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**THE THEORY OF PROTECTION AND
INTERNATIONAL TRADE**

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THE
THEORY OF PROTECTION
AND
INTERNATIONAL TRADE

BY

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PREFACE TO THE ENGLISH EDITION

I AM glad to present to the English and American public my work, which modestly tries to bring some new contribution to the problem of protection and international exchange.

I offer this work because I think it represents a contribution towards the understanding of a leading economic problem in England and in America.

This somewhat presumptuous assertion needs justification.

Reading my work, one might say—and international critics have indeed sometimes said—that it is too much influenced by the situation in European agricultural countries such as Russia and Roumania, and that its conclusions would be difficult to apply to the great industrial countries, England and America.

It is the purpose of this preface to defeat such criticism, and to show the advantage English and American readers may derive from the study of my theories.

The interests of Anglo-Saxon countries in the elucidation of the controversy of protection *versus* free-trade and of the whole problem of international exchange are threefold. These two great countries, which play such an important part in the fate of humanity, owe it to humanity and themselves :

(1) To concentrate upon an alarming and unfortunately unsolved scientific controversy.

(2) To adopt a definite system, free from empiricism and inexactitude, for their practical commercial and customs policy.

(3) To lay down new principles of international economic co-operation, based upon concrete reality.

Let us examine the contribution this work may bring to these three points of view.

(1) It is difficult to appreciate how the criticism I have

made of the classical theory of international exchange can be denied by educated people.

But it is not difficult to say—and international opinions upon my work have proved it—that this criticism raises serious doubts regarding the validity of the classical theory.

It would be useless, in this preface, to recapitulate conclusions already so developed that any repetition would be tiresome, but a single aspect of these conclusions will be enough to make the classical ideas appear in a new manner.

Adam Smith tries to prove that any international exchange is advantageous to both parties, and his successors, Ricardo and John Stuart Mill, merely elaborate and state precisely the distribution of “advantages” between the two exchanging countries.

Well, according to my showing, when an industrial product is exchanged for a primary, and especially an agricultural product, then, owing to the superior productivity of industry as compared with agriculture, *the product of the labour of an industrial workman is almost always exchanged for the product of the labour of several agricultural workmen.*

This statement is valid both for the internal and international trade of a country.

Such a general and universal conclusion, which is verified by facts, certainly contradicts the classical theory.

If in the international exchange an industrial country sends to an agricultural country the produce of the labour of *a single* workman in order to buy from the latter the produce of the labour of *five* workmen, is the exchange profitable to both countries?

Certainly not.

This exchange is unavoidable when the produce imported by the second country cannot be produced at home, but every time that it can be produced there *by the application of the labour of less than five workmen* the exchange ceases to be an advantage for the second country, whose sole advantage would be to give up this exchange, and produce at home.

In this case, only the first country (the industrial one) has an advantage, whilst the second (the agricultural country) should avoid such an unprofitable exchange.

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Now, as proved in my book, *this is the most general case in international exchange, as it is the case of the exchange between industrial and agricultural countries. In this almost general case, international exchange is far from offering advantages for both countries.*

So the classical theories of the liberal school of free-trade collapse in these essential points.

What may be concluded about their validity in the circumstances of practical life?

What ought we to think of the immense structure of consequences built up on these theories?

Would it not be exceedingly interesting and important for science to examine the old constructions by the help of these new ideas?

Moreover, the interpretation and comprehension of the great facts of economic and social history would be the better for such an examination and revision.

For instance, could the progress of Europe, and especially that of western industrial Europe, in the nineteenth century, and European economic domination be explained, if the international exchange between Europe and other continents had been an *equally* advantageous exchange for both parties (or even a more advantageous exchange for non-European agricultural countries than for European industrial countries, as Ricardo pretends)?

The truth is, that this exchange has been extremely favourable to industrial Europe, which has found, in industry, a means of creating the maximum exchange value with the minimum human stress, and *of managing to exchange the labour of one English workman against the labour of five, ten, and even fifty workmen of other continents.*

Owing to this, *national income and rapidity in the creation of wealth* have been in England five, ten, and even fifty times greater than the same income and the same rapidity in the countries with which it trades.

In the light of this statement, the notion of economic domination assumes a precise meaning: *the economic domination of a country signifies the economic state which allows the*

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produce of the labour of its workmen to be exchanged for the produce of the labour of a larger number of workmen of other countries.

In the life of nations, as in the life of individuals, wealth never comes only from one's own labour. " *Make others work for you* " has always been the classical means of becoming wealthy.

