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PAPERS AND DISCUSSIONS

THE PRESENT POSITION OF THE DOCTRINE OF FREE TRADE

PRESIDENTIAL ADDRESS BY FRANK W. TAUSSIG

Forty years ago, the doctrine of free trade seemed to be triumphant, alike in the judgments of thinkers and in the policy of the leading countries. The school of Adam Smith and Ricardo had swept the board in Great Britain, and its conclusions, as set forth in John Stuart Mill's Principles, were thought to represent the definitive outcome of economic inquiry. Among these conclusions, the one least open to doubt seemed to be that, between nations as between individuals, free exchange brought about the best adjustment of the forces of production; and international free trade was regarded as the one most potent means of increasing the efficiency of labor. In legislation, the triumph seemed to be no less assured. England, after a series of moves in the direction of lower duties, had at last taken the sudden plunge to free trade in the dramatic repeal of the corn laws in 1846. Not long after, France, by the commercial treaty of 1860 with England, had replaced the old regime of rigid protection and prohibition by a system of duties so moderate that the free trader might feel that his ideal, if not quite attained, yet could not be long delayed in complete realization. The treaty between France and England was soon followed by others of similar import between the various countries of Europe, spreading over all the Continent a network of reciprocal arrangements that greatly lowered the tariff barriers in the civilized world. In the United States a long period, from 1846 to 1861, had witnessed a marked relaxation of the protective system; and if the civil war had brought a return to high duties, this might be

ascribed to the financial exigencies of that crisis, and might reasonably be expected before long to give way once more to a moderate policy.

How different since then has been the course of events from what was confidently expected by the economists of 1860! Slowly but steadily the current has been reversed, and country after country has joined the protectionist ranks. The United States, so far from relaxing the high duties imposed during the civil war, has strengthened them and enlarged their range, and gradually built up a protective system the like of which was not dreamed of in earlier days. France, restive under the treaty regime of low duties, finally put an end to it in 1881, and then proceeded to build up once more a system of high protection. Germany took her decisive step in the same direction in 1879, and thereafter proceeded steadily to enlarge and elaborate her tariff barriers. Austria and Italy followed suit, and Russia has gone to the extreme in adopting protection. Even the old strongholds of free trade have become difficult to hold. Holland's latest tariff, while still disavowing deliberate protection, yet levies duties which, if ostensibly for financial yield, are inconsistent with a strict adherence to free trade. The leading English colonies, Canada and Australia, have ostentatiously abandoned that principle. England herself is in the throes of a discussion in which her policy of freedom, supposed to have been settled once for all, is attacked with vigor and effect; and who shall say what is to be the outcome of that discussion?

Not less striking is the change in temper among economic thinkers. The whole structure of economic theory is undergoing revision. Many of the doctrines of Adam Smith and Ricardo have no more than an his-

toric interest. It still remains to be seen, as to this larger discussion, just what the outcome will be in the reconstruction of economic teaching as a whole; but it is clear that, so far as the doctrine of free trade is concerned, enthusiasm has been supplanted by cautious weighing or open doubt. Half a century ago those German and French writers who advocated free trade were certain that the future was theirs: protection was the waning doctrine, and its advocates were hopelessly reactionary. At present, certainly in Germany and more or less in other countries, a large school has just the opposite feeling. Free trade would seem to be the waning doctrine. *Laissez-faire* and freedom have had their day, and the future belongs to the conscious direction of industry at the hands of the state. International free trade has no more sanctity or authority than any other part of the obsolete system of natural liberty, and the advantages or disadvantages of tariff restrictions are to be coolly weighed for each country by itself, in the light of specific experience.

In view of this unmistakable change in the general attitude, even the most convinced free-trader must feel called on to reconsider the question, and weigh once more the arguments for protection. Some such task I propose for myself to-night: not indeed the formidable one of going over the entire subject afresh, but that of passing in review some of the arguments most commonly heard, and more especially those of which most is heard in our own country.

First of all, something may be said as to those aspects of the controversy of which most is heard in popular discussion in this country. Here, as it happens, the situation is comparatively simple; for there is perhaps a nearer approach to a consensus of opinion on current

popular arguments regarding protection than on any subject in the wide field of economics. As to most of the familiar arguments for protection, either all the economists are hopelessly in the wrong, or else the protectionist reasoning is hopelessly bad.

The mercantilist view of international trade, exploded though it has been time and again, has a singularly tenacious hold. Even among the most intelligent writers in financial journals, the familiar attitude is that of rejoicing in a gain of exports, regretting a gain of imports: rejoicing in an inflow of specie, bewailing its outflow; so familiar that probably the immense majority of persons who have never been systematically trained in economics take this point of view as a matter of course. Now, in a country whose monetary system is top-heavy, the relation of imports to exports may not automatically adjust itself without causing trouble. But the difficulty in such case, if there be one, is in the circulating medium, and presents questions of monetary reform, not any problem as to the gain or loss from international trade. No doubt there are some other problems of real complexity in the relation of exports and imports. A country whose exports grow rapidly and are readily absorbed by foreign countries, may thereby secure its imports on more advantageous terms. This has probably been the situation of the United States, especially during the last thirty years. On the other hand, a country which depends on international trade for obtaining commodities essential for its economic well-being and not procurable at home, must look to its exports as the means whereby these essentials shall be secured; and such a country must have a watchful eye on the continuance and growth of its exports. This has doubtless been the situation of England during the last thirty years. But these are

aspects of the theory of international trade quite beyond the ken of those who expound the virtues of protection to the general public. Here the exports are not regarded as the means of buying the imports: the exports are good *per se*, the imports bad *per se*. We may apply to this sort of talk a well-known passage of Adam Smith's:

“Some of the best English writers upon commerce set out with observing that the wealth of a country consists, not in its gold and silver only, but in its lands, houses, and consumable goods of all sorts. In the course of their reasoning, however, the lands, houses, and consumable goods, seem to slip out of their memory; and the strain of their argument frequently supposes that all wealth consists in gold and silver, and that to multiply these metals is the great object of national industry and commerce.”

