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

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-

ducers themselves has already reduced the price of the article as low as it could go without trenching on a fair living profit. Such a profit leaves no margin for such a reduction. The imposition of the duty by no means diminishes the amount of labour and capital expended on the production of the article. The foreign producer may, indeed, if the imposition of duty takes him by surprise and he has a large stock, submit to some deduction for the moment. But permanently he must get the old price, or the importing country must do without the article. If the importing country will, however, have the article, it must itself bear the ten per cent. duty which it imposes.

Suppose that England laid an import duty of a penny a pound on raw cotton, does any one for a moment imagine that the price of cotton would thereupon fall a penny a pound in America, so that cotton would stand in to English spinners no more than it did before the duty? Who would have to bear and pay that duty—the American grower or the English consumer? Can there be a doubt as to the reply? Again, if putting a duty on foreign imports makes no difference to the consumers of the importing country, then, of course, neither would taking the duty off make any difference to them. So that, according to this doctrine, if England were to abolish her import duty on tea, the Chinese would get all the benefit, and the English consumers would still pay the same price as before! But as the subject is again referred to under the next head, we will not enlarge upon it here. The

proposition implies that the prices which we now pay for foreign goods are so exorbitant, and leave such extraordinary profits, that they could easily be reduced by the amount of import duties which we might levy on them—which is simply absurd. Of course, some slight and temporary variations in the relative demand and supply might occasion some slight and temporary variations in prices, but they would be both trifling and transient. To sum up, the truth is that IMPORT DUTIES ON FOREIGN GOODS FALL ON THE CONSUMERS OF THE IMPORTING COUNTRY, AND ARE PAID BY THEM.

7. *Under Free Trade native industry is taxed, while foreign industry is not.* If it were possible for a nation to tax foreign industry, it is most wonderful that such a scheme, which would shift the unpleasant burden of taxation from our own to other people's shoulders, should not be universally resorted to. Why should the native be taxed at all, if the necessary taxes can be levied on the foreigner? What are statesmen about that they do not raise the entire revenue of the country by taxing foreign industry? The fact is that to tax foreign industry is a sheer impossibility, and to fancy that it can be done is one of those delusions which only exist as long as they escape examination. "Oh! but it is possible," interposes a Protectionist; "it is done every day. The United States of America tax foreign industry through their import duties on foreign goods, and in 1880 they levied from this source a revenue of \$186,000,000, equal to £37,000,000." Here then

we join issue. The Protectionist maintains that this enormous amount of Customs' duties levied in the United States on foreign commodities falls upon, and is borne by, the foreign producers; while we maintain that it falls upon, and is borne by, the American consumers. Evidently one of us must be egregiously wrong. The question is narrowed to a very simple issue, and there ought to be no difficulty in solving it. Let us look into it carefully, and, to avoid complexity, let us take some average article as a type of the rest. In 1880 the United States imported, chiefly from England, cotton manufactured goods to the value of \$25,723,000 (£5,200,000), on which the Customs' duties levied on admission at American ports amounted to \$9,976,000 (nearly £2,000,000), which is equivalent to an average import duty of 38½ per cent. *ad valorem* on the amount imported.

Now, then, comes the question, who pays that £2,000,000 of duty? If the Protectionist is right, the American consumers do not pay it, but only pay the £5,200,000 which is the current value of the goods imported at their place of production, *plus* the freight. The £2,000,000 of duties "constitute a tax on British industry, and are paid by the British producer." The latter consequently only receives £3,200,000 in net payment for goods of which the current value in Lancashire is £5,200,000. He is actually content to accept in America £3,200,000 for what he can get £5,200,000 for elsewhere. This is the Protectionist view. Does it accord with common sense? Merely to state it clearly is a refutation. Do English manufacturers

make two prices—one for the general market, and another, 38½ per cent. cheaper, for the American market? Or are their profits so enormous that they can allow a discount of 38½ per cent. to the American buyers, and still make sufficient profit to induce them to continue the trade year after year?

Let us take another article. In 1880 the United States imported pig iron to the value of \$11,619,000 (£2,300,000), on which the Customs' duties amounted to \$4,318,000 (£863,000), equivalent to a duty of 36½ per cent. *ad valorem.* Can any one for a moment imagine that our ironmasters could afford to supply the American market at prices 36½ per cent. below those current at home, and would go on doing so year after year? It is patent to all who have any knowledge of trade (1) that the average profits on all our large staple commodities are kept within very moderate limits by the pressure of competition, and (2) that, as a rule, those markets which do not afford that moderate margin of profits cease to be resorted to. But that the producers of such articles will continue to send them to a market where they can only get within 36 or 38 per cent. of what they get elsewhere is an assertion which, although it may possibly be believed by the assertors themselves, is quite too heavy a demand on average human credulity.

The instances which we have quoted fairly represent the entire list of the dutiable articles imported by the United States of America. We could easily find instances far more striking. For instance, steel rails are not admitted into America under a duty of 90 per cent. *ad valorem;* so that, on the assumption that import duties "constitute a tax on the foreign producers and are paid by them," the British steel producers are content for every hundred pounds' worth that they send out to receive back only £10! On that assumption, was it generosity or foolishness that induced them to send out to America in 1880, on terms equivalent to giving them away, a quantity of steel rails of no less an amount than $1,644,000? If iron be as cheap in America as it is here—as it ought to be, barring a trifle of freight, if the Protectionist assumption be correct—why have the American ship-building industry and their ocean-carrying trade collapsed?

But it is, perhaps, needless to multiply proofs, and we think that all our readers will by this time agree that the Protectionist doctrine is erroneous, and that, beyond all doubt, import duties on foreign goods are borne by the consumers in the importing nation.

To revert, however, to the £5,200,000 worth of English cotton goods imported into America in 1880, on which an import duty of £2,000,000 had to be paid, it is perfectly clear that those goods were not sent to America to make a loss of £2,000,000, but they were sent because the current prices ruling in America for such goods made it probable that they would realise there an amount sufficient to cover (1) the cost, (2) the duty levied on them in America, (3) the freight and charges, and (4) an average trade profit. Otherwise, where

are the madmen to be found who would, year after year, send out that amount of goods to bear a large amount of loss? The trade would not be carried on at all unless the American consumers paid for those goods at least £7,700,000; viz.:—

£5,200,000	or the cost of the goods in England.
2,000,000	paid for import duty to the Customs in America.
500,000	(at least) freight, charges, and profits.
£7,700,000	

At anything less than that the goods would leave no profit, and a trade that leaves no profit quickly dies out. The same process of reasoning applies to all cases, and to all countries, in which an import duty is levied on foreign commodities. The duty is paid, not by the producers in the exporting countries, but by the consumers in the importing country.

It is clear that the American producers of that class of cotton goods which we above referred to as imported from England were unable to produce them for less than £7,700,000; or else why should the American consumers have paid, as they must have paid, that amount for British goods? Hence it follows that if, from any cause, such importation of those British goods were to cease, the American consumers would still have to pay £7,700,000 for them to the native manufacturer, while the United States Government would lose the £2,000,000 per annum which it now receives for import duties. In other words, the American consumers who now pay for those goods £5,700,000 cost and freight, and £2,000,000 duty to their Government, would then pay the whole of the £7,700,000 to the native manufacturers. Nor would these benefit much out of the £2,000,000 thus lost to the revenue. They would increase their sales by £7,700,000 annually, on which, assuming their net profits to be 6 per cent., they would realise £460,000, leaving £1,540,000 (or three-fourths of the £2,000,000 duties lost to the revenue) as a dead loss, owing to capital and labour being diverted to losing trades which the consumer is taxed to maintain.

In all countries which impose import duties on foreign merchandise these duties will assume one of three forms. These three forms are (1) purely revenue duties, (2) protective duties, and (3) prohibitory duties. Now, (1) pure revenue duties are those which are levied on such commodities as are not produced at home, but are wholly imported from abroad; as well as upon such commodities as are partly produced at home, but on which the native producers pay precisely the same percentage of internal or Excise taxation as the foreign importation does of import duties. In these cases, whatever the consumers pay extra in consequence of those duties goes, in its entirety, to the revenue. (2) Protective duties are those levied on such commodities as are partly produced (free) at home, and partly imported (under duty) from abroad. In these cases, whatever the consumers pay extra in consequence of the duties goes in part to the revenue and in part to the native producers, who could not withstand foreign competition were it not for the tax so paid by the consumers. (3) Prohibitory duties are those which are too high to allow

of importations from abroad, and leave the consumers entirely at the mercy of the native producers. In this latter case, the revenue gets nothing, and whatever the consumer pays extra for the prohibited commodities goes entirely to the native producer, who could not withstand foreign competition were it not for the tax so paid by the consumers. In none of these cases do the foreign producers bear any part of the import duty. It falls entirely on the native consumers. In the first of these cases, the whole of the extra price which the consumers pay in consequence of the import duties goes to their own Government, and relieves them to that extent from other taxes. In the second case a part, and in the third case the whole, of such extra charge to the consumers goes to cover the losses of the protected producers. From such portions, therefore, of that extra charge the national revenue derives no benefit, and the deficiency has to be made up by some other tax in some other form on the poor consumers, who thus have to pay two taxes instead of one.

Some, in reply, have said, "Admitted that heavy import duties are borne by the importing country, but a small duty is a different thing; the foreigner will lower his price to that extent sooner than lose his market." The answer is easy. Say that you tax a foreign article A, 1 per cent. The foreign producer will certainly not lower his price as long as you continue to take from him the same quantity of that article A as you did before. Price is regulated by relative supply and demand. If that relation remains unaltered, the price will also remain unaltered. The only chance of buying that article cheaper would be to sensibly diminish your purchases of it from the foreigner. But to do so, and yet meet the consumptive demand, you must to the same extent increase the native production of that article. Now, at the price hitherto current, the native producer has produced all that he could produce at a profit, and he can be stimulated to increase his production only by being paid an increased price. But the proposition stipulates that the price to the consumer is to remain the same. How are these two incompatibilities to be adjusted? By what process is the native producer to get a higher price for his article A, and yet, at the same time, is the price of it to the consumer to remain the same? If the native producer does not get that higher price, he can produce no larger quantity than he did before; you will take from the foreigner the same quantity as you did before; in which case, as the relative supply and demand will remain unaltered, he will obtain from you the same price as he did before, and the 1 per cent. duty will, against your proposition, fall upon the consumer.

If the consumer does pay the 1 per cent. duty, it then becomes a common case of Protection to that extent. The native is enabled to produce a little more than he did; the foreigner will supply a little less than he did; your exportation of other articles will diminish a little; the consumer will have to pay a little more than he did; and, generally, the same effects will take place, though

on a small scale, as though the import duty, instead of 1 per cent., were 10 per cent. or 40 per cent. In every case, import duties, whether they be small or whether they be large, will equally fall upon the consumers.

"You will, however, grant," says a Protectionist, "that if not the whole, at least some part of the import duty is paid by the foreigner." We regret that truth will not allow us to be so complaisant. The average profits made in a regular trade between two countries are, as a rule, kept down by competition to a certain level, below which the trade would not be continued. Under the additional burden of an import duty, that trade would first droop and soon die, unless prices rose in the importing country so as to cover the import duty. No merchant (unless for a short time and as a mere experiment) will go on employing his capital in a trade which does not yield him the average profits which capital earns in other channels. Now, if prices rise in the importing country so as to cover the duty, and thus allow the trade to continue, it clearly must be at the expense of the importing consumers, and not of the foreign traders.

But Free Trade is blamed not only for not taxing foreign industry, which we have shown to be impossible, but also for taxing native industry. This is a totally unfounded accusation. Not only it is false that Free Trade specially taxes native industry, but, on the contrary, Free Trade assists and promotes it in the most effective manner. Both these assertions we will in a few words make good. It is obvious that Free Trade imposes no special tax on native industry. All members of a community, whether under Free Trade or Protection, are subject to the general taxation deemed necessary to defray the Government expenditure, and they are liable to exactly the same burdens under both systems. This we think clear and incontrovertible. Now, on the other hand, Free Trade greatly assists and fosters native industry by supplying it with all the foreign materials which it needs to work with, or to work upon, at the cheapest possible cost, and unburdened by any import duties whatever. It at the same time lessens the cost of living, and increases the comforts obtainable for the same expenditure.

It is hardly possible to over-estimate the enormous advantages which this cheapness confers on, or the strong stimulus which it affords to, native industries. The cheap products of such industries will, of course, find a vent in all neutral markets, since the dear products of protected countries cannot possibly compete with them. Where the materials on which productive industry is exercised are enhanced in cost by protective import duties, it is impossible that the product should not be enhanced in cost in the same proportion. But the cheapness arising from untaxed materials not only fosters a demand from abroad, but also lessens the cost to the native consumers, and the benefit is thus twofold. It is, therefore, abundantly clear that native industry is largely promoted and developed by having, as a consequence of Free Trade, cheap untaxed materials to work with and to work upon. If the United

States had had cheap untaxed iron, they would not have lost their valuable share of the ocean-carrying trade.

We must apologise for devoting so much time to the refutation of a fallacy so easy to refute; but this we thought necessary from the frequency of the allegation, and from the number of honest-minded men who, not having a ready answer, have been mystified by it. To sum up, the truth is that FREE TRADE TAXES NO INDUSTRY, WHETHER NATIVE OR FOREIGN; BUT, AMONG OTHER ADVANTAGES, IT GREATLY FOSTERS NATIVE INDUSTRY, BY AFFORDING IT CHEAP, UNTAXED MATERIALS WHEREWITH AND WHEREON TO WORK, AND BY ALLOWING IT TO FLOW IN ITS NATURAL AND MOST PROFITABLE CHANNELS.

CHAPTER XVI.

8. Wages highest where most Wealth is Created. 9. Protection frustrates Division of Labour. 10. If Protected Nations prosper, it is in spite of, not because of, Protection.

8. *If the labour-seller in protected countries pays more for what he consumes, on the other hand his wages are proportionately higher.* It does not at all follow. The present average rate of wages in Free Trade England, now that everything is cheap, is at least 50 per cent. higher than it was formerly in protected England, when everything was dear. Indeed, if the statement that heads this paragraph be correct, how comes it that our Protectionist