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The most engrossing problem of the British Empire to-day is to find some method of reconciling the autonomy of the individual self governing dominions with united action in Imperial affairs. From the outset let us realize that the solidarity of the Empire depends on its economic foundation, and further let us realize that unless the fiscal policy is mutually beneficial to all parts, then disruption must certainly be the ultimate outcome. With the kind indulgence of the reader the writer will endeavor to critically analyze the fiscal system both in respect of the inter-relations of the dominions and the British Isles and in respect of the relations of foreign powers to the various parts of the Empire.

The Lloyd George-Balfour combination has once more brought the tariff question into the political limelight. The British electorate will have to decide at the next election whether the country will be committed to a departure from the broad principle of free trade. Let us consider, therefore, what the practical issues are and endeavor to determine the economic considerations which should decide the future policy of the United Kingdom. After determining from an examination of the facts involved the probable course which the United Kingdom will adhere to, the greater problem of Inter-Empire fiscal relations may be more logically determined.

First of all let us consider the theoretical arguments for and against protection, before attempting to analyze and apply the same to the peculiar economic situation of the United Kingdom. Adam Smith clearly showed that the adoption of protection diverts industry from its natural channel where the maximum utility results from a minimum of labor and capital expenditure, into channels into which the action of normal economic forces would not have directed it, with the result that particular industries are benefited at the expense of those industries which have peculiar advantages because of natural phenomena. The rate of profit is

increased, but the resulting wealth which must necessarily be less than under free trade is not distributed to the nation as a whole but merely swells the coffers of a privileged few. Adam Smith abundantly illustrated his contention by examples gleaned from England's early trade with the colonies. It was thought that England should fashion her industry in accordance with the needs of the colonies and that she should maintain a complete monopoly of colonial trade. Thus, in the language of the great Economist, "she deprived herself of the benefit of foreign trade developed under mutual conditions for a colonial trade artificially fostered."

A concise statement of the effect of protection may be taken from C.F. Bastables book on international trade. He says, "In every particular exchange there is necessarily a gain to each party concerned; but the sum total of exchanges is composed of the several particular exchanges which have been made; and as each of the latter implies a gain, the immediate result must be beneficial. As the aim of protective duties on the other hand is to hinder exchanges, they are necessarily injurious." Again, we may sum up the theory by using Jevon's famous statement, "Perfect freedom of exchange tends to the maximization of utility."

The logic of the above reasoning is undeniable, but since many of the leading nations of the world have departed from the ideal state of commerce, we must consider theory in the light of fact. Now the fact that some of the great powers have tariff barriers necessarily prevents the natural flow of trade which would lead to a maximum of utility for each nation concerned. Therefore, to apply abstract theory in support of free trade for a particular country is utterly impracticable. We must ask whether free trade is beneficial in the light of present circumstances, for it is easily conceivable that protection in certain cases would be beneficial. Just as in the evolution of living organism a change in environment necessitates a change in the organism

itself if it is to survive, so a change in economic environment may require a corresponding adaptation.

Tariff reform<sup>ers</sup> admit that free trade has been beneficial in the past but since the nineties the United Kingdom has found herself surrounded by a phalanx of protectionist countries, which have, according to the Chamberlain school, been driving British trade off the seas and ruining English factories.

What shall we reply to such statements as "Foreign goods flood our country;" "The United Kingdom is the dumping ground for foreign produce." Behind these and similar phrases lurks an easily discovered fallacy, for the twofold aspect of trade is forgotten. Imports are demanded to satisfy wants and must be paid for by the produce of the importing country. No nation will continue the process of exchange unless it is beneficial and foreign goods imported into the United Kingdom must have something to recommend them to British consumers <sup>otherwise</sup> else the goods would not be imported. If foreign goods invade our shores, British goods must in return invade foreign territories, since in the last analysis imports must be paid for with exports. This is a statistical fact of international trade. British exports are dear in exact proportion to the cheapness of imports. Therefore, under free trade the maximum of utility results to the Englishman both as consumer and producer.

Adam Smith's argument in respect of the final utility of trade is undeniable. A nation's power to produce wealth depends on its ability to produce a maximum of value with a minimum amount of energy and raw materials. Insofar as protection encourages an industry which would not have had its inception except for the protective aid, it necessarily violates this law of maximum utility.

It is maintained that protection by encouraging home industry provides work for the British laborer in preference to foreigners. On the surface this is rather an appealing

argument and arouses the patriotic sentiments; but economically the argument is the essence of balderdash for carried to its logical outcome the United Kingdom would import nothing. In short, according to this argument there are no advantages to be gained from foreign trade. If this conclusion is incorrect there is only one alternative and that is this: labor must cease to be employed in the manufacture of goods to which the country is naturally adapted (and by the production of which the greatest utility results) and be employed at a disadvantage in producing goods formerly produced by foreigners. This position is as ridiculous as the former.

There are grounds, however, on which protection may be rationally supported. The question of unfair competition in the steel trade is partially correct insofar as the American steel trust, for instance, sells its surplus over and above the requirements of the home market at a price sometimes below the cost of production. It is argued, therefore, that the English manufacturer should be protected against the process of dumping.

Let us suppose that the price at which American steel is dumped in England is the actual competitive price then how would a tariff help British steel to enter foreign markets in competition with American steel. Here we discover the real criterion of any nation's ability to produce wealth at a relative advantage over other countries. A tariff wall will not make the British miner dig more ore out of Mother Earth in eight hours than he formerly did. Lloyd George said in Parliament, "I have had reports recently from the United States of America where wages are higher and the hours of labor are no longer. The labor costs there in proportion to the articles produced are less than here. If that is the case competition between the two countries is impossible. Let me say at once, no tariff will ever remedy that."

The latest comparative estimates as regards efficiency of production show that America produces one thousand tons of coal

per man and England two hundred and forty. American steel is offered in Australia at eleven dollars per ton as against the English offer of sixteen. By what marvellous subterfuge will the tariff reformer produce steel for eleven dollars per ton. There is only one way to do it, namely by increasing the efficiency of production, America's dominance in steel is not due to her tariff but to the bountifulness of nature, to the enormity of her mass production and to the almost miraculous application of engineering science. England does not need a tariff but an efficiency bomb to burst the fetters of phlegmatic conservatism.

Again, is it conceivable that the American trust which makes a large profit in the domestic market would make a practice of overproduction in order to sell at a loss. It has not been clearly shown that the American trust is endeavoring to undermine the English market. Naturally when overproduction takes place the surplus will be sold at a comparative loss. Suppose the British home market was protected, would English steel magnates sell their surplus at a loss in order to oust American competition. Anyone who believes this possible is surely most sanguine for the odds in such a game are with the American.

In order to show how anti-dumping legislation is brought before the public eye, let us examine the circumstances of the proposed anti-dumping bill of 1919 introduced by Sir Auckland Geddes and which had such a kaleidoscopic career. It would appear from the course the bill took that its perpetrators were in reality endeavoring to hold protection up to ridicule.

In the first place, Lloyd George had promised to check dumping as a sort of soporific for the protectionist party. For electioneering purposes dumping was defined as the selling of goods in England below their cost of production abroad, a purpose for which in theory a case may be made, although in practice grave doubt is cast on the wisdom of such procedure. Under the bill,

however, no foreign goods were to be sold in the United Kingdom below their selling price in the country where they were made, a change which materially altered the object announced. The bill became no longer a proposal to exclude goods abnormally or unfairly cheap but proposed to exclude goods sold here by foreigners at what might be quite reasonable prices. It forbade, in effect, the importation of goods unless the price paid for them was the highest price charged in protectionist states, a rather dismal prospect for the consumer.

The height of the ridiculous was not reached until December of 1919 when Lloyd George by a subtle piece of political necromancy (to be expected considering the subject matter of the bill) defined dumping as "the selling of goods continuously and persistently at a price below that at which we could produce them." As previously mentioned, the same Lloyd George stated not long before the Anti-Dumping bill came up that a tariff could never remedy the condition the existence of which is implied in his latest definition of dumping. The writer will not emphasize this incongruity except to show how economic questions in which some portion of the community is directly concerned financially become political footballs which are soon kicked lop-sided.

The verdict of the world is said to be against the policy of the United Kingdom. All the other great nations of the world are protectionist. This argument is very illogical. Not only is it illogical but history proves that the majority of humanity are often in the wrong. This fact is only natural because all knowledge is empirical and we learn only by experiment. The world believed the earth flat until Copernicus proved the falsity of the belief. The Pope was infallible for many centuries and is yet with many ignorant hordes. To give an example from economic history the mercantilists believed that a country's wealth depended on the amount of gold it possessed.

The protectionists argue that the great increase in exports between 1846 and the seventies was due to the discovery of gold in Australia and California, an argument which ~~went~~<sup>will not</sup> hold water; secondly to the development of communications and thirdly universal wars as a result of which the goods of the United Kingdom were in great demand abroad. There is no argument here whatever unless the protectionist contends that in the case of the United Kingdom the exports would have been greater under protection and such an argument is more or less of the nature of childish speculation and is similar to metaphysical speculations about the existence or non-existence of deities.