A rich man is one who has managed to make others work for him. In the same way, a rich people is one which has managed to make other people work for it. *To speak of becoming wealthy by one's own labour is scientifically an absurdity. One becomes wealthy by organising and exploiting the work of others. This is true of men as of peoples.*

It is true that one might imagine two peoples, possessing the same natural resources, which by a different output of energy (the one wasting time, the other working hard) would arrive at a different state of wealth.

This is conceivable, *but these differences between two peoples isolated from the other peoples of the world would never be very important.*

The great differences in wealth between peoples derive from the exploitation of other peoples.

There are two kinds of exploitation, visible and invisible. Visible exploitation has been exercised in the course of centuries, and is up to the present still exercised in a reduced measure under cover of direct political domination. This is a kind of slavery.

But this domination is not very important, especially at the present time. *It is the invisible exploitation which decides the economic position of peoples, and appears in their form of exchange and international commerce.*

Industrial peoples have understood this secret instinctively. The industrial export products allow them to make more men work for them abroad than are put to work at home to create these products.

At the time of slavery this result came through compulsion ; at the present time it is obtained by the free exchange of products.

Morally and socially there is great progress ; from the

economic point of view nothing is changed, except proportions, because formerly one supervisor was required for a hundred slaves, and now one industrial workman is required in order to equal the produce of the work of five, ten, and, in exceptional cases, of fifty agricultural workmen.

This is how our theory and its conclusions explain phenomena which are mysteries and paradoxes according to the classical theories.

Indeed, could we call the historical fact of the rapid enrichment of industrial countries compared with agricultural countries anything but a paradox, if the exchange of industrial products for agricultural products cannot assure any particular advantage or superiority to industrial countries ?

On the contrary, in my view, the advantage of the international exchange exists only for industrial countries, which export industrial products, and it does not exist for agricultural countries which export agricultural products, and could in no case exist if these agricultural countries imported industrial products which they could also produce at home.

Every time that an agricultural country buys an industrial article that it ought to produce—even at greater cost—itself, it loses, or to use a more precise but more commercial expression, it does bad business.

This enormous contradiction between economic science and historical assertions is not surprising.

Either science is wrong in its basis, or history does not tell us the truth.

Now, as history cannot lie, it is evident that science must be wrong.

It is science which asks for verification and revision, and our efforts in the present work are directed to this end.

This is the interest which for the Anglo-Saxon nations may lie in an attempt to examine economic science in the light of the facts of international exchange.

(2) *Our theory of protection is a general theory, applicable to any country, without distinction of its state of development or economic structure.*

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It is true that, owing to the differences which result from variable productivity, the conclusions are all the more striking where greater differences exist between the productivities of the different branches of production.

Now, the contrast of productivities, and particularly the contrast of agricultural and industrial productivities, is much greater in the agricultural countries of Europe than anywhere else. Nevertheless, *this contrast and these differences of productivity exist, and will always exist, in all countries of the world, and that which is based on them will always be valid.*

Besides, in the demonstration of our theory we do not ignore the economic conditions of England, and especially of America.

Almost all our examples are taken from statistics of these two countries. The United States have been particularly the object of the thorough analysis which appears in paragraph 27, and elsewhere.

If, therefore, there are countries upon which our theory has been specifically based, these are England and America.

First of all, the American system of protection appears in a new light.

According to us, the legitimacy of protection as regards America cannot be contested. Quite the contrary.

Nevertheless, on the other hand, one cannot regard as legitimate a protection which is extended to all branches of production.

There is a great difference between this conception and our system.

In fact, we have shown that the productivity of different branches of production in England and America, as in all other countries, is exceedingly variable from one branch of production to another.

There are industries which show a very large productivity, others which represent only a very small one. All removal of productive forces (man and capital) from the less productive to the more productive branches represents an increase of profit for the nation. All removal in the contrary direction represents a decrease of the same profit. The classification of industries according to their productivity gives

therefore at the same time a table of the selection of industries according to the national interest they represent.

Where superior industries cannot be maintained because certain transitory *or even permanent* conditions do not permit the realisation of an individual profit by the producer, these industries should be protected by a customs duty, which would allow them to survive.

In fact, even if these industries are not in a position to secure profit for the producer without the help of protection, *they are, even so, more useful to the nation than other industries, which can exist without that help*, because their productivity—*viz. the total profit of all kinds (salaries, taxes, interests paid to creditors, etc.)—is greater in the case of the former industries than in that of the latter.*

In a word, the small insufficiency which represents the non-realisation of the individual profit of the capitalist does not lower the position of an industry of large productivity from its essentially high position, which is given to it by reason of its integral national worth.