So the every-day writers on foreign trade would admit at the outset that its only object is the same as that of all labor and trade: to increase the sum of enjoyable commodities, and to do so by getting the imports we consume, not by selling the exports we get rid of. But as their reasoning proceeds, the consumable commodities somehow slip out of their memory, and all their talk is of gaining by sales and of losing by purchase, of the great glories of swelling exports, and the ill omen or domestic industry from growing imports.

Other ancient fallacies have a no less tenacious hold. We hear it proclaimed *ad nauseam* that protected industries give the farmer a home market; as if there were created a new and additional market, and not a mere substitute for the foreign market. It is part of the same ancient fallacy that the farmer's “surplus” is talked of as if it must be so much waste unless legislation provided a market for it. We all know how Adam Smith, in the days when the theory of international

trade was in the making, accepted the notion of a surplus; we all know, too, how easy it was for later writers to refute Adam Smith out of his own mouth. We are constantly told that a tax on imports acts as a burden on foreigners, not on the domestic consumer; though here, as in other parts of the controversy, the proposition is more often an implied premise than an explicit conclusion. Not least, how incessant is the blatant assumption that all prosperity is due to the protective system, and that disaster must ensue from any mitigation of its rigor. With some of these arguments, no doubt a nice analysis would bring into view certain conditions under which a measure of plausibility, nay of real validity, attaches to them. Thus, there are conditions under which taxes on commodities are borne in part, occasionally even in whole, by the producer and not by the consumer. These are exceptional conditions, and they are as likely to appear under internal taxes as under customs duties. But such exceptions and qualifications, found for every social and economic principle by the discriminating thinker, are not among the subjects of every-day debate. There we find the simple fundamental principle ignored, and the baldest of errors repeated. No doubt it is inevitable, in the popular discussion of economic problems, that arguments of the crudest sort should come to the fore. But I confess to a sense of humiliation when our leading statesmen turn to reasoning easy of refutation by every youth who has had decent instruction in elementary economics.

I do not wish to linger on these commonplaces; yet, at the risk of being tedious, will turn for a moment to that phase of the controversy which for near half a century has been most conspicuous in our country—the effect of

protection on wages. For years and years it has been dinned into the ears of the American people that high wages are the result of protection, or at least dependent on protection; that the maintenance of a high standard of living depends on the barrier against competing laborers of lower price, and that the workingman has a special and peculiar interest in the system of high duties. And yet I apprehend that here, too, the judgment of the economists would be with virtual unanimity the other way. The general range of wages in the United States was not created by protection and is not dependent on protection. The common talk about the sacredness of protection as a means of uplifting the workingman is mere claptrap.

No doubt there would be some difference in the way in which the economists stated the grounds of this conclusion. The theory of wages is one of their debatable fields, and some points are still to be settled. But for the purposes of the present discussion, these differences would not be material. By and large it would be agreed all hands that the fundamental cause of high wages is large productiveness of labor, and that so long as such productiveness exists a large reward to workmen will follow. The higher range of wages in the United States is due to the country's rich natural resources, and to the energy and intelligence with which these have been utilized. It may be that in certain directions the utilization of its resources has in some degree been hastened or made more effective by protection,—of this more hereafter. It may be that in other directions this utilization has been retarded and lamed by protection. But in either case it is beyond doubt that, whether we had had in the past complete free trade or the most unqualified protection, production would have been more generous

in the United States than in European countries, and wages higher ; and it is no less certain that, whichever system we shall have in the future, we shall retain these same advantageous conditions.

But while the generally higher range of wages in the United States has nothing to do with protection, and probably not much to do with international free trade either, it does not follow that some among our laborers may not be dependent on the tariff barriers for their present wages in their present occupations. So far as the industries in which they are employed are really dependent on protection, the high wages paid in these particular cases are also dependent on protection. Looking at the dominant and normal conditions of industry in this country, we find high money wages and at the same time low prices of goods. Labor is efficient and goods are produced abundantly ; therefore, though the goods are sold at low prices, the gross money yield is large, the money returns are high, and high money wages are paid. But in those industries in which labor is less efficient, and goods are not produced in abundance, the gross money yield can not be high unless competing products are kept out or handicapped. In this sense, and to this extent, the maintenance of high wages in some industries depends on the maintenance of protection.

To say this is to say that here, as in all cases of vested interests, whether of labor or of capital, serious problems present themselves to the legislator. The protectionists naturally exaggerate the extent to which industries are in fact dependent on this system, and indeed go to the absurd extreme of maintaining that all successful industry and all high wages depend on their panacea. The free-traders belittle it, and often fail to

see that in so doing they minimize also those consequences of protection which they think bad. The diversion of labor and capital to less productive channels—the ill effect which is the essence of the free-trade contention—is precisely in proportion to the range of industries in which the maintenance of high wages depends on protection. No doubt also the free-traders do not squarely face the difficulties of a transition to their system: the slowness with which capital and labor would have to be withdrawn from protected industries, and the prolonged period of unsettlement which would have to be undergone before final readjustment.

Before leaving this part of the controversy, I will note one other aspect of it,—one that touches our pressing social problems. The industries in which labor is efficient, output is large, and wages are high, are by no means solely the agricultural industries. A great range of manufactures are of this sort; and these are our most characteristic manufactures. They are the manufactures employing workmen who are alert, intelligent, and what is popularly called high-priced. They are the manufactures in which a larger output per unit of labor and capital comes from ingenious machinery, effective organization, efficient labor, nicely adjusted product. Side by side with these are others of a different type, in which the laborer is called on chiefly for the monotonous repetition of the simplest manual tasks, and in which even an ignorant man, or woman, or even child, can be easily taught the task. Here the temptation is inevitably to seek for cheap labor. The earth has been scoured to find docile, ignorant, pliable labor, which shall do for us our Helot's tasks. Inpouring immigrants by the million find work of this kind. They get wages which are lifted by the surrounding

economic forces somewhat above the level of similar wages in Europe, but are lifted by no means up to the full American range. They are in a class by themselves, cut off in large degree from the general influences of the country. Their children, indeed, commonly feel these influences. They go to the public schools, learn the American standards and ways, and struggle with more or less success to rise to a higher stratum. But this depletion of the lower ranks is more than made good by the increasing arrivals of new shoals of immigrants. Thus we have, perhaps not permanently, but as a continuing part of our present social system, a vast mass of human beings doing for low wages work that is dull, monotonous, and according to our standards ill-paid.