A more plausible argument is the one which claims that the great development in English trade was due to the fact that England was the first to industrialize and therefore had no competition. This statement is of course only partially correct as France was as far advanced as England at that time. The protectionists hold that England's prosperity was rather in spite of free trade than a result, but they do not hold that the progress of Germany and United States might be in spite of the tariff instead of a result of the tariff. An examination of the facts leads to the belief that the latter proposition is correct, especially as regards the United States.

It is admitted that free trade was beneficial for the first thirty years but that after foreign competition became intense free trade was found wanting. The tariff reformer's argument as usual is based on a distortion of facts. The fact is that increase in British exports in the second period of free trade was almost double the increase during the first period. The figures allow for the fact that prices fell during the second period by at least thirty per cent.

It is alleged that German exports increased in much greater proportion than British during the later years of <sup>the</sup> last



century and the early part of the twentieth. Now, prices in England at the end of the century were much lower than in Germany so that the same rate of increase in the latter trade means a less real increase. British exports, if calculated at the prices current in 1900, that is, if the measure of quantity be taken, increased from two hundred and forty to four hundred and sixteen million sterling between 1896 and 1907. The declared value of German exports during the same period rose from one hundred and seventy-three to three hundred and thirty-seven millions sterling but if allowance is made for the fluctuation of prices the actual expansion is much less as compared with British.

An examination of export statistics for periods other than those such as the Boer War or periods of American financial depression shows that Germany gained no advantage. The increase in German exports between 1880 and 1910 was £204,000,000; in the case of the United States £272,000,00 and in the case of the United Kingdom, £268,000,000. German exports made no advance on British until about 1895 when German industry was receiving the full benefit of the Thomas-Gilchrist process of smelting. From 1900 to 1908 no further advance was made. Here it is very proper to ask why French and Italian trade have been so far behind British. The tariff reformer forgets that in comparing the United States and Germany with the United Kingdom they are comparing the growth of a child to a full grown man, and a child usually grows faster.

It is stated as a cause of relative decay that whereas the United Kingdom formerly held first place in the manufacture of steel and pig iron she now stands third, behind the United States and Germany. How about a comparison of population and ore deposits? The International Geological Congress in 1909 estimated that the Iron ore deposits of the United States were about twelve times as large as those of the United Kingdom while Germany's are

three times as great. As the cost of mining increases with the difficulty of getting the ore, it is apparent that in the production of pig iron and steel Great Britain takes the place warranted by the extent of her deposits.

Here again we come to another economic fallacy in the protectionist argument. One merchant may sell double the quantity of goods of another and yet only make half the profit. So in foreign trade there are various rates of profit. England has always been a specialist nation, whereas Germany has built up industries behind a tariff wall and "forced" foreign markets at the expense of the home consumer. How can it be argued that the German is better off than the Englishman as a result? As formerly stated, the ultimate criterion of a country's industrial progress is the increasing ability to make effort dear relatively to commodities and commodities cheap relatively to effort. Germany, by practicing her policy of dumping raw or half finished goods on Belgium enabled the latter to compete most successfully in the German market. As regards finished goods even German protectionists have admitted the difficulties put in the way of the export of finished manufactured products by their policy of dumping. In the United Kingdom a greater value of textile manufactures is being produced from a less bulk of raw fibre.

Cotton is the most remunerative industry of the United Kingdom, constituting one-quarter of her exports. It is an industry which works with nature, to use Adam Smith's phrase. The climate of Lancashire is humid and this fact is one of the greatest factors contributing to the unparalleled success of the English cotton industry. England concentrates on finer piece goods which other countries are unable to make and consequently has a virtual monopoly. Raw cotton is imported free of duty from the United States. The Lancashire interests have always

been free traders for reasons too obvious to require comment. The tariff reformer has claimed that England is losing her supremacy in cotton. However, a few facts will soon dispel this ridiculous assertion:

In the year 1909 only about twenty per cent of the Anglo-German textile trade consisted of articles in which the two nations competed. If the object of protection is to enable us to capture any of the specialties of foreign nations the answer is that German protection has obviously failed to capture any of our specialties. The Board of Trade figures for May of 1920 show that the export of cotton yarn and cloth was nearly four times as great as the value of the exports for the corresponding month of 1913. The countries which took more than in the pre-war year included France, Denmark, Belgium, Greece, Italy, United States, Venezuela and British West Africa. The United States imported eleven and one-half million yards as compared with two and one-quarter million yards in 1913. Considering the great depression of British trade by the war, the recovery of the cotton trade is a good omen for the future.

Next let us consider the woolen industry. What could the United Kingdom possibly gain from a tariff on foreign wool. England and Wales are especially adapted for sheep raising. English factories have nothing to gain by placing a tariff on Australian wool, for instance, for the only effect would be to divert the Australian wool to other countries which in turn would compete with English wool. As in the case of cotton, the English factories are being adapted to the making of the finer goods. This may be easily verified by going into a tailoring shop. France has made a practice of selling hosiery and fancy goods in England cheaper than they can be produced but as in the case of Germany no real competition enters in. In carpets England is excelled by none. As to bulk of trade, she exports more wool than all the principal industrial countries combined.

From 1900 to 1910 the excess value of British exports over imports in the woolen trade increased by no less than one hundred and twenty-six per cent, while French exports have been steadily on the decline. The lead over Germany was doubled during the same period and the great expansion was due not to colonial purchases but to foreign. It would therefore appear that the British woolen trade is quite healthy under free trade.

During the seventies there was a tide of protection in Europe and a resulting cry in England for retaliation. England did not remain the sole industrial centre and as a consequence found that foreign competition was very aggravating to say the least. The idea of retaliation in order to compel foreign protected countries to lower their tariffs has driven certain elements formerly in the free trade ranks into the fold of the tariff reformer. The fair trade movement sprang up which declared England helpless for lack of bargaining power.

The fact is that the McKinley tariffs of 1890 did embarrass British trade. In the early nineties there was a tariff war in Europe which was finally settled by the making of treaties. The United Kingdom had no agreement with the other nations nor any powers of negotiation except that of the most favoured nation clause. This was one of the main factors which led to the proposal for Imperial preference. Balfour said in 1903 "We require retaliatory duties or the threat of them in order to recover our freedom of negotiation." The question is, what has the United Kingdom to gain by retaliation.

The most favoured nation treatment has always been extended to the United Kingdom. An examination of European tariffs (prior to the war, of course) seems to show that the minimum and maximum tariff system of protected countries has not obtained for them anything other than the concession of allowing their goods to pass into a certain protected nation under its minimum tariff and

the United Kingdom has for the most part always enjoyed this. A most bewildering fact to pass to the tariff reformer is this: without tariff negotiations with Germany the United Kingdom obtained rates of duty which were less than the minimum of the former German tariff in regard to a greater proportion of her trade than any of the six treaty states under the German tariff agreement of 1906.

In order for retaliation to be effective the United Kingdom must possess, to use a slang phrase, the long end of the stick. For instance, the extent to which foreign countries are likely to retaliate by increased duties for example on cotton goods depends on whether these goods are of such a nature that England has a monopoly in them. Retaliation on food or raw materials would be disastrous. How would the Lancashire cotton interests view a tariff war with the United States? Eighty per cent of the United Kingdom exports before the war were manufactured goods which other countries are obliged to purchase to satisfy their own requirements.

Britain might threaten retaliation in steel and iron as the market is of great importance to the exporting countries. However, it is very doubtful if any concessions would be obtained. Instead, a nation like the United States which yields such vast economic power might very conceivably come out on top in a tariff war. Again, the history of tariffs shews that just as one disease gives rise to another, so a tariff on one article is soon followed by tariff on another. For example, during the sittings of the tariff commission throughout <sup>Western Canada</sup> ~~the west~~, the manufacturers have asked for protection on everything from gang plows to powder puffs. One would not be surprised if an argument was laid before the Commission for protection for a peanut farm in the Peace River country.

There is every likelihood that retaliation would lead

to greater stiffness abroad. By excluding foreign goods in order to combat dumping, foreign nations would attack the colonial markets. The United Kingdom holds in the vastness of its market a coercive weapon of exceptional strength and the idea of benefits which might arise from retaliation is a purely speculative hypothesis. The Englishman, needless to say, is too conservative to jump at some theory made plausible by politicians when present day mechanism is running in a reasonably smooth manner.

France in 1892 adopted the system of minimum and maximum tariffs and has conducted a long series of commercial negotiations since that date and what has she gained? Arnauné, the French economist, has stated, "Instead of reserving for ourselves the absolute control of our tariffs we are losing all hold over those of other nations and we are exposing ourselves to differential treatment ruinous to our foreign trade." It would appear, then, that one of the most highly protected nations in the world has complained against differential treatment. The writer suggests that the reason for this lies in the fact, not that other nations have tariff walls, but in the fact that a nation's real bargaining power depends on her economic power in the real meaning of the phrase.

The Board of Trade returns in 1911 showed that under the German tariff of 1906 a less proportion of British goods entered Germany under the most disadvantageous tariff conditions than in the case of any of the treaty nations except Switzerland and Italy and that a greater proportion of British goods entered under the least disadvantageous tariff conditions than in any other case except Russia and Roumania. English cotton received, for example, the most favoured conditions of entry of any of the cotton manufacturing countries. Under the Japanese treaty the same facts prevail. It is admitted, of course, that in certain markets like the Argentine for instance British trade has suffered and a threat

of retaliation might bring forth more advantageous proposals from that direction. However, on what could Britain retaliate? Certainly not on wheat and beef. The tariff reformer forgets that two can play at the retaliation game. Germany, it will be remembered, lost out in the tariff war with Canada. We are brought to only one conclusion and that is that the ultimate criterion of a nation's bargaining power depends on her economic strength, not on her tariff.