That is why the whole problem of commercial politics, as viewed in England and America, requires a classification of all industries of the country from the point of view of their productivity.

Once this classification is established, the selection of industries which must be protected is easy.

Protection will be given only to those industries of which the productivity surpasses the average productivity of the country, and will be refused generally to those industries whose productivity falls below this average.

The industries of the latter category can disappear, if their disappearance gives rise to the removal of their productive forces (capital and workmen) to the superior industries of greater productivity. It is these latter, according to our conception, which should be the objects of all care.

It is unnecessary to add that the considerations of our theory should not be taken in an absolute sense, and that secondary interests of political or social nature may modify its too rigid application.

Nevertheless, national capital interests show to advantage

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with the aid of our classification based on the degree of productivity.

This criterion of selection, which we introduce to science, banishes the problem of production from the reign of empirical estimation. It introduces a new element, which allows true national interests presented by industry to be "measured," apart from all particular and selfish influence.

The application of this method may lead to surprising conclusions from the standpoint of practical reality: it shows, for example, that protection of American agriculture, and even of the English cotton industry, is not, from the point of view of general interests, advantageous for the respective countries.

These conclusions, even if they do not lead to the sacrifice of these branches of production, constitute, however, valuable indications for national economics to follow for some decades and even for some centuries.

In any case, they show the statesman and the economist the *meaning* they must give to the economic evolution of their countries.

According to our conceptions, protection no more appears as an abnormal and illegitimate device of economics, but as a *normal* instrument destined to support the industries which produce wealth with the greatest possible intensity (therefore, the most valuable industries for national economy).

In contrast with what free-trade teaches us, protection does not mean the protection of the weakest elements, representing therefore the least interests for the country, but, on the contrary, it means the protection of those most capable of producing wealth in an intensive way.

As regards England's economic state, another book ought to be written, specially designed to develop all the consequences of our theory, as applied to the United Kingdom. Should our ideas be found interesting by the English reader, we will write it one day. What may already be anticipated in this direction is that the extension of the British market, even if limited to Capital, is so considerable, and the buying power of the nation so important, *that for whatever branch of*

production, the domination of the home market that could be reserved for it by protection represents an especially important advantage, which will allow it better to withstand the price reductions imposed by the competition of export markets.

The customary objection that a generalised protection would produce a general rise of prices in the internal trade of England, such as might handicap the whole production, is not applicable in the case of our theory, which recommends only a partial protection confined to certain branches of production. On the other hand, a certain rise in prices, which causes necessarily a decrease in consumption, represents a necessary check during the period in which so many workmen are unemployed, and gives place to a certain levelling up as regards the conditions of production of different branches.

In fact, the protected branches, on account of the rise in price of their products, weigh a little over the other non-protected branches, which, in the measure that the latter can support the over-weight, sustains the whole national economy.

These short considerations cannot show as clearly as the arguments in our book whether our theories may be a useful contribution to the practical commercial politics of England and America. We, however, should rejoice in every opportunity of bringing forward practical hints for the solution of different problems.

(3) International economic co-operation, and especially co-operation between European countries which are trying to maintain Europe's supremacy in the world, is an active preoccupation with English and American nations.

According to us, economic co-operation should depart from the exact interpretation of universal economic facts. An erroneous conception of national wealth, and especially of the effects of international exchange, may lead to the gravest errors.

All our arguments purpose to show that it is the nature of international exchange which is the determining factor of the wealth of nations. The example supplied by Europe on this subject is very conclusive.

In effect, if we make an economic classification of the countries of Europe, we have to place on one side *the countries exporting industrial articles and importing raw materials*: England, France, Germany. These are the rich countries of Europe.

On the other side we have to place *the countries whose imports consist of industrial articles and whose exports are raw materials, agricultural products in the first line*: Russia, Roumania, Yugoslavia, Bulgaria. These are the poor countries of Europe.

Thus appear distinctly "the two Europes" of which Mr. Delaisi speaks in his book.

These two Europes show in an approximate manner—before entering into scientific demonstrations—that *it is the structure of a country's exchange, the nature (and not the quantity) of its exports and imports, which determine its state of wealth and capacity for increase of wealth.*

Moreover, from the economic point of view, the most significant thing for all countries of the world is *the quality* of their imports and exports. When a people exports the produce of the work of ten of its workmen in order to buy the produce of the work of a single foreign workman, this exchange can be only disadvantageous. Now, this is the normal case in the exchange between the United States and Russia, between England and India, or between Germany and China.