Now I am by no means disposed to assert that the protected industries are identical with the industries employing labor of this sort. Not a few of the protected industries call for labor of the alert and intelligent kind. Many industries which have nothing to do with protection call for the dull, weary, unskilled work. Such is the mining of anthracite coal, whose peculiar conditions have of late been so conspicuously brought into notice; such is the cotton manufacture in the South, where during the last twenty years a vein of this low-lying human material has been unexpectedly discovered and exploited. But a good share of the protected manufactures are in this class. Large parts of the textile manufactures in the Atlantic States belong here, and are in marked contrast,—to give one example,—to such an industry as the shoe manufacture. I cannot but believe that by increasing the opportunities for the utilization of labor of this sort the protective system has added to our social and political difficulties. The safe

absorption and remaking of these unskilled and uneducated masses is largely a question of degree. A certain amount we can make over; too many of them would swamp our institutions. No thinking man can view without concern the rapid increase in their numbers, or believe that it is for our social or moral advantage to add by legislative policy to the range of industries which create a demand for them.

I pass now to more difficult matters: to some phases of the controversy concerning which economists are much less in accord, and on which something is to be said on both sides. And here I will begin with two lines of reasoning that are not commonly considered together, but which seem to me to involve essentially the same question of principle. One of them is the argument against dumping; the other is the argument for the protection of agricultural products against the competition of new countries.

“Dumping” I take to mean the disposal of goods in foreign countries at less than normal price. It can take place, as a long-continued state of things, only where there is some diversion of industry from the usual conditions of competition. It may be the result of an export bounty, enabling goods to be sold in foreign countries at a lower price than at home. It may be the result of a monopoly or effective combination, which is trying to keep prices within a country above the competitive point. Such a combination may find that its whole output can not be disposed of at these prices, and may sell the surplus in a free market at anything it will fetch,—always provided it yields the minimum of what Professor Marshall happily calls “prime cost.”

Now, if this sort of thing goes on indefinitely, I confess that I am unable to see why it can be thought a

source of loss to the dumped country ; unless, indeed we throw over all our accepted reasoning on international trade and take the crude protectionist view *in toto*. If one country chooses to present goods to another for less than cost ; or lets its industrial organization get into such condition that a monopoly can levy tribute at home, and is then enabled, or compelled by its own interests, to present foreign consumers with goods for less than cost,—why should the second country object ? Is not the consequence precisely the same, so far as that other country is concerned, as if the cost of the goods had been lowered by improvements in production or transportation, or by any method whatever ? Unless there is something harmful *per se* in cheap supply from foreign parts, why is this kind of cheap supply to be condemned ?

The answer to this question seems to me to depend on the qualification stated above—*if this sort of thing goes on indefinitely*. Suppose it goes on for a considerable time, and yet is sure to cease sooner or later. There would then be a displacement of industry in the dumped country, with its inevitable difficulties for labor and capital ; yet later, when the abnormal conditions ceased, a return of labor and capital to their former occupations, again with all the difficulties of transition. It is the temporary character of dumping that gives valid ground for trying to check it.

A striking case of this sort has always seemed to me to be that of the European export bounties on sugar, which for so long a period caused continental sugar to be dumped in Great Britain. These bounties were not established of set purpose. They grew unexpectedly, in the leading countries, out of a clumsy system of internal taxation. They imposed heavy burdens on the

exchequer, as well as on the domestic consumer, in the bounty-giving countries; and they were upheld by a senseless spirit of international jealousy. Repeated attempts to get rid of them by international conferences showed that the cheap supply to the British consumer, and the embarrassment of the West Indian planter and the British refiner, rested not on the solid basis of permanently improved production, but on the uncertain support of troublesome legislation. It might well be argued that these conditions would come to end sooner or later. The longer the end was postponed, the worse was the present dislocation of industry and the more difficult the eventual return to a settled state of things. No doubt these were not the only considerations that in fact led Great Britain, the one great dumping-ground, to serve notice that she would impose import duties equal to the bounties, unless these were stopped. Perhaps this decisive step would have been taken even if it had appeared that the bounties were to continue as a permanent factor in the sugar trade. But it is in their probably temporary character that the sober economist finds justification for the policy that led to their abolition. At all events there is tenable ground for arguing that Great Britain, in causing them to be stamped out, acted not only in the interest of the much-abused consumers of sugar on the Continent, but in the permanent interests of her own industrial organization.