Professor Cunningham in his case against free trade uses the following argument in support of a tariff: "The substitution of imported manufactures for articles of native production, while it swells the returns of commerce, will yet mean that there is diminished employment and that the increase of commerce has been made at the expense of the prosperity of industrial life." On the surface this argument is very fine, but let us examine it. It implies that since the import of foreign manufactures causes diminished employment, therefore the United Kingdom should manufacture everything she needs. As previously pointed out, this argument is ridiculous. As regards the prosperity of industrial life, on what grounds may it be successfully contended that the benefits arising from the employment of labor in industries where "nature works with man" would be increased by taking labor from these industries to till, for example, an unproductive soil where climatic conditions are adverse? Professor Cunningham would probably reply that the protected industries would be in addition to the natural industries. It would appear, then, that the United Kingdom could support, say, five times the present population on this principle. What has our protectionist friend to say about the effect of the high cost of production in one industry effecting the cost of production in another? An increase in the cost of machinery and of food products will certainly not be an aid to English cotton in competing with other countries.

In the United Kingdom where free trade has been in operation for seventy years, there is probably a larger variety of employments

than in any other European country. The standard of living is also higher in England than in any other European country. IT is true that there is unemployment and poverty, but Germany has more, and even United States has vast slum areas. Unemployment is not due to any particular fiscal policy, <sup>of which</sup> ~~as~~ the tariff reformer must be fully aware. It is a problem of modern industry, something inherent in the capitalistic system of production. Seasonal occupations, over production, climatic conditions, all are factors in the cause of unemployment.

Here let us direct our attention to the popular argument that the tariff raises wages. The form in which the argument is usually presented is that of a simple comparison of money wages in the United States with money wages in foreign countries. Right here why not be cynical and ask, why Italy is not cited as an example? The American trusts argue that if duties are lowered employers must either lower wages or abandon the field. How can the United States export millions of low paid labor can always undersell high paid labor? How do the Americans produce steel at eleven dollars per ton and England at seventeen?

Other causes are to be looked for in the determination of high wages. Germany's competition grew as its wages increased, due to the increased effectiveness and the high productivity of labor. How could a high general rate of real wages be maintained unless there was a big general productiveness? The whole theory of international trade depends on this fact. To quote from Professor Taussig "International trade depends on differences in the productiveness of industry and largely on differences that are comparative rather than absolute." No one would argue that the tariff was the cause of the immense veins of high grade iron ore of the Mesabi range of Minnesota but in order to make the argument valid it would be necessary to maintain that such was the case and also that the use of elaborated machinery, large scale operations and



mass production was due to the tariff.

The United Kingdom being an Island nation, shipping has been her great mainstay and enabled her to carry her wares to all the shores of the ocean. Of recent years there has been a strong agitation for retaliation against the subtle workings of foreign lines. American, German and French shipping is subsidized and thereby has a special weapon for use against British shipping. Sir Robert Giffen has suggested that British ships be paid subsidies where engaged in competition with Germany. However, there is a danger that shipping might become indolent as did the French Mercantile Marine. Statistics shew that for the period 1890 to 1910 the share of French ships in the tonnage entered and cleared in French ports decreased by half. Again, the tonnage on the French register showed little increase, and the American actually showed a decrease until of recent years when the Republic became aware of the fact that a grave situation faced them.

Geoffrey Drage, when discussing the matter of subsidies makes the following comments: "If subsidies are granted the line should sell no ships without government consent in view of the fact that many British ships are foreign owned. Foreign subsidized ships should either be excluded from or fined when engaged in coasting trade, as, for example, the case of Germany in Australia prior to the war. Subsidies and restrictions in coastal trade might bring foreign countries to terms. Of course the cost would be great and the problem of tramp steamers would be a difficulty. Other grave difficulties such as the attitude of the colonies and the tendency toward monopoly enter into such a proposition."

The parliamentary report on shipping prior to the war contained the following points: In spite of subsidies, British shipping has held its own. Secondly, commercial skill is the main factor in developing a maritime trade. Next, Subsidies with their tendency to form monopolies might increase freight rates and it is

therefore better to let shipping depend on individual skill and initiative. In the case where the cost of trading is great, as, for instance, with East Africa, there should be subsidies. Lastly, the report recommends that the Board of Trade regulations should be enforced against foreign ships.

The report of the Dominions Royal Commission suggests a measure of Government control of shipping. The following quotation discloses facts which certainly argue for regulation. "It is not desirable that steamship companies should remain longer without some measure of Government supervision. Prior to the war, British Steamship Companies had made a practice of charging a lower freight rate to New Zealand from Hamburg than from London. On the same classes of goods the German manufacturers were facilitated in competition with British manufacturers in the New Zealand market. It is intolerable that British shipowners should be in a position to initiate or countenance practices so directly inimical to British trade." This report shows that conditions have existed which certainly require remedy if they arise at a future time. However, Government control and the use of subsidies must be carefully administered <sup>otherwise</sup> ~~else~~ British shipping will lose its vitality. This would mean little short of disaster for the United Kingdom as well as the Empire. Germany is, of course, defunct, at least for many years, but the Americans are showing a great revival of maritime spirit and in the future will be greater rivals than the Germans ever were. It therefore behooves the United Kingdom to wake up and exert the old time Anglo-Saxon spirit.

The tariff reformer contends that England is getting like Rome in the later stages of that Empire and living on tribute. The financier is taking the place of the entrepreneur and England is growing old industrially. It is contended that a tariff would keep capital at home and increase employment. Let us suppose that capital is invested at home, then either of two things must

happen; Firstly, the capital must be invested in the present industries with a resulting tendency toward diminishing return, (for capital would not be exported under present conditions if a greater return could be secured in the home market.) In the alternative, the surplus capital must be invested in new industries capable of being maintained because of the tariff. Prior to the war, England was investing £160,000,000 abroad annually. It would be therefore only a short period before huge investments in unremunerative industries would result. Project the idea still further into the future and the untenability of the argument is easily divulged. Here it may be asked how the tariff reformer explains the fact that Germany and Italy have sent out swarms of immigrants to the United States. If the tariff keeps capital at home to employ home labor, then Germans should not be so numerous in this country.

Now investment abroad creates additional employment in the United Kingdom in producing the goods which are exported when the capital is sent out. Raw materials are developed which are imported cheaply for our industries. This fact is one of the prime factors which has caused the industrial prosperity of the United Kingdom. What is lost in protected areas is gained in the newly developed. When the United Kingdom, after the convulsion of the Boer War, again began to invest abroad, there developed a tremendous trade.

The real difficulty in foreign investment lies along a different line. Just as the application of the principle of freedom of alienation in the evolution of the English law of Real Property, at one time reached a point where the end in view was being destroyed, so production for the purpose of creating surplus capital for re-investment must at some time become impossible. There is a gradual evolution from the new born to

the Banker nation. When all become Banker nations, what then? Tariff reform cannot alter this course which is distinctly inherent in the world's industrial system. The only remedy is a change of system or universal wars with the consequent destruction of capital.

Protection for English agriculture begins about 1791 at the time when England was about to start the modern factory system as a result of invention. All went smoothly until the manufacturing interests became predominant, when an agitation for abolition of the Corn Laws arose. The manufacturers held that the abolition of duties on corn would mitigate the difficulty of getting British products into foreign countries free of charge. The result in short was free trade in 1846.

Professor Cunningham holds the opinion (at least if we are to judge from his writings) that free trade in agriculture has had a most disastrous result. He says, "Free traders are making no efforts to insure against the recurrence of overwhelming disaster. They are content to leave us exposed to the perils of starvation which we suffered in the Napoleonic War." First of all, it may be mentioned that English agriculture was not in as flourishing a condition before '46 as after. In fact, agriculture was suffering a decline in spite of the fact that the farm products were dear. It was of course this dearness that was starving the industrial population and which gave rise to the Anti-Corn Law League. From 1846 until about 1875 agriculture flourished at least to a degree, the subsequent decline being due, of course, to the intensity of foreign competition.

The production of wheat in England is hampered for several reasons. First, there is the climate. About the time when the grain is ready to cut and thresh the rainy season sets in and the grain in many seasons rots on the ground. Again, the system of land tenure is utterly impossible from an agricultural

standpoint. In an economic sense, land is worth what it will produce but not so in England.

It is a fact that the soil of England is extremely fertile and suitable for market gardening. Denmark has been able to re-claim vast areas of swamp land and produce garden products together with dairy products for sale in the English market. If the tariff reformer wonders at this, let him examine the system of land tenure and the methods of agricultural co-operation. Herein lies the only possible future for English agriculture. This view was submitted by the Royal Commission in 1897.

It may be mentioned here that the United Kingdom did not starve during the Great War, but Germany did, in spite of her submarines. Under the Government supervision, English agricultural producers were guaranteed minimum prices for a period of five years. Ordinarily England produced enough food to last her six weeks, but by letting the plow run over my Lord's hunting preserve the Government succeeded in producing enough food to last for about four months. Has the guaranteed high price been any stimulus? Apparently not, from late reports on the question.