In the light of these statements, can we believe in the solidity of the principle of the division of labour? Our statements alone reflect the true state of humanity at the present time.

They show the great inequality which reigns in the world, and which, according to the conception of equality, is, at the same time, an inequity.

But the economic equilibrium of the world cannot indefinitely rest upon an inequity.

This inequity is greater than another much-discussed one—namely, the plus-value of Karl Marx.

The plus-value has upset all the political life of nations. A new doctrine and idealism have developed, based exclusively on this troublesome notion of plus-value.

What has been the result? The socialist theory, which showed that in the division between capital and labour the share of capital is too large, has led to eighty years of social reforms, which render the share of the capitalist smaller and smaller and that of labour larger and larger.

The final result has been a certain equilibrium, and a relative peace in the relations of capital and labour.

This other inequity upon which we insist—the inequity presented by international exchange—has not had its scientific theory; it has not been taken up by science.

It is sometimes vaguely spoken of, but with so little lucidity as to have no scientific value.

The class struggle—socialism—has declined in the last two decades from its primary intensity.

This other socialism, the socialism of nations, which must have for its basis the inequity of international exchange, still retains all its asperity.

The equilibrium built upon this inequality cannot resist the attack of centuries.

Meanwhile, it is on this equilibrium that the world rests.

Why will this equilibrium not endure? First of all, for an ethical reason. Nothing that is unjust can last. Further, for a hundred years there has been a tendency to destroy it.

This marked contrast, where, in a working year, we find on the one hand great, and on the other very small, production with forced inequality of exchange, is slowly tending to disappear. There is a levelling up of prices, and it will be followed by the levelling up of productivity.

On this subject we have made some very interesting observations upon American statistics: they show that in the course of centuries there has been a very significant approach between the prices of raw material and those of industrial articles. During the sixty years preceding the war, agricultural products increased, and industrial articles fell in price, and in this way the former very considerable difference between them has been reduced. At the same time, *the difference between the productivity, measured in units of value, of agriculture and of industry has much diminished.*

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In 1880 the productivity of industry in America was *three* times as great as that of agriculture : to-day, on account of the progress of agriculture (and in spite of the progress of industry), the two productivities approach each other, and industry is now only twice as productive as agriculture.

What is the result of this conclusion ?

It is that industrial countries cannot indefinitely exchange their industrial articles with other countries on this basis—the produce of one European worker against the produce of five or ten workmen of other continents.

It is that there has long been a tendency to level up productivities—that is, *a tendency to weaken the inequalities of international exchange.*

The world must therefore prepare itself to adopt a new equilibrium.

In what sense ?

Firstly, there will be a fatal decline in the prices of industrial articles.

Even by working and producing more the industrial workman will not be able to exchange the products of his labour against those of the agricultural workmen of other countries under conditions as favourable as in the past.

Europe is particularly menaced, not only by the possibility of a less favourable exchange, but also by the eventual inability of placing its products at all in other continents.

The industrial decentralisation of the world, the industrial evolution of India and China, the industrial progress of the new countries will possibly impede Europe, in the future, from placing its products.

Happily, the study of statistics shows (although it may appear paradoxical) that *the largest importers of industrial articles are always the industrial countries.*

As a matter of fact, before the war England imported, per inhabitant, ten times as many pure industrial products as Russia, per inhabitant.

Thus, agricultural Russia, which, according to the classical theories, should have been the natural market for the industrial products of occidental Europe, presented a very poor market. It had much less interest for the exporter of

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European articles than England, which imported, per inhabitant, ten times as much as the Russian peasant was able to import.

There we have a fact which enables us to hope that in the day when the Russian, Indian and Chinese peasant will become richer by the progressing industrialisation of their countries, the buying capacity of these countries will also increase correspondingly.

They will then be more capable of absorbing the industrial production of Europe than they are at present, inasmuch as the civilisation which we have so well managed to introduce to countries of other continents will develop new tastes, new desires, for whose satisfaction they will make all sacrifices.

This will allow countries backward in industrial development to create new means of industrial production without endangering the economic equilibrium of the world, *but* by demanding a new adaptation of this equilibrium.

For example, in China the productivity of to-day can hardly be about 250 Swiss francs per worker per annum.

