on, say, 10 per cent. import duty on such or such a foreign article. You will not have to pay it; oh, dear, no! It is the foreigner who will bear it. He will let you have his goods ten per cent. cheaper than you pay now, so that the duty will make no difference to you, and the revenue will be benefited at the expense of the foreigner." Very tempting, but, alas! quite untrue. The foreign producer will not, and cannot, make the reduction. Before the duty is laid on, competition between the foreign pro-

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