Under the most sanguine conditions, the United Kingdom could not possibly be self sustaining. A tariff on corn, it is argued, would be a good source of revenue and the cost of bread would not be any higher. This argument is based on the theory that foreign producers are forced to come to the British market and the duty will therefore fall on them. This statement <sup>will not</sup> ~~went~~ stand examination, for ordinarily there is a world demand for wheat and the foreign producer would not be forced to pay the English duty. The price of bread in France has nearly always been higher than in the United Kingdom. In years of scarcity, labor would cry out against a tariff. In fact, we may be sure that the United

Kingdom will never tax food products as long as labor is able to raise its voice. Robert Peel evidently knew where the duty was paid when he said after that memorable session at which the Corn Laws were scrapped, "It may be that I shall leave a name sometimes remembered with expressions of good will in the abodes of those whose lot it is to labour and to earn their daily bread by the sweat of their brow."

Referring again to the abortive anti-dumping bill of 1919, the electioneering pledges of the Government required protection for certain key industries "on which the life of the nation may depend." The vital industries in the bill were made to cover a collection of articles which have as little to do with the safety of the nation as they have to do with necessities of war. Gas mantles, gauges, scientific instruments and by way of illustrating with a touch of cynicism the ludicrous insincerity of the argument about national defence, hops were singled out for a special measure of protection. Thus we see the way tariff legislation is apt to run.

Let us now examine the effects of the war on British trade and see wherein her former economic position has changed. Has she stood a crucial test? Most decidedly, yes. Her power of recuperation has been little short of marvellous. She financed for the most part her allies in the War. French exchange would have been on a par with German except for the fact that it was bolstered up by Britain. All writers and critics on international exchange, when referring to the chaos of Europe, always except the United Kingdom. In 1911 we heard much about land taxes and taxes on profits and income ruining England. Naturally the land owning class did not like the Lloyd George Budget and as a consequence had their wings clipped by the 1911 Parliament Bill.

Here is rather an astounding fact. Out of twelve European countries represented at the recent International financial conference at Brussels all except the United Kingdom, according to

official announcement, anticipated national deficits for the year 1920. In the fiscal year ending March 31st, 1920, taxes and other revenue produced about 65 per cent of the aggregate budget. Under the Policy which the Chancellor of the Exchequer has adopted for the present fiscal year, the expenditure will be £1,184,000,000 and receipts £1,481,000,000. It would scarcely appear from these figures that free trade had not created enormous wealth.

As previously stated, British trade has increased by leaps and bounds since the war ended. Exports for May of 1920 were nearly double those of May of 1919, having increased about £55,000,000 while imports only increased £30,000,000. Thus we notice that trade is tending in the right direction. Frank A. Vanderlip, writing recently in "World Wide" states: "It is to be remembered that with the large volume of British capital abroad and her shipping earnings an excess of her merchandise imports is still the normal and logical expectation. All in all, it appears certain Great Britain is fully able to pay her way and that her position will steadily improve."

Commercial rivals no longer threaten the United Kingdom in Europe. The United States is her one and only rival for many years to come. The German merchant marine is no more, France seems decadent and Russia and Eastern Europe is in a condition of economic and political chaos. What could England possibly gain at the present moment by a tariff? No, the little Island Kingdom is once more awake. She requires a flood of cheap goods and raw material to bring down prices. Her merchants desire freedom and certainty of supplies. The shipping industry more than ever requires freedom in order to cope with the onrushing American Marine which is using all that wealth and science can give. British statesmen are aware of these facts. Lloyd George in a recent speech referring to the American shipping industry remarked

"Of the new fleet (it will soon be twenty million tons) nearly ninety per cent are oil burning. Better machinery, improved port facilities, well housed and well paid crews operating in relays and other means of saving "the turn round" - these are the new hustling factors of America's commercial day."

There is another salient point which must be taken into consideration when dealing with a proposed tariff for the British Isles. If the ideal of the league of nations be a true one, can the United Kingdom which has so long given to other nations a free market and free entry to its ports, withdraw those advantages from her allies in Europe just at the moment when they need them most? Unless a tariff barrier is to be something which in reality leads to unjust discrimination, it can never be set up. Shall Britain allow Canadian imports in free of charge and not those from France. English statesmen have been expounding on the necessity of freer and nobler economic and social ideals without which the league of nations must prove a dismal failure. Now, nobody but one utterly lacking in historical knowledge would maintain that a discriminating and inherently retaliatory duty imposed by the greatest nation of Europe would have any other effect than to vitiate what little good feeling does exist between the nations. In spite of the recent world catastrophe directly resulting from the desire for economic domination, there are still many Jingoists even in democratic England who would seek once more to establish those conditions which would inevitably lead to another embroglio.

- PART TWO -

During the last quarter of the Nineteenth Century the British dominions were well on their way toward autonomy and nationhood. It was also during this period that trade competition was felt so keenly in the United Kingdom. Under



these conditions the fertile brain of Joseph Chamberlain, the greatest of all English Imperialists, readily grasped the potentialities of Empire. It will be recalled that Chamberlain separated himself from Mr. Gladstone over Irish Home Rule and formed the Unionist Coalition with the Conservatives. From that time on he became the great champion of Imperialism. We now find him making the following statement: "Free trade is the negation of organization, of settled and consistent policy. It is the triumph of chance, the disordered and selfish competition of immediate individual interests, without regard to the permanent welfare of the whole." In the last clause is found the motive which led Chamberlain to devote his energies toward the accomplishment of the Imperial ideal.

The guiding star was at first a closer union within the Empire. Then the idea of organizing the Empire into one vast inter-trading entity which might close its markets to foreigners was conceived. The watchwords were "trade expansion within the empire." The idea of forming some kind of federation readily took a strong hold on the popular imagination and the problem has long been within the range of practical politics. Fifty years ago the Little Englander idea was prevalent, but to-day and especially since the war, a much grander conception of the ultimate destiny of the British Empire seems inherent in the public mind. The question is, on what basis can the desired consolidation of the Empire be secured, and is it possible at all upon purely commercial and fiscal lines.

In order to ascertain what the fundamental problems are which arise out of the proposal for a closer economic union within the Empire, it is necessary to discuss

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the Cabinet in 1896 as Colonial Minister. He thought that an Empire on which the sun never sets was capable of yielding almost every species of product and of becoming self sustaining and self contained. As a consequence, he proposed free trade within the Empire and tariff without. This proposal was not favourably received by the colonies for obvious reasons, so he proposed what is now popularly known as Imperial Preference, and was largely influential in determining the course taken by Sir Wilfred Laurier in 1897 when Canada extended a certain measure of preference to the Mother Country.

Although the Dominions appeared willing to grant a preference, it could scarcely be expected that they would grant any very large measure of preference without reciprocal treatment from the United Kingdom. The Conservative party under the leadership of Chamberlain and Balfour proposed to meet the Dominions half way and effect a compromise by placing differential duties upon the goods of other countries in order to give preferential treatment to the colonies. Mr. Balfour stated, "Only by tariff reform can you hope to retain colonial preference" and Chamberlain, in his usual forcible way, said, "The bond of blood must be strengthened by the bond of interest."

A tax was proposed on corn, not to exceed two shillings per quarter, five per cent on meat and dairy produce and ten per cent on manufactured goods. Chamberlain was supported by the landed interests and free traders by the industrial classes. The trade unions were not so ignorant as to believe that a tax on food stuffs would not raise the cost of living and naturally they were bitter in their denunciation of the conservative platform. In the general election of 1906 the conservatives were snowed under. Free trade won the day. The attempt to meet the nationalism of the dominions half way proved a failure.

Ever since 1906 the fiscal problems of the Empire has been tactfully kept in the background. England's people as a

whole are not so sure that Joseph Chamberlain's criterion of what an Empire should be is correct. Economics seem to have what some might term a deleterious effect in empire building. So far the unfolding of the preferential conception has proven beyond cavil that the United Kingdom is not willing to sacrifice and imperil her immense foreign trade for the sake of conferring a very doubtful benefit on the Dominions. The next salient point to be grasped is the fact that the Dominions are not inclined to extend a greater than nominal preference to the United Kingdom without reciprocal treatment. These two facts constitute what may very properly be called the fundamental problem of the preferential system. To some ardent patriots this may seem extremely doubtful. However, the facts are as stated. Why are they such? In order to answer this question, let us ask another, the solution of which will be the answer to the former. What has the United Kingdom and each of the dominions to gain from a zollverein?

Many of the facts which led to the final consummation of the German Empire are cited as facts which might eventually lead to the desired union among the British nations if applied to the latter. It is a well known fact that the benefits which arose from the German Zollverein were no insignificant factors in bringing about the union of the component states into one great whole. The analogy from the history of Germany must, however, be taken with reserve for the economic environment to which any successful proposal for union must conform is essentially different in the case of the British Empire. First there is the question of contiguity and secondly of diversity of economic interests. These problems, along with many others, were not present in the case of Germany.

An examination of statistics shows that the exports of the United Kingdom to the dominions have remained since 1860 at about one-half the exports to foreign countries, and the Dominions have

supplied less than one quarter of the imports to the United Kingdom. The statistics of the English Board of Trade for the year 1913 shows that the exports of the United Kingdom to the self governing dominions were 16 per cent of the total exports, while the exports to the other parts constituted 14.7 per cent of the exports. Thus the total exports to the various parts of the empire were only 30.7 per cent of the total exports. For the same year the imports of the United Kingdom from the dominions were 17 per cent of the total and 11.6 per cent from other parts, making a total of 28.6 per cent.

A further examination of trade figures by the recent Dominions Royal Commission led that body to report as follows: "The tables show that in 1913, 38 per cent of the imports into the self governing dominions were received from the United Kingdom while of the exports 59 per cent were sent to the United Kingdom. In 1901 the percentage of imports from the United Kingdom was 46 per cent and exports 53 per cent. Thus the share of the United Kingdom in the import trade of the Dominions has been decreasing and its share in export trade increasing." In 1913 exports from the dominions to the mother country exceeded imports therefrom by £52,000,000 while imports from foreign countries exceeded exports thereto by £61,000,000.

When we ask how it is that the Dominions have not a great share in the export trade of the United Kingdom, the obvious answer is that the Dominions find it more profitable to buy elsewhere. The colonies have always been protective in spirit and practice, and naturally they do not want English manufactures coming in free. The Dominions have many raw materials on the free list but the United Kingdom cannot benefit because she is essentially an exporter of manufactures. The great difficulty lies in the essentially competitive nature of

the exports of the United Kingdom. This fact is exemplified for instance by the attitude of the Canadian Manufacturers' Association toward Imperial preference. The Agrarian party has always been in favour of an extension of preference, but the manufacturers have taken the anomalous position of bifurcating their policy; on the one hand stamping the seal of their disapprobation upon "this deleterious tendency" and on the other filling the capacious maw of the great gullible public with the vital necessity of supplementing the silken thread of sentiment which now binds the empire, with an economic bond.

Let us suppose that the United Kingdom is willing to grant a preference to the Dominions. On what shall the preference be granted? The main products of the Dominions which the United Kingdom requires are food products, especially wheat. A tax on wheat would not be onerous on the Dominions but on the Mother Country. The English artisan would decrease his real wages for the sake of putting extra dollars into the pocket of the Canadian farmer. The markets having been closed to foreign competitors, the latter would retaliate by attacking neutral markets which are important to the United Kingdom. It must be remembered that vast quantities of wheat are imported into the United Kingdom yearly; and the broader the market from which the necessary supplies may be drawn, the less chance there is of a food shortage. Australia and India are frequently subject to crop failures and Canada's crop is sometimes small. It is, therefore, quite within the realm of possibility that the United Kingdom would be greatly embarrassed in case of a crop failure in the Dominions for she would have to look for supplies from sources where the vendors were inimical. There can be no doubt but that a preference on Canadian corn would antagonize the United States.

The fact cannot be too strongly emphasized that the United Kingdom has always been a free trade country. She has made many commercial treaties, many of which are still existent. The adoption of a tariff wall would completely disrupt the accustomed paths of trade and subject the United Kingdom to severe forms of

retaliation. Would the increase of trade between the Mother Country and the dominions resulting from a tariff adopted by the former, be so mutually beneficial as to offset the resulting loss? At this point the words of Armitage Smith are quite apt, "If the United Kingdom is to take from the colonies exclusively all the commodities they can produce by placing prohibitive duties on like articles from foreign countries, she must continue to pay the colonies for them by means of manufactures. Yet it is to this method of payment that the colonies are opposed because they wish to protect their own manufacturers.

Thus it would appear that the burden of a preferential system within the Empire would fall heavily upon the United Kingdom, at least so long as the Dominions remain protective. The logical inference is that the ideal can never be attained without a complete reversal of policy by the Dominions and, to some extent, by the Mother Country. To use the words of the late Sir Wilfrid Laurier "There are parties who hope to maintain the British Empire upon lines of restricted trade. If the British Empire is to be maintained it can only be upon the most absolute freedom political and commercial."

Next let us discuss Canada's relations with the Mother Country. The spirit of nationalism in Canada is a direct result for the most part of her proximity to the United States. During the last half of the Nineteenth century the Canadians had reason to fear the actions of her powerful neighbor. The United States unofficially approached England offering to give up the Alabama claims if England would hand over Canada. Another cause for the rise of Canada's potent nationalism was the attitude of Quebec, an attitude of Canada for the Canadians. On the economic side it is a well known fact that for over thirty years Canada tried to establish reciprocal trade relations with the Americans but the latter repudiated the various proposals. The result was that we decided to look to ourselves. Sir Wilfrid said, "We will

lean on ourselves and build up structures of our own."

The origin of protection in Canada dates back to 1846. Buchanan, a manufacturer and gifted orator of that day, uttered vehement protests against the adoption by England of free trade. The long period of depression and resulting commercial insolvency which followed '46 aroused much bitterness toward England. Colonial preference was gone and Canadian industry was subjected to competition which it could not meet. It was only natural, therefore, that when the British parliament gave the colonies control over their tariffs in 1846 that they should use the newly acquired power. Canada did use it the following year by reducing the duties on goods from the United States and increasing them on goods from England. The motives behind this action were to a large extent retaliatory and instigated by pure anger.

The Cayley tariff of 1858 raised the general level of protection from fifteen per cent to twenty per cent but the manufacturers were not yet satisfied so Alexander Galt put through the tariff Act of 1859 which again raised the tariff. For almost two decades the tariff remained stationary. The Americans were resentful of the work of Cayley and Galt and consented to a reciprocity treaty between 1854 and 1866. Another factor which prompted the placing of the soft pedal on protection at this time was the attitude of the maritime provinces, which was against protection. With the advent of Sir John A. MacDonal'd shortly after Confederation, protection was again placed in the limelight. This period ending with 1878 furnishes one of the best examples in history of political necromancy orientating around the fiscal policy. The maritime provinces were wheedled into the adoption of the protective system by representations to the effect that the adoption of a protective tariff by Canada would force the United



States to adopt reciprocity. The net result was that in 1879 the so-called first national policy tariff was adopted. The rates were doubled.

Since 1879 there has been no great change in the tariff. It is true that there was a considerable revision under the Laurier-Fielding government in 1897. However, the Liberals admitted that they had not carried out their election pledges on the ground that millions had been invested in Canadian industry and free trade would bring financial ruin. This fact goes a long way to prove the almost inevitable result of protective tariffs, viz: the creation of vested interests which may or may not be economically justified. Under such a system of high protection as has pertained in Canada, it is only natural that millions should be invested in industries which lack comparative advantage and the most ardent free trader cannot deny that a sweeping reduction or entire abolition of the tariff would bring in its wake a large measure of financial disaster. The main point to be grasped as far as we are here concerned is this: Canada has developed large vested interests which are in many instances the creatures of protection and any proposal to adopt free trade even with the United Kingdom has<sup>met</sup> and will meet with bitter opposition.

One of the most notable events connected with the name of Sir Wilfrid Laurier was the adoption in 1897 of the preferential tariff. Canada was the first of the Dominions to take this momentous step, a step which proved once and for all the fallacy of the Manchester school, and revealed to the world the essential solidarity of the Empire, at least in sentiment. In 1897 the preference was 12½ per cent but since 1907 the average has remained at about 33 1/3 per cent. The motive for the adoption of preference on British goods was for the most part patriotic, coupled with a desire on the part of the liberals to take a slam at protection. The attitude of the United States also helped to drive the Canadians toward the Mother Country for trade benefits.

With a preference of  $33 \frac{1}{3}$  per cent one would naturally expect that Canadian import trade would have diverted from the United States to the United Kingdom. The change has not taken place, however: the principal reason being that Canada has a large free list of raw materials which England cannot supply. The average ad valorem rate on goods from the United Kingdom is about five per cent more than the rate on goods from the United States, after allowing for preference. In 1884 Canada imported forty per cent of her goods from the United Kingdom and sixty per cent from the rest of the world, while in 1905 she only imported 23 per cent from the United Kingdom and 77 per cent from the rest of the world. In the case of the United States our imports were 46 per cent in 1884 and 61 per cent in 1905. In the case of exports the figures for the two years referred to show an opposite tendency. The percentage of exports to the United Kingdom is increasing while in the case of the United States the percentage is decreasing. In 1913 only one quarter of Canada's imports came from the United Kingdom. These facts go far to prove that the present measure of Imperial preference is merely nominal. Our import trade <sup>from Britain</sup> ~~is~~ decreasing instead of is increasing, as it logically should, under preference.

We are thus led to the conclusion that as long as Canada remains protective in sentiment and practice Imperial preference will have no existence in reality. Some think that the fault lies with the Mother country, but a careful study of the facts will surely indicate that Canada could extend the preference to the United Kingdom with much less sacrifice than the latter could <sup>by</sup> adopt <sup>ing</sup> a system of differential tariffs.

The development of the tariff system in Australia is in essentials similar to that of Canada. With the development of the spirit of nationality came high protection. It is true that Australia had no powerful neighbor, fear of which would tend to accentuate the development of the commonwealth, but she ~~did~~ have a fear of foreign powers. This fact, coupled with the belief that inter-state tariff wars were not profitable finally

led to union in 1900. It is important to note here that

Australia had no particular love for the mother country during her embryonic development, in fact she believed that England sacrificed her colonies for foreign policy.

Ever since the formation of the commonwealth the duties have been upward and at present are even higher than in Canada. The average ad valorem rate was 29 per cent in 1915 as compared with 27 per cent in Canada. Australian trade with the United Kingdom has shewn a similar tendency to that of Canada. In 1886 88 per cent of the imports in selected classes of metal manufactures came from the United Kingdom, while in 1913 only 68 per cent. Deacon thought that the decline was due to the policy of dumping, so he placed a heavy duty on agricultural implements. However, it may be mentioned by way of analogy that in the case of Canada the percentage of imports from the United States increased after the process of dumping was prohibited. The real cause is doubtless due to the desire on the part of Australian traders to buy in the markets which appear to them to be the most advantageous, without regard to Empire trade.

The decline in exports to Britain from Australia is even greater than the decline in imports, due in some measure to the fact that goods are sent directly to foreign countries and not through the medium of London. For the period 1887-91 the average percentage of exports which went to England was 74.74 but for the period 1907-11 the percentage was only 46.96. For the same periods the total exports to foreign nations were 16 and 37 per cent respectively, while for the year 1913 the total foreign export reached 43.67 per cent.

As in the case of Canada, the trade tendencies as set out above have taken place in spite of a preferential tariff. Before 1908 Australia granted a preference on only 8 per cent of British imports, but since 1908 the percentage has

been about 65. The tariff on British goods has not been decreased but the preferential treatment consists in a surtax on certain foreign commodities. Under the 1908 tariff the free list of foods from the United Kingdom was increased but the rate on dutiable goods therefrom was increased in greater proportion than the rate on foreign goods. The average rate on all British goods was increased from 15 to 17 per cent. The opinion of Geoffrey Drage seems perfectly correct when he states that unless the preference is extended to a far wider field the United Kingdom will not be able to oust foreigners.

Wool, wheat, mutton and hides are the chief exports of Australia to the United Kingdom. It must not be thought, however, that agricultural and pastoral pursuits alone occupy the Australians. Since 1911 manufactured products have exceeded in value the pastoral. Here again, as in the case of Canada, we arrive at the fundamental cause of the failure of preference. Australian manufactures are bound to be competitive with those of the United Kingdom or <sup>any</sup> ~~an~~ other country. The tariff is evidently firmly located at least for the immediate future, as exemplified by the recent tariff revision. Australia has always been willing to lower the duties on cotton and cutlery but England does not require this. Differential treatment of Australian exports by the United Kingdom would entail a like sacrifice to that in the case of Canada. The fact seems to be that Australia has little to gain by the extension of preference to the United Kingdom in return for reciprocal treatment. Her products enter the United Kingdom free. What more can she desire since foreign countries do not enter into very keen competition in respect of Australian exports to the Mother Country.

The trade relationship between New Zealand and the United Kingdom is illustrative of some very important features of the preferential system. The country is essentially a grazing

one and manufactures are of little importance. It is rather a peculiar fact that New Zealand, inspite of the pastoral nature of her occupations, should at the same time be a country of high duties. In 1913 the tariff on dutiable imports was 33 per cent. However, there is a large free list. As regards preference New Zealand has not only extended the same to the United Kingdom but also to the Dominions which reciprocate. The measure of preference is much larger than in the case of Canada or Australia. In 1912 the average rate charged on British goods was 13 per cent, whereas if the same goods had come from other countries the duty would have been 25 per cent.

Preference was first granted in 1903 and during the first four years British imports increased 40 per cent while imports from foreign nations remained stationary. During the 10 years prior to 1903 the imports from foreign countries grew 100 per cent, while in the case of the Mother Country there was no gain. From these facts it would appear that a preference, if large enough, has the desired effect. Let it be remembered, however, that New Zealand has few manufactures to support and naturally the extension of preference to the United Kingdom has been no sacrifice real or imagined. In other words, New Zealand's case is essentially different from that of Canada or Australia, for the imports from the United Kingdom are not competitive with the products of New Zealand herself.

The Dominion, or more properly called the Union, of South Africa was late in developing. The history of its development is the story of the inter-action of intense forces, economic and social. Irrespective of the diversity of opinion as to the merits of Britain's cause in the Boer War, it is to the redounding credit of British institutions that Louis Botha and General Smuts, not long since Britian's bitterest enemies, have been the ardent upholders of those institutions and have on many occasions steered the ship of state from dangerous waters.

In 1903 a customs union was inaugurated and seven years later the federation was formed. Preference was first granted to the United Kingdom in 1903. In the year 1912 the average of rates charged on British goods was 10.65 per cent while the average to foreigners was 13.68. In the case of Australia the figures are 13.68 and 18.72 respectively. The agricultural and pastoral products of South Africa find a ready market in England and as the Union is not a manufacturing country a large part of her import trade is with the United Kingdom. Of the total foreign trade for the year 1913, England enjoyed 76 per cent, while New Zealand came next with 69 per cent. Gold is by far the largest of South Africa's exports and as gold is a non-competitive article it is not at all surprising that with a fair measure of preference the United Kingdom should enjoy a large share of South African trade. It must be noted, however, that South Africa grants no preference on goods from the United Kingdom which are also produced in South Africa. Here we have another example of colonial protectionist spirit. More will be said at a later stage on the relation of South Africa to the Empire.

India's economic position in the Empire is worthy of special consideration for divers reasons. Firstly, she comprises about three-quarters of the people of the Empire. Secondly, her foreign trade is equal to, if not greater, than that of Canada and South Africa taken together. Thirdly, her potential wealth and power are almost beyond our comprehension. The India of the twentieth century is quickly developing into a self-conscious, self-reliant nation and must necessarily give rise to the greatest problem of the Empire, assuming always that Chamberlain's conception of Empire is the summum bonum, a question on which more will be said later.

India is rich in mineral wealth and many budding manufactures have appeared during the last few decades. In general

the tariff since 1857 has varied according to the financial requirements. In 1859 it was raised from 5 per cent to 10. In 1864 it was raised  $7\frac{1}{2}$  per cent and in 1875 another 5 per cent. About this time the now almost historic controversy arose over the tariff and has continued ever since. In order to fully comprehend the nature of the problems at issue, it must be noted that India has developed a young textile industry which has clamoured for protection against the Lancashire interests which have always found their greatest market in India. In the month of May, 1920, the Board of Trade figures show that out of the total export of manufactured cotton piece goods, one-third went to India.

The Lancashire interests brought such pressure to bear on the Imperial parliament that free trade legislation for India was brought into force in 1875 and lasted until 1894. In the latter year the exchange rate was heavily against India and the Indian government succeeded in re-imposing a 5 per cent duty on imports. However, Lancashire was not to be denied and at the same time a countervailing duty was placed on cotton fabric manufactured in India equal to the import duty. The denunciation of this ignominious legislation by Sir Roper Lethbridge as being unfair and contrary to British justice is surely well within the bounds of rational criticism. The Indians cordially hate the excise duty and in 1903 at the request of the British Cabinet the Indian Government expressed the opinion that India was against any form of Imperial preference on the following grounds in chief. Firstly, India would gain little and lose much. Secondly, many foreign markets would be closed and few would be gained in return. Lastly, and most important of all, India is protectionist at heart. Diversification of industry is desired and as England is her greatest competitor, India must be allowed to protect herself.

A glance at trade figures will also give the reader food for thought on the Indian problem. Imports from the United Kingdom

in 1902 were 64 per cent of the total imports but declined to 62 per cent in 1912. For the same years the total imports from the whole of the Empire were 73 per cent and 68 per cent respectively. Thus it readily appears that the import trade with foreign countries is on the increase. In 1905 the exports to the United Kingdom were 25 per cent of the total and 26 per cent in 1912, which, of course, is a very slight increase. The total export trade to other dominions, however, has shown a marked decrease in percentage. The total empire exports are 47 per cent for 1902 and only 41 per cent for 1912.

The foregoing facts seem to prove beyond cavil that India has no stomach for preference. If the same amount of power of self determination had been granted to the Indian Government as to the Government of Canada or Australia, there would have been no doubt a very high tariff wall around India. Even the zealous free trader (unless his idea of political democracy is entirely perverted) must admit that India has the right to determine her own trade policy. Yet no less a man than Bonar Law has proposed that India should be allowed to protect against foreign goods but not against goods from the United Kingdom. He has advocated the abolition of the countervailing duty but also the duty on British imports. In the language of the street, India should be made the goat.

With the awakening of national feeling in India, and the desire for self government, a knowledge of the past will not increase the average Indian's admiration for England. Lately a very serious situation has arisen. Under the Montagu-Chelmsford provisions for participation by Indians in the local government of India, being Chapter 101 of the 1919 Statutes, the results have been disappointing. The electors at a recent election displayed a very great lack of interest due, at least in some measure, to the influence of Gandhi. The natives who do believe in British institutions are afraid of losing the



restrictive power which the British administration wield over the population, leaving them at the mercy of the Gandhist factions. The Gandhists in turn are out and out syndicalists, although passive. <sup>at present</sup> Anything British is inherently odious to them. Besides these political troubles there is always smoldering the old religious hatreds ready to leap into flame with the slightest laxity of government. These points are not mentioned with a view <sup>of</sup> throwing light on any particular phase of the fiscal problem, but merely to show that India is no place for Imperial Jingoists to experiment.

As regards the external trade of the Dominions with each other, the Dominions Royal Commission estimate from statistics that the trade is only 1 per cent of the total. There can only be one reason why Canada should make tariff treaties with France as she has recently done and yet not extend even a preference to Australia and it is that Australia does not produce the articles which Canada desires. At least, if Australia does produce them, the utility of the articles after paying total costs is not so great as the utility of the articles received from France. Foreign traders usually know where the best markets are.

The experience of the working of the preferential system proves first and foremost that the desired end has not been reached by means of the system. Under the present economic conditions pertaining to the various parts of the Empire, especially the protectionist spirit of the Dominions, it is little wonder that inter-empire trade has not increased. The trade of the dominions with foreign countries seems to be increasing in greater proportion than their trade with the Mother Country, especially as regards imports. Canada in the fiscal year ending March 31st, A.D. 1920 imported from the United Kingdom \$106,000,000.00 in goods and exported thereto \$507,000,000.00. But from the United States,

in spite of the unfavourable exchange, Canada imported goods to the value of \$164,000,000.00. The total imports from all countries ~~was~~ only \$904,000,000.00. No great exertion of brain power is required to comprehend the reason. Can one imagine a Canadian house architect drawing plans for a dwelling in Central Africa! Why? The answer is of course that he would not be familiar with the environment and consequently the requirements. It is little wonder then that English manufactures cannot compete with the International Harvester Company *of the United States*.

The general opinion is that if England would adopt a preferential tariff (which would of necessity be differential) then the Empire trade would increase by leaps and bounds. Twenty years ago this might have been true. Sir Wilfrid Laurier was willing to extend the Canadian preference in return for a preference from the Mother Country, but the United Kingdom refused and the Canadian attitude has not been so compromising since. By the Finance Act of 1919, Chapter 32, a preference has been extended to all parts of the Empire on certain articles. Tea, cocoa, coffee, chicory, currants, dried fruits, sugar, tobacco and kindred products will in the future be let in at five-sixths of the full rate. Certain wines are let in under a larger preference. It will be readily noted that the articles selected for preferential treatment are articles which have been for decades subject to a tariff for revenue. The benefit to the Dominions is next to nothing. India and South Africa may benefit slightly. Even if the preference were substantially ~~xxxxx~~ extended to other articles, the difficulties loom large. For example, when England imposed a duty on timber from Northern Europe, the timber from these countries was shipped to England by way of Canada in order to avoid the duty. A duty on foreign coffee resulted in this product being shipped to England via Cape Colony.

The Dominions Royal Commission have fully recognized

and fathomed the inter-Empire trade difficulties. After showing from statistics that the Dominions purchase almost as large a quantity of manufactured articles from foreign countries as from the United Kingdom and that their sales of raw materials to foreign countries, including re-exports from the United Kingdom are larger than to the mother country, their report reads "An Imperial policy in the broadest sense must include much that is not fiscal. There is no short cut for the formulation of such a policy; what is needed in our view is detailed examination of existing conditions and practical and definite proposals for the removal of difficulties and for securing co-operation." Further on in the report the commission propose the creation of an Imperial development board. A very noteworthy feature about the commission's report is the fact that the soft pedal is placed on the question of preference. A really effective preference would be a great sacrifice on the part of the United Kingdom. The system would necessarily be intricate and foreign nations would be antagonized. A short passage from Professor Nicholson's "Project of Empire" sums up the whole method of the present preferential system. "The system of preferences by the method of supertaxes must be regarded as a substitute for free trade within the Empire instead of being a method by which it may be promoted. Judging by experience, preferential protection of this kind, like other forms of protection, would tend to be permanent owing to the creation of vested interests, and possibly to increase owing to the political power usually exercised by protected interests."

The attitude of the Dominions has always been for a policy of absolute commercial and for the most part political autonomy. The conception of an Imperial Zollverein seems utterly impossible of realization, at least for the immediate future. Adam Smith has pointed out that free trade is the end to be sought within the Empire <sup>otherwise</sup> else there will in reality be no

Empire but merely the project of an empire. This conclusion is based, of course, on the premise that without free trade an empire is impossible. In one sense this may be correct but in another the premise must be greatly modified. The fact is that the British empire does exist and is at the present moment a living reality. We may go so far as to say that at no time in its history has its existence been so apparent as during the last few years, and we have every reason to believe that its existence is assured for many years to come.

The psychological factors present in the component parts of the British empire are not correctly understood. Although history repeats itself, the causes for the repetition are never exactly the same in any century. To apply the history of Rome and Greece to England is futile reasoning. It is true that economics determine history but it is also true that ideals determine economics: the two ideas are correlative. Our Empire has its foundation for the most part in the pages of history. Anglo-Saxon institutions are regarded in Canada as the ne plus ultra. Our law comes from England; our parliamentary constitution comes from England; our language, ideals and our outlook on life are the same as the Motherland's. We have no patience with the man of pedantry who argues that no factor but the economic is important in binding the Empire together. In any case facts are, and what we hope to be must <sup>cause us to</sup> not disregard these facts. In the light of what has previously been stated, economic measures for enhancing the solidarity of the Empire must be cautiously applied.

Of late years the conception of a Brittanic union has given rise to two schools of Imperialism. The one school advocates the federal system with its consequent centralization. The other leans toward individual autonomy coupled with the idea of a Brittanic alliance. Some measure of logic has been lent to the former by reason of the growing resentment of the Dominions over the fact that in the past they have had little to say in foreign

affairs. Mr. Andrew Fisher of Australia once said "I have been Prime Minister, but all the time I had no say whatever about Imperial policy. Now that can't go on; there must be some change." Sir Robert Borden has been even more emphatic. Speaking in Parliament in 1918 he used the following words: "It has been declared in the past and even in recent years that the responsibility of foreign policy would not be shared by Great Britain with the Dominions. In my humble opinion such a position would have but one, and that a most disastrous, result." It would appear, therefore, that the Dominions feel that their destinies are not to be determined by Westminster. The error in the federalist idea lies in their belief that the only feasible way of solving the problem lies in federation. The federalist admits that in considering the question of federal unity there must of course be no interference with the existing rights of local parliaments to manage local affairs in their own way. Now, the Dominions have no inclination, as we shall presently see, to be anything less than externally autonomous as well as internally autonomous.

In South Africa a very serious situation has arisen. The nationalist or separatist party has become so strong that secession is not only possible but probable. General Smuts at a recent election speech, while making a rousing appeal for South Africa within the empire, traced Imperial development. He pointed out that in the pre-war empire the Dominions had no power or authority beyond their territorial boundaries and no voice in the questions of peace and war. In other words, they had no international status. He then pointed out the changes since the war. "If war is to affect them (Dominions) they will have to declare it. If peace is made in respect to them, they have to sign it. The principle of equality of national status between the United Kingdom and the Dominions will have to be worked out to its fullest conclusions." Referring to the federalist idea, he says: "The South African party favours the development of the system. We are opposed to closer union either

in the shape of a Federation with legislative power or an imperial council with executive power, which derogates from the status of the Dominions. This is our empire policy." This view is not peculiar to General Smuts but the policy of the statesmen of all the Dominions. We may therefore dispense with the federal system, with its necessary derogation from the political and fiscal autonomy of the Dominions, as being the intellectual peregrinations of round table devotees.

A brief survey of the growth of the Dominions to almost absolute autonomy proves beyond <sup>argument</sup> ~~fact~~ that the Dominions have no desire to enter into any scheme for centralization by way of centralized authority as proposed by the federalists. The Dominions recognize that a federalist scheme would be a leaning toward British ascendancy. The diversity of interest has had the only effect that could be expected, namely the development of a national spirit. John Stuart Mill recognized this fact many years ago when he said "Countries separated by half the globe do not present the natural conditions for being under one Government, or even members of one federation."

The first colonial conference of 1887 which grew out of the war scare with Russia revealed the fact that the Colonies were ready to bind the Empire together by means of cables and steamship lines but the subtle arguments of the British Imperialists were of little avail when the question of navy contribution was broached. The Imperial federation league formed in 1885 proved a failure because it ran counter to colonial ideas. At the Ottawa conference in 1894, a long discussion on Imperial preference led to nothing. The Canadian Government, however, recognized the fact that something should be done to counteract the feeling for the United States. As at the Conference in 1887 telegraph cable and steamship lines were considered and recommended and everything relating to trade was fully discussed.

At the Diamond Jubilee in 1897 the ever present intrinsic difficulty in solving the Empire problem is clearly brought into relief. Chamberlain advocated free trade within the Empire but the attitude of the Dominions soon changed him to an advocate of Imperial preference. Canada granted a preference but England refused and continues to refuse to reciprocate. In 1902 Chamberlain called another conference, but outside of minor things it accomplished nothing.

The next development was the proposal for a substitution of a permanent secretary<sup>iat</sup> and advisory council in place of the Imperial conference. Lyttleton's circular letter in 1905 to the Dominions and Colonies setting forth the proposition immediately aroused the jealousy of the larger Dominions, especially Canada. Sir Wilfrid thought, and doubtless correctly, that the proposal savoured too much of British dominance. Owing to the attitude of Sir Wilfrid the conference was postponed. Subsequently the British Government offered to furnish a secretarial staff and rescued British ascendancy. The important point to note is that the Dominions refused to become entangled in any proposed scheme for centralization which might derogate from the status of the Dominions as autonomous nations. The conference firmly established the doctrine of British equality by reason of the fact that the conference was made up of responsible ministers of responsible governments and on the basis of one government one vote. It was a development of the principle of Brittanic Alliance.