The other familiar case of dumping is that of the monopoly. Here, too, it may be maintained with much show of reason that the diversion from the normal conditions of industry is but temporary. Can any country be persuaded in the long run that it is for its advantage to support or aid, by protective duties, or by any other method, a monopoly which mulcts the domestic con-

sumer and thereby is enabled to make presents to the foreigner? Yet the strength of vested interests, the curious conservatism of party feeling, persistent sophistry about giving employment to labor and turning the wheels of industry, may keep the practice going for a long period. Any measures that would bring it to an early end should be welcome alike for the country that dumps and for that into which there is dumping.¹

I turn now to the other phase of this same question. The competition of the United States and of other newly opened countries has depressed the prices of various articles of food in Europe; has restricted, or threatened to restrict, the volume of agricultural production; and has caused an increasing drift of population to manufacturing industries. But these conditions, it is maintained, are but temporary. The new countries will not remain new. Their population grows rapidly, and their fresh lands are fast being absorbed. It is to be expected that sooner or later their numbers will be increased, and their own food supply increasingly drawn on, until they have no food for export. The countries to which this food supply had been sent, and whose industries had been adjusted on that basis, will find inevitable readjustment to

¹ No doubt in weighing the advisability of such measures, it would be necessary, and at the same time extremely difficult, to ascertain whether the dumped article really was exported at an abnormally low price. It is familiar knowledge that the Steel Corporation, for example, is selling some articles for export at less than the domestic price. But it is quite possible that the export price, while less than the domestic price, is not really below the level of normal cost. So much the worse, doubtless, for the consumer at home; but this is not a matter that concerns the foreigner, who buys the steel at no more and no less than a reasonable figure. It seems to be at least doubtful whether the foreign sales are in fact likely to be made for any considerable time at a price below the long-run cost of production. If not, the question which presents itself is the ordinary one of protection, not the peculiar one of a temporary dislocation of industry.

the old basis. First a large part of their population is transferred from agricultural to manufacturing industries, and then must be transferred back to agriculture again. Each process of transition is necessarily slow and possibly painful, and the suffering and losses outweigh the temporary benefit during the comparatively brief period of cheaper food supply. Is it not wiser to protect agriculture for awhile, and keep industry in its even and permanent course?

Here again the answer turns on the temporary nature of the situation. If it were clear that the cheaper food supplies would cease to be available after ten years, or twenty years, there would seem to be good grounds for resisting this American invasion. The longer the period over which the new conditions are likely to last, and the more uncertain their end or the stages by which their end will be reached, the weaker is the case for resistance. Now, all the indications are that the relations between new countries and old countries, as they have developed during the last half-century, will endure for a long period,—a period not to be measured by years or decades, perhaps not by generations. Many have been the books and pamphlets published during the last twenty years, foretelling that the end was near, and that the opening of new sources of supply had ceased. Yet the building of new railways and the general advance in transportation, as well as the discovery of regions not before thought available, have accentuated the present situation of the modern world, and have postponed to an indefinite future the predicted reaction. To attempt now to make provision for such an indefinite future is at the least very doubtful policy. What will be the relation, a century hence, between the old countries and the countries now new; what will then be the

sources of food supply for the civilized world ; what will be the process by which the old countries fall back again to their own resources,—if indeed they do fall back,—these are questions which the statesmen of the present day had best leave to the distant successors who may eventually have to deal with them.

A curious argument, connected with this set of considerations, has been advanced by one of the most distinguished economists of our time. A revival of the more extreme phase of the Malthusian reasoning, it looks to the influence of more abundant food supplies on the growth of population and the standard of living. Briefly, the reasoning is that cheaper food will simply cause an increase of numbers, and a lowering of the standard of living. When food thereafter becomes dearer, either in occasional seasons of dearth or—as is supposed to be probable—as a permanent matter in the not distant future, there will be nothing to fall back on. The larger population which the temporary period of plenty had called out, will suffer the more when the conditions of limited supply return. This is just what Malthus maintained a century ago. But, it is also just what a century of economic and social history has disproved. I am by no means of the opinion that the century's history has disproved the general Malthusian theorem,—the tendency to pressure and the need of restraint. But the particular corollary as to the inexpediency of cheaper food seems to be quite untenable. The causes of restraint or lack of restraint in multiplication are much more complex than it assumes. Notable among them are the advance of education and intelligence, the nature of the industrial organization, the desire and opportunity to rise in the social scale, which Malthus himself believed to be the *vis medicatrix* of

the community. Where the conditions of intelligence and ambition are present, material well-being has a favorable effect of a cumulative kind: a fairly high standard of living, once set going, tends not only to maintain itself, but to rise. Something of a lift must be given before an independent upward movement can maintain itself. The general rise in the comfort of living which the leading countries have secured in the last half-century, and which has been due largely to cheaper supplies of food and materials from the new countries, has served to give the needed lift.

I turn now to that course of reasoning which has long been among the economists the most effective in favor of protection; the argument for protection to young industries. It goes by other names and uses other phrases. It is sometimes called educating or nurturing protection. In popular controversy, it takes the form of the contention that protection, while it may raise temporarily the prices of the goods protected, in the long run lowers them. Throughout, it rests on the assumption that a country does not secure without conscious effort or considerable sacrifice those industries which in the long run are most advantageous for it.

Let us consider first the probable range in the application of the principle. It is commonly stated to be applicable only to manufactured goods, not to raw materials,—including under the term “raw materials” most agricultural products. Such was the view of List, the German economist, who has given the most elaborate and perhaps the most effective statement of the argument. Indeed, it is only from this point of view that there is any strong distinction between duties on manufactures and those on raw materials. No doubt, something may be said, by way of special objection to

taxes on raw materials, that they accumulate as profits are heaped up on them in the successive stages through which the commodity passes before reaching the consumers' hands. But this makes only a difference of degree, and perhaps not a great difference of degree, between raw materials and most manufactures; whereas, so far as the young industries argument goes, there is a difference in kind. Nature has settled what sorts of raw materials a country is fitted to produce. No encouragement from protective duties, for example, can so stimulate the growth of forests in the United States as to bring us in the end cheaper timber. No such stimulus can cause the climate of the country to become better adapted for wool growing, or give it the peculiar advantages which the interior of Australia has for this form a pastoral industry; or make Louisiana as well fitted for growing cane sugar as Cuba.

Nevertheless, it must be admitted that, even so far as this special argument for protection is concerned, there may be sometimes as good reason for duties on raw materials as on manufactures. Mining operations usually involve an initial stage of experiment and uncertainty, and almost always call for a heavy investment of fixed capital. The history of the iron industry in the United States and Germany, and possibly that of the copper industry in the United States, suggest at least the possibility that a stage of artificial and expensive stimulus may be followed by an eventual attainment of developed and cheapened production. Agriculture seems to present such possibilities in less degree; pastoral industry still less; and forestry least of all.

Unlike most other parts of the controversy between free-trade and protection, the young industries arguments connects itself with few other questions of

economic theory, and is to be considered chiefly in the light of specific experience. The benefits of imports and exports, the relations of domestic and foreign industry, wages, foreign cheap labor, surplus products, over-production, dumping,—these topics at once spread over into the general field of economics. Not only do they thus enlarge, but they can be disposed of chiefly by that mode of general reasoning from comparatively simple premises which still remain the most valuable tool at the disposal of the economist. But whether protection to young industries will or will not have good effects, is simply a question of probability for the given case. Precisely the opposite result from protection has not infrequently been discovered or supposed to be discovered. It has been said that, so far from leading to improvements and eventual cheapening, it leads to the retention of antiquated and inefficient wages of production and so to continued enhancement of prices. There is good ground for believing that the long continued protective régime in France during the first half of the nineteenth century had ill results of this kind. One of our ardent free-traders, the late David A. Wells, repeatedly maintained that the same consequences had appeared in the United States. His conclusion may have been justified by what happened during the period of abnormal industrial conditions that followed the Civil War; yet I doubt whether the experience of the United States as a whole supports it. The truth is that either result may ensue. Among an active and enterprising people the diversion of industry into new channels may lead to progress, improvement, and eventual gain; whereas in a timid and stagnant people the stimulus of competition from abroad may be necessary to rouse them to their best ef-

forts. The problem of protection to young industries thus offers an especial field for the inductive and historical method in its stricter sense,—the patient investigation of particular cases, and the possible final construction of an edifice of truth, by the slow gathering of fragments of knowledge.

For the purpose of aiding legislation in our own day, however, investigation of this sort must be confined to modern experience; the experience, say, of the nineteenth century. Investigations as to earlier periods, as to the industrial regime of the Middle Ages, the system of Colbert, the early protective policy of Great Britain, the paternalism of the rulers of Brandenburg and Prussia, will teach us little for the problems of the present. The value and interest of such investigations are not to be denied. We have shed certain notions of the earlier economists as to the necessary harmfulness or futility of the conscious direction of industry, and know that we have still much to learn about the causes of progress in the past. But modern conditions differ radically from those preceding the nineteenth century, and have changed fundamentally in the last fifty years. Technical education has been so improved and diffused as to make immensely easier the adoption anywhere of a new process. All the means of communicating knowledge, from the printing press to the telegraph, serve to spread rapidly information about changes in the arts. Restrictions on the sale or export of machinery have disappeared. Capital is abundant, and is constantly and eagerly seeking fresh employment. There is no need of further enumeration; it is obvious that the conditions are very different from those that had to be faced by the undertaker of the seventeenth and eighteenth century, even of the first half of the nineteenth. Whatever we

learn of his troubles and obstacles can tell us little as to the extent to which his successor in modern times needs the prop of legislative aid in new ventures.

Looking now at modern experience in protection to young industries, what result do we find? The answer, alas, is not certain. Sometimes we seem to find a degree of success, sometimes of failure. The besetting difficulty of all purely inductive inquiry in the doings of man is ever present. We can not isolate causes. We can not apply protection to a country, and make sure that everything else remains unchanged. A protective duty may be followed by an increase of domestic production, by a new and independent industry, by an eventual benefit to the community in the way of cheaper commodities; but the question always will remain whether other causes have been at work, and whether the same result would not have ensued without the tariff in favor of the young industry.

Contrast the history of Germany and of France. For the whole period up to 1860, France had a restrictive regime of the greatest severity. Yet I have seen no evidence adduced that, during that period of rapid industrial advance in the world at large, any gain was secured by France in the way of successfully establishing an industry that was able to hold its own without aid. In Germany, on the other hand, the trend of opinion among competent observers seems to be that, at least during the second third of the century, the tariff policy of the Zollverein, though much more moderate than that of France during the same period, nurtured German manufacture to advantage. The establishment of free trade within Germany by this beneficent customs union opened great possibilities of internal growth, which were

more easily turned into realities by a period of shelter from foreign, especially English, competition. During the last third of the century, Germany's industrial growth has been one of the remarkable phenomena of our time; but it began under the moderate protectionist regime of the Zollverein, and, whether or no promoted also by the accentuated protection that began in 1879, has certainly been much affected by the other factors also, to some of which I shall presently refer. In the United States we find similarly conflicting evidence. Some researches of my own have led me to believe that, on the whole, the first growth of manufactures in this country, in the early years of the nineteenth century, was advantageously promoted by restrictions on competing imports. As we come nearer to the present time, the case in favor of protection becomes more and more doubtful. In the policy of extreme and all-embracing protection which has been gradually built up since the Civil War, it would have been surprising indeed if we had not scored a few hits. Where you send innumerable shots promiscuously in a given direction, some few of them are likely to hit the mark. But specific and unbiassed inquiry on those points is sadly needed, and offers a promising opportunity for scholarly investigation. It is obvious that there has been not only an enormous growth of manufacturing industry, but a great improvement in methods of production and a growing independence of foreign competition. How far this gain has been carried to the point which proves that the community is now better off than it would be if it had depended on foreign supply; and how far such a gain, further, may have been due to causes quite independent of encouragement in the way of protection,—these are questions which certainly can not be disposed

of without much painstaking and unbiased inquiry, and for which even such inquiry very likely would yield no clear-cut answer.

Our conclusions as to the general validity of the argument for protection to young industries thus have an uncertain ring. Yet it must be added that while such protection can not be proved useless, there is at least one striking phenomenon which proves it to be not indispensable. That phenomenon is found in our own country. Here we have seen, under a regime of the most absolute free trade, the gradual and steady growth of manufactures in communities that a few decades ago were exclusively agricultural. In our Southern states, the cotton manufacture has grown and prospered in face of the competition of the established industry of New England. It found in the South advantages of situation, and a labor supply which proved amenable to profitable exploitation. But these advantages could not be utilized without an initial period of experiment and uncertainty, during which the older industry had all the advantages against which protection is supposed to be necessary. Even more instructive is the transformation of the great Central region,—the states north of the Ohio and east of the Mississippi. Here we have seen, under a regime of complete free trade within the country, the steady growth of manufactures. Where the field was favorable for a new industry, whether from rich natural resources, from advantage in location, or from ingenuity and enterprise among the leaders of industry and the rank and file, there the industry has expanded and flourished, unchecked by the competing establishments of the older states. Some of the industries that so sprang up in the Central region have been of the kind that felt the stimulus of protection

against international competition. Some have been quite independent of this stimulus, the question being not whether they would spring up within the country, but where within the country,—whether along the seaboard or in the interior. In either case, the full competition of the older regions of our own country has been felt by the newer regions. The diversification of the newer regions has nevertheless proceeded smoothly and steadily. That diversification continues and will continue, notwithstanding the most absolute free trade throughout our own borders. No artificial fostering as against the manufactures of the East has been possible: though, if possible, it would doubtless have been asked. Yet the growth of manufactures in the Central region has been perhaps the most striking change in the industrial structure of the country during the last generation.

These familiar facts must make us hesitate before ascribing to legislative interposition too much effect on the development of new industries or on the general course of economic progress. I have already referred to the difficulty of disentangling the complex forces that bear on economic progress, and will not pretend to offer anything in the way of proof for what I have further to offer as to the relative weight of different factors. Briefly stated, my belief is that the general structure and spirit of the social body are much more important than specific encouragement to this or that industry. Any detailed statement of the grounds of this opinion would carry us into fields much more speculative than those which have been considered in the preceding pages; and it must suffice to illustrate rather than support it from a brief consideration of some aspects of social and economic history.

Consider first the case of England. Clearly several causes contributed to the remarkable economic advance of that country during the eighteenth and nineteenth centuries. Her insular position preserved her from the wars which devastated the Continent. Her indented coast cheapened internal transportation from an early date. Her great mineral resources supplied the foundations of the modern workshop. The protective system of older days is supposed to have nurtured her industries until they became independent,—with how great effect, is the debatable question. But most important of all has been the atmosphere of freedom and the clear avenue to glittering success which has been open to all who were capable and strong. Political freedom came first, and soon was supplemented by industrial freedom. Hence the all-pervading spirit of ambition, resource, enterprise. To this spirit a stimulus of incalculable strength has been given by the curious development of the British social hierarchy. Nowhere has the aristocracy held its place so strongly in the esteem of the rest of the community, and nowhere has admission to that aristocracy been more free to the successful. The rich merchant, manufacturer, banker, mounts readily on the social ladder. Given plenty of riches, a little time, and he or his descendants become associates of peers, very likely themselves become peers. In the eighteenth century Adam Smith, remarking on the differences between England and France, mentioned France as a country where trade is in disgrace, and England as one where it is highly respected. The materialism of the British aristocracy and the snobbishness of British society have long been topics for the satirist. But materialism and snobbishness have enlisted the strongest of social

motives, the undying love of distinction, in the direction of economic initiative and varied development.

Factors of the same kind have been powerful in our own country. Every career and every degree of success have been open to all ; and open not only under the law, but under the mobile conditions of a thoroughly democratic community. The most obvious avenue to distinction has been the attainment of wealth ; a state of things by no means of unmixed advantage, but with unmistakable effect on industrial progress. Large enterprises, whether in trade, manufactures, or transportation, have long enlisted the most capable intellects of the country. Every opportunity for the conduct of business on a large scale has been eagerly scanned with keen eyes by the captains of industry. Add to this, the early development of a high degree of mechanical skill and ingenuity, and natural resources which are varied and abundant to an unusual degree, and you have conditions under which legislative stimulus is at best of secondary importance. The evidence seems to me conclusive that the United States, under any tariff system, would have become a country with varied industries and with highly developed manufactures. The protective duties have only affected the degree and the direction of that development.

Still another factor deserves to be noted. Not only the spirit of freedom and enterprise within the community has its effect, but that spirit with reference to other communities also. The political position of a country and its martial success seem to have a reflex effect on the industrial success of its citizens in time of peace.

Here the recent development of Germany is apposite. Her industrial advance during the last thirty years is one of the striking phenomena of our time, and leads

naturally to speculation as to its causes. No doubt these causes are varied, as in all such cases. The thorough organization of popular education and of scientific education is one cause. The stimulating effect of free trade within the country, as established by the Zollverein since 1834, is another: though this gain had been enjoyed by France throughout the nineteenth century, and by England for centuries before. Much is due to the whole change in the political and social atmosphere which came with the crumbling of petty absolutism, and which was consummated with the foundation of the German Empire. But to all this must be added the new spirit which came over the country after the war of 1870. Germany emerged from the conflict with a new sense of strength and confidence. The new feeling communicated itself to the field of peaceful industry. Vigor, enterprise, and boldness showed themselves. Large enterprises in new fields were launched and successfully conducted, and great captains of industry came to the fore. A spirit of conquest in all directions seems to have spread through the people, bred or at least nurtured by the great military conquest of the Franco-German war.

Is it fanciful to suppose that consequences of the same sort have appeared in other countries also after victorious wars? England emerged from the Napoleonic wars with a great feeling of pride and power. She alone had never yielded to the great conqueror. The period which followed was that of her most sure and rapid economic advance. She then established the hegemony in the industry of the civilized world which she maintained through the century. The northern part of the United States, after the Civil War, felt a similar impulse. That struggle had been on a greater scale than was dreamed of at the outset, and its outcome

proved the existence of unexpected power and resource. It is probably no accident that the ensuing years showed a spirit of daring in industry, and sudden and successful activity in commercial enterprises.

No one is more opposed than I am to all that goes with war and militarism. It is with reluctance that I bring myself to admit that the same spirit which leads to success in war, may also lead to success in the arts of peace. Yet so it seems to be. Men being what they are, nothing rouses them so thoroughly as fighting. The temper which then pervades a community, communicates itself by imitation and emulation, and shows itself in all the manifestations of its activity. A great war lifts the minds of men to large undertakings, and takes its place with other factors in stimulating the full exercise of the powers of every individual.

We are in danger of straying far from our subject. Yet the digressions to which the argument for protection to young industries has led may serve to enforce one conclusion to which the consideration of the whole free-trade controversy must lead the patient inquirer: namely, that the effects of tariff legislation are commonly much over-estimated. Difficult as it may be to separate the causes of industrial growth and to measure their relative weight, it seems to me clear that the factors are many and various. In any larger survey, the effects ascribable to a protective system, either for particular industries or for general economic growth, are among the subordinate phenomena, and far from having that transcendent importance so often proclaimed by its ardent advocates.

I turn now to an opinion, or point of view, to which reference was made in the opening paragraphs of this paper: the opinion that after all on our subject there is

no fundamental principle. A set of writers, especially among contemporary German economists, take what purports to be a severely judicial attitude. In their view there is no established theory, and no reason for ascribing greater validity to the doctrine of free-trade than to that of protection. It is all a matter of advantage or disadvantage in the given case. Some countries may prove on inquiry to need free-trade, some protection. A policy of opportunism is the only sensible one, and the controversies about theories of international exchange turn on barren abstractions, which do not touch the concrete facts of industry.

For myself, I confess to little patience with this attitude. It assumes to be large-minded and judicial, and a certain tinge of contempt for the old fashioned theorists often goes with it. Yet in truth it rests, I can not but suspect, on inability or unwillingness to follow the threads of intricate reasoning. No doubt it is true that the concrete circumstances of a country must be examined and considered before we apply to it a given policy. But it is none the less essential to make up our minds as to the principles on which our policy should rest. No doubt it is especially true that, in weighing the chance of the advantageous application of protection to young industries, the actual conditions of each case and the prospects of success should be carefully studied. But it is none the less necessary to reflect what are the foundations and limitations of such protection, and what are the real tests of success. On all such questions of principle, we often find a sad lack of clear-cut reasoning among our German colleagues. This defect does not show itself solely in the protective controversy. It appears in almost every part of the economic field, as soon as the more difficult problems

are touched. In the theory of value, of distribution, of prices and the value of money, as well as in that of international trade, there is in many current manuals and text-books a pseudo-judicial attitude, which admits some merit in this position as well as in its opposite, opines that such a view must indeed be considered but must not be pressed too far, and such further double-facings expressions, which end in leaving the reader quite in the dark as to the author's conclusions as to the heart of the matter in hand.

It is easy to account for this stage of thought, especially among the writers of the second rank. In many directions economic theory is being re-fashioned, and on many topics there is not yet a consensus of opinion. At least, there does not appear to be such a consensus; though the differences among economic thinkers on the large questions of principle are much less fundamental than they are sometimes made to appear. Yet it is not to be denied that on some deep-reaching topics, especially in the theory of distribution, economic theory is now in a stage of transition. As it happens, however, there has been least attempt at change, and there is least occasion for change, in the theory of international trade. On that part of the subject, the edifice of which the foundation was laid by Adam Smith and his contemporaries, and which was further built up by Ricardo, Senior, and the younger Mill, remains substantially as it was put together by these ancient worthies. Something has indeed been added by recent writers; yet nothing that calls for a remodelling of the old structure. On the nature of international trade, on its peculiarities, its working machinery in the foreign exchanges and the flow of specie, its connection with the drift of labor and capital to different industries, its bearing on the demand

for labor, and not least the effects of restrictions in the way of taxes,—on all these topics the old doctrines have never been seriously shaken. Qualifications of one sort and another,—deviations from the regime of freedom such as Adam Smith himself conspicuously enumerated,—contingencies under which commercial blows may be so planted as to convert an opponent into an ally—these have long been admitted. Certain refined and ingenious trains of reasoning have been brought forward, too, of late years, regarding the effects of protective duties on the distribution of wealth and on the ultimate elements of social well-being. They connect themselves with some of the more recent speculations in economic theory at large. Like these, they have had no effect, as yet at least, outside the small fringe of scholars and teachers, and no very marked effect even within that fringe. A discussion of them would carry this address far beyond the permissible limits. At best, they suggest only still further qualifications and still other possible exceptions, and they leave intact the core of the classic theory of international trade. That theory, in its essentials, holds its own without a serious rival.

This being the case among the thinkers, the question naturally arises as to how it happens that the opposite theory, or at least the policy based on a very different theory, holds its own in the field of legislation. Some consideration, however brief, must be given to this question in any inquiry as to the present position of the doctrine of free trade.

There is no one explanation of the strong hold which protection now has, and bids fair for some time to maintain. The effectiveness of its appeal to the every-day man has already been noted. The arguments about employment, labor, domestic industry, home markets

and foreign markets, rejected though they have been in all respectable economic writing, emerge again and again. They will not down, and create a set of prepossessions favorable to the adoption of protectionist legislation. But in European countries (for the moment, I have not the United States in mind) its actual adoption has been immensely promoted by two other factors. One is the competition of new countries in agricultural products. The other is the growth and intensification of national feeling.

The effect of the competition of new countries is obvious enough. With the cheapening of transportation, not only England, but France, Germany, and the other countries of Western Europe, have been invaded by supplies of cheaper food and raw materials. The agricultural classes have felt the pressure of foreign competition. Formerly indifferent or even hostile to high tariffs, they have now been led to join in the demand for protection against cheaper foreign supplies. In England the agricultural interest has always been restive under free trade. In France and Germany, with the new democratic conditions, its influence now constitutes a strong political force against the application of that doctrine.

Not less important, however, is the sentiment of nationality and its unfortunate counterpart, to the sentiment against foreigners. Of the ennobling and beneficent effect of national feeling I need not here speak. Its less favorable aspects unfortunately are most conspicuous in relation to our present subject. Cobden and the other English free-traders of half-a-century ago looked forward to a coming era of peace among nations, strengthened by the links of friendly exchange and mutual benefit. How sadly have these hopes been disappointed? Militarism is no less strong than it was,

even stronger; and every European nation habitually holds itself in readiness for war.

Even the sober economist, unmoved by sentiment, and looking solely to the direct and traceable consequences of this state of things, must admit that here is a situation that does not fit into the free trade ideal. Great Britain, for example, depends for feeding her people on foreign supplies; and it is an inevitable consequence, however regrettable a one, that she must have a powerful navy as security against starvation in case of war. No doubt the balance of material gain is in her case clearly in favor of free trade: it is cheaper to have a navy, even a huge and expensive one, than it would be to support her population at home. But, as international relations now stand, there exists this expense to be offset against the gain. In Germany at the present time the same set of persons who advocate the development of Germany as an exporting country and a "world-power" demand a great navy. Oddly enough¹ these same persons are protectionists also. But if a navy is needful to safeguard exports, it is no less needful for the imports which must also come.

It is but another phase of the same drawback against the gain from international trade, that it is liable to interruption. A war between the great countries, such as is always possible and often seems imminent, would greatly hamper foreign trade, conceivably destroy it. The greater the previous extension of trade, the more complete the overturn of commerce; and he who looks on war as sooner or later inevitable, and perhaps as not unwelcome, is not loth to have the industries of his country as self-contained and as self-dependent as possible.

The national and militant feeling, however, has effects on public opinion far beyond such deliberate weighings of gain or loss under war and peace. It rouses a whole train of sentiments which run against trade with other countries. It fosters international rivalry in every sphere. Deliberate and accurate weighing of the benefits of foreign trade, such as it is the business of the economist to undertake, probably determines the opinions of a very small circle indeed. The state of mind of the immense majority is settled by their general feelings and prepossessions. These are in favor of the native country and against foreigners; in favor of home markets and home products, and against foreign competition. Add to this the strong appeal which protectionist reasoning makes to the instinctive prejudices and the inherent selfishness of the every-day man, and you have an explanation of its continued hold.

In the United States the situation is different from that in European countries. Here we have in recent times no industrial invasion from foreigners; we are ourselves the invaders. The feeling of nationalism is doubtless strong, and has promoted protection effectively, but the peculiar fervor which militarism adds to it we have not experienced, unless it be under the conditions of the last few years. The maintenance of our protective system—I will not say of any such system, but of the extreme and intolerant protection which we have developed—seems to be explicable chiefly on historical grounds. Certainly its beginning is not to be ascribed to any deliberate choice. The system as it now stands goes back to the Civil War, and is the unexpected outcome of the heavy duties then suddenly imposed. It has maintained itself chiefly by the effects of custom

and iteration. The industries of the country have become habituated to it; and what is no less important, public feeling has become habituated to it. As in England for a generation, free trade was the accepted doctrine from the sheer force of use and habit, so in the United States protection has been the accepted doctrine. And, needless to say, just as continued material progress strengthened the hold of the accepted system in England, so it has strengthened the hold of the opposite system in the United States. The appeal to let well enough alone is always effective. The economic critic may see in other directions abundant explanation of our well-being, and may say that a country with such resources, such institutions, and such a population would have prospered under any commercial policy. But the fact of prosperity tells powerfully in favor of the legislation that in fact has been followed. It is not probable that any substantial change of policy will be made until this correspondence has been broken. When evil days come, as sooner or later come they doubtless will, then placid acquiescence in the existing order of things will no longer bolster up the protective system, and the time will be more propitious for a deliberate overhauling of accepted notions and beliefs.

Thus, in conclusion, it may be said that the fundamental principle of free trade has been little shaken by all the discussion and all the untoward events of the past half-century. But its application is not so easy and simple as was thought by the economists of half-a-century ago. A principle can be stated in clear-cut terms, and an answer of yes or no can be given with regard to it. The mode of its application, however, raises questions of *pro* and *con*, and often involves a

balancing of conflicting principles. The question of principle is none the less important, and important for practical purposes. He who is convinced that the use of alcoholic liquors is overwhelmingly harmful may hesitate, in the world as it is, whether to favor absolute prohibition, or government management, or private trade under license and control. Yet, if he has the question of principle clearly settled in his mind, he will combat steadfastly popular errors about healthful effects of alcohol, and will welcome every promising device towards checking its use. He who believes that war is evil and wasteful, and militarism preponderantly bad in its spirit and effect, may regretfully admit that armies and navies must be maintained, and much labor misapplied in the making and using of instruments of destruction. Yet he will oppose every unnecessary increase of armament, avoid every occasion for rousing others to rivalry in warlike preparation, and welcome every opportunity for the peaceful settlement of disputes between nations. So he who believes that international trade is but one form, and no peculiar form, of the division of labor, and that, like all division of labor, it is preponderantly beneficial in its effects, may admit that its application in a given country raises problems not to be disposed of by mere appeal to this principle alone. Some of the qualifications have been considered in what has preceded; and others will readily occur to you, such as the demands of public revenue, a needful regard for vested interests, the political and social effects of trade within the country and without. But in considering any question of concrete commercial policy, it is necessary first to know whether a restriction on foreign trade is presumably a cause of gain or loss. Is a protective tariff something to be regretted, for which an offset is to be sought in

in the way of advantage in other directions, or something which in itself brings an advantage? The essence of the doctrine of free trade is that *prima facie* international trade brings a gain, and that restrictions on it presumably bring a loss. Departure from this principle, though by no means impossible of justification, need to prove their case; and if made in view of the pressure of opposing principles, they are matter for regret. In this sense, the doctrine of free trade, however widely rejected in the world of politics, holds its own in the sphere of the intellect.