Therefore, if a creation of new industries should begin in China, these new industries, even though realising the smallest possible profit, will open up a much larger productivity, and so increase the buying capacity of a part of the Chinese population.

What force can restrain this evolution, even were it known to be only temporary?

And on what grounds could this evolution be hindered?

Our conclusion is that the danger run by industrial countries is not a transitory one. Profound causes are leading to a lasting economic evolution.

What the essentials are that this evolution imposes we could not outline in this preface.

The chapter we devote to the politics of Geneva will clearly designate the broad lines of international co-operation, *conceived in a spirit of reality, and not contrary to the evolution of humanity.*

The conception which consists of taking the status quo as basis, and even as aim of international economic co-operation,

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is in fact untenable, destined to be reduced to nothing by the years to come. With or without the World War, the fatal evolution of humanity towards the destruction of the inequalities of international exchange cannot be retarded. The problem of international co-operation is not how indefinitely to resist the inevitable, but how to bring about the necessary adaptations, in order that the economic evolution of humanity may proceed without shock and without disturbances.

And in this direction there is no worse enemy of humanity than man, who, in the name of unworkable theories, increases the troubles of nations and hinders their normal and beneficent evolution.

INTRODUCTION

SOCIAL facts presenting a certain uniformity in space or time can be understood only with the help of a *theory*.

Sporadic and particular effects can do without one.

Permanent and general facts, however, ask for a logical linking together into a theory.

To demand *explanations* for particular facts and *theories* for general facts is an inborn instinct of the human spirit.

Theories may precede social facts, they may be concomitant with them, or they may appear only after them.

To distinguish the rôle of ideas in the evolution of social facts requires great nicety, since the influence of an idea or an objective factor can never be identified.

Ideas, like facts, have laws which govern their evolution. Ideas proceed from ideas according to a certain determinism, just as facts proceed from facts according to a similar determinism.

But ideas and facts do not remain isolated : they exert a mutual influence. Facts become the cause of ideas ; ideas become the cause of facts.¹

In this complexity it is difficult to establish whether a certain category of phenomena is due rather to ideas than to facts. It is an extremely delicate task to *consider*, at their origin, the parts played by facts and by ideas.

And yet there are evident and striking cases when, in spite of all scientific scruples, one can express an opinion without hesitation.

There are cases where ideas prevail and lend their own colour to events.

On the other hand, there are cases where facts develop, influenced by certain social realities, without ideas interfering as independent and active factors.

¹ GEORGE CROMPTON, *The Tariff* (Macmillan, New York, 1927), p. 4 : "There is no subject more fertile in suggestions than this (protection) for a study of the action and the reaction of ideas upon historical events and of historical events upon ideas."

INTRODUCTION

In the first case ideas *precede* facts, in the second *they follow them*.

As an example of the first case, we have Bolshevism.

Evidently it was not the *idea* alone which destroyed Tsarism.

During a century and a half the waves of revolutionary ideas assaulted the stronghold of Petropawlovsk, and yet not one single stone was displaced.

For the triumph of the revolution there had to be a deadly war, a complete social upheaval. The revolutionary victory, therefore, was not due solely to ideas. But the *form* of the revolution, the *spirit* of the reconstruction, right or wrong, which followed it, was exclusively the work of idealists.

The economic and social factors of Russian life have played no decisive part either in the aims of the revolution or in what has since been constructed.

One may say that in the results of the revolution there is but one single reform which corresponds to a specific Russian necessity: the division of landed property. All the rest is foreign idealism, imported artificial theories, extracted from books. Certainly there ideas play the leading part. Their predominance is clear, as perhaps in no other case in history.

An example of quite a contrary case, in which an important general social phenomenon is being developed without corresponding idealist support, is precisely the one which forms the subject of this book: protection.

As a social fact, protection represents one of the most notable phenomena of modern life.

It represents, as may be seen, not only an enduring and constant, but also a very general fact.

This permanence and generality are of themselves sufficient to claim and justify a *theoretical* construction of the idea of protection.¹

The permanent and general factors of modern life, which

¹ WILHELM BICKEL (*Die ökonomische-Begründung der Freihandelspolitik* (Zürich, 1926) p. 197): "Scientifically, we may rather notice a return towards the free-trade conception, which is in direct opposition to the exaggerated protection which is so general nowadays."

are the cause of the *protectionist phenomenon*, should be discovered and brought to light. All these factors should be logically connected with the general phenomenon and its variations. For I know nothing more absurd and humiliating for the human spirit than the opinion of certain authors, according to whom *free-trade, the antithesis of protection, might be, "correct in theory, but not in practice."*

Is it really admissible that a theory is correct when it does not cover the facts it wishes to justify or to explain?