A very interesting phase of Imperial relations arose in 1911 at the Imperial Conference. Mr. Asquith was fully aware that the Dominions looked upon their international status with no small degree of disapprobation. In a very guarded speech he spoke of the local autonomy of the Dominions as absolute, unfettered and complete. When confronted by Sir Joseph Ward's speech to the effect that the Dominions had no say in the great issues of peace and war, Mr. Asquith dexterously parried the issue by talking about contributions to the

Imperial navy. At this time the federalist criticism of the fact that Britain had refused to share with the Dominions the problems of peace and war seems amply justified. At the same time it must be remembered that the Dominions had done little in return for the protection naturally afforded by the fact that they constituted part of the British Empire. In 1914 we heard much about Canada's free choice in declaring war on Germany. This is not the point, for as far as international law is concerned, the moment England declared war the people of Canada and all the other Dominions and colonies were as much the enemies of Germany as the people of Kent or Yorkshire. This fact constitutes one of the peculiar anomalies arising out of the growth of the British Empire. If Canada had stayed out of the war in 1914 she would have been an enemy *de jure* yet not *de facto*.

With the war came another notable development in forging the link between the central and Dominion Governments. The development was ~~as~~ ~~is~~ ~~usual~~ not the result of a long premediated cut and dried scheme but almost unconscious. The Imperial War Cabinet first called together in 1917 for the purpose of discussing the conduct of the war and some of the higher issues of Imperial policy, was essentially advisory and co-operative in its nature. Thus, although the Dominions may have started out in the war as fledglings, their power was soon made manifest and by means of the Imperial War Cabinet the mighty forces of the Empire were co-ordinated. This body met several times, the last time being when the terms of peace were under consideration. It is quite possible that the Imperial conference which meets next summer may decide on the retention of this Cabinet with the middle name dropped and it will become, in the words of Lord Cave "the nerve centre of the Autonomous nations of an Imperial Commonwealth."

What is the present status of the Dominions in international affairs? From a legal standpoint the question is hard to answer, but of one thing we may be certain and that is that the autonomy of the Dominions is no longer "local" but international. The part



the Canadian people took in the war stamped them with the impress of "nation." There were Canadian Plenipotentiaries to the peace conference and in the treaty of peace which brought the Great War to a conclusion, Canada's signature stands along with that of the other nations of the world. In the summer of 1920 an understanding was reached between the British, American and Canadian Governments for the appointment of what in effect amounts to a Canadian Minister at Washington. Mr. T.A. Crerar, the leader of the Canadian Agrarian party, when speaking recently to a Winnipeg audience on the question of Imperial relations spoke as follows: "The new national policy is definitely set against the development of any centralization of Imperial power. The bands that bind us to the Mother Country are the intangible ones of love and affection and admiration for institutions. The creation of centralized authority of any kind between the Mother Country and the various overseas Dominions will, I am convinced, in the end produce nothing but unfortunate results for both Canada and the Mother Country."

Turning to the Assembly of the League of Nations in December of 1920, we find Canada playing one of the principal Roles, due for the most part to the effective work of Sir Robert Borden at the Paris Peace Conference. Many officers of the Assembly are Canadians, including Sir George Foster who enjoys the distinction of being one of the two Vice-Presidents of the Assembly nominated from the British Empire. Mr. Doherty and Mr. Rowell have taken a very active part in the great problems before the Assembly. South Africa has also been active and influential, largely due to the personality of its representative.

A tense stir was created in the Assembly by the Motion of Mr. Doherty for the elimination of article 10 from the Covenant, which article calls for armed intervention by all members of the League in the case the territory of one is attacked. It is a well known fact, of course, that Article 10 has furnished the opponents of the League in the United States with a weapon of great power.

The attitude of the Dominion Delegates is quite similar. Why should an ordinarily peaceful nation like Canada spend money and perhaps blood in a vain endeavor to keep the yellow skinned mongols and other offscourings of humanity on the straight and narrow path! Be it noted that the Dominions are speaking for themselves on the point and the other members of the League are listening.

On another issue it has been the part of the Canadian Delegates to safeguard those rights of nationhood for the Overseas Dominions which have recently been recognized by the World: British public men have long since recognized these rights. Bonar Law recently said in the British House of Commons: "Dominion Home Rule means the right to decide their own destinies." However, the British official mind finds readjustment to these new conceptions apparently a more difficult task. Of the committee of ten jurists which has been considering suggested amendments to the draft scheme for the International High Court of Justice, Mr. Doherty and Sir Cecil Hurst are the two Anglo-Saxon representatives. During the body's discussions it became quite apparent that the spirit of the proposed draft entirely failed to embrace the right of the Dominions to independent representation on the High Court or the right to bring cases independently before it. The British representative on the original commission which prepared the draft had evidently quite neglected, it is reported, to consider that these rights were involved in the recognition of autonomous nationhood granted to the Dominions. Mr. Doherty insisted very strongly that they were and carried the point.

Turning to the problem of Imperial defence, what do we find have been the developments? In modern times it can scarcely be maintained that an Empire as far flung as the British is capable of being maintained without a large and efficient navy. Until recent years the whole brunt of the empire defence has fallen on the United Kingdom, <sup>even although</sup> with the development of the ideal of nationality

in the Dominions came the recognition of the primary duty of defence. The burden on the United Kingdom has been, and is, too great and the Dominions, especially Canada and South Africa, have been perfectly content to be assured of naval safety without paying anything like a requisite amount for that safety.

What we are here chiefly concerned with is the fact that Canada and Australia have refused to contribute money or ships to a British navy. Australia has spent large sums, however, in building an efficient navy of her own. It has been argued that without centralization there can be no effective co-operation. The recent war has abundantly exploded that theory. The Australian Navy proved skilled and efficient in guarding the waters of the Southern Pacific.

Canada's naval history, if we may call it such, affords some very interesting sidelights on politics as well as one more proof of the gradual development toward absolute nationhood. It will be remembered that Sir Wilfrid Laurier proposed the creation of a Canadian Navy in 1909. Sir Robert Borden at first supported the proposal, but later on, realizing that Bourassa had a large "no navy" following, he changed his attitude and joined with Bourassa, forming what has facetiously been called the "Unholy Alliance." On attaining office in 1911 Sir Robert attempted to secure a vote of \$35,000,000 to build three dreadnoughts for the Imperial Navy and marvellous to relate, no less a person than Mr. Churchill volunteered to come to Canada for the "contribution," thereby stiffening the backs of the majority of the Senate. Then Canada drifted into the War without any navy and it was with a slight pang of jealousy that Canadians praised the good work of the Australian navy. In 1918 Sir Robert Borden was no longer a politician, at least in matters of such grave concern and when their Lordships of the Admiralty proposed a centralized navy their proposal received a flat refusal. The War had heightened the zeal of the Dominions

for nationhood and increased autonomy and in the counter-memorandum the Dominion premiers stated quite bluntly that the single navy proposal was not practicable. Thus ended Mr. Churchill's grandiose plan for Imperial Commitments.

What, it may be asked, has all this to do with fiscal policy? Just this: it shows that absolute unfettered autonomy is the ideal, toward the consummation of which the Dominions are drawing near. If any kernel of truth, or any method of prediction is contained in the history of the relationship between the energetic Dominions and the Mother Country, it is first and foremost that the Dominions seek not only a national but an international status on a par with that of the United Kingdom. Viscount Milner, in retiring from the colonial office, expressed the opinion that the only basis of the Empire as a political entity was that of partnership and the whole problem consisted in his opinion in how to make the partnership work. This view appears to be the most rational of all, for it is based on facts and not on sentimental balderdash. To maintain, therefore, on the one hand the absolute autonomy of the members of the Empire and at the same time the practicability of a centralized control over fiscal matters pertaining to the Empire, is to support a glaring incongruity. The Dominions have no intention of giving up one vestige of control over their respective jurisdictions in fiscal matters. Autonomy without control of fiscal policy is a contradiction in terms. The Dominions would be tying their hands. The conception is impossible as being out of harmony with facts.

Watchman ! What of the night? We have seen that the United Kingdom is not likely to depart from free trade even for the sake of binding the Empire together by means of a preferential tariff system. The 1919 Budget hereinbefore mentioned is ample substantiation for this opinion. The

The preferential system has proven at best a poor makeshift. With the present attitude of the Dominions on the question of tariff, Adam Smith's ideal of the establishment of free trade within the Empire seems beyond the pale of realization. The Dominions are now in reality separate nations and the salvation of the Empire must depend on the voluntary co-operation of all. It is a gratifying sign indeed that the problems of immigration, communication, free flowage of capital and many other vital Empire problems are being honestly formulated and bravely faced at the present time. It is true that Empire in the Roman sense is gone forever, but a league of British nations is in existence bound by no written bond but by mutual trust. With the gradual recognition of the benefits which must necessarily arise from freer trade within the Empire, the silken thread of sentiment will be strengthened by the bond of mutual interest.

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