Then, what is a theory?

Merely a scholar's *jeu d'esprit*?

If there is a *general* protectionist PHENOMENON, there must be a GENERAL THEORY of *protection*.

But the logical necessity of a theory is accentuated by the fact that protection is not a social fact almost independent of the will of men—as capitalism, for instance—but a *voluntary* act, the object of conscious *State* laws.

Now, at any rate in the world of to-day, the State cannot devise a measure without justifying it. Protection has the double disadvantage of demanding sacrifices (at least apparent ones), and at the same time of appearing to the mind as something not inevitably necessary.

Other social institutions demand sacrifices; for instance, the army. But these institutions impose themselves on nations by elementary instinct and by tradition.

In order *to deny* the importance of an army for a nation, you need arguments; *to confirm* its importance, you need none.

Protection is a different thing altogether. It is a State regulation, bearing an artificial, grammatical character.

The plain common sense of the masses is against protection and in favour of free-trade.

Everyone's first inclination is to run after the benefits of cheapness, as something within the natural order of things. Protection appears to be an invention of the devil.

That is why protection needs justification, defence, *excuse*; that is why, apart from the permanency and generality of the protectionist phenomenon, its character as a State regulation demands a *theoretical* justification.

We are entitled to expect that such a theory exists.

We may presume that it will deal with the phenomenon of production in general, and that it will explain why and how, in all countries and at any given moment, it is advantageous to protect certain branches of national production by protective taxes or by subsidies.

Well, to the great surprise of unforestalled readers, such a theory *does not exist*.

Modern protectionists generally call LIST their precursor.

But, as we shall see later on, List never advocated the adoption of permanent protection. In fact, List *even contested* protection as a *permanent* law for the encouragement of national production.

His system adopts the *provisional* (educational) protection only *for industries* and *for certain countries* which are passing through a certain phase of their economic and social evolution.

List's system, far from strengthening the *general principle* of protection, weakens it.

He presents protection as the exception, and *grants the character of general validity* to the free-trade system.

With the lack of harmony between the vitality of the protectionist phenomenon¹ and its insufficient theoretical basis, the question definitely presents itself :

Either protection is not justifiable, and the whole world is then the victim of a mystification unparalleled in history, or it is justifiable (all persistent and general phenomena are assumed to be justifiable), and then it must be put on a theoretical basis, corresponding to its importance.

In the first case, it must be destroyed as an economic system; in the second, it must be strengthened and systematised.

This systematisation is indispensable.

¹ FONTANA RUSSO, *Traité de politique commerciale* (Paris, Giard, 1908), p. 186: "Whilst in the political and economical world everything has been transformed, protection alone maintains all its authority, and is still practised on a large scale."

Not having a scientific theory, protection exists and develops itself empirically and arbitrarily *without a guiding principle*.

Its force is not reason, but instinct. The people are aware, by instinct, that it would be dangerous to expose the whole of the national production to the possibility of limitless foreign competition; statesmen have the same instinct of the risk they would let the nation run in giving up protection.

Besides the instinct of those who have no selfish interests in it, there is the selfishness of the directly interested minority, *i.e.* the industrial magnates of every country.

A theory of protection would also have a considerable practical use.

It would permit the application of protection, *according to certain scientific criteria*, fixing objective rules without arbitrary and selfish suggestions.

It would give us precise indications as to the branches of production which we ought *and ought not* to protect.

Finally, it would enable us to establish the degree of protection which should be granted to every article in commerce.

In this book we intend to construct a new theory of protection, which will have a general character. A few words are necessary to explain our methods.

We shall plunge at once into the demonstration, without at first criticising other protectionist or free-trade doctrines. A critical survey of the various doctrines and schools will follow.

We are obliged to proceed in this unusual way, because our theory is based on a personal conception of the structure of national production.

From this conception to the theory of protection there is only one step.

When once this conception and theory have been developed, it will be easy to pass to a critical examination of other doctrines.

It would not be the same thing, if we had first to criticise

these doctrines—without having developed our conceptions—and had to make use of partial anticipations, based on our theory, for this criticism.

A method which consists of gradually developing one's ideas, solely in contrast with those of others, easily becomes tedious and rids the statements of unity, leading to repetition.

That is why we shall enter *ex abrupto* into our subject. The reader is now, at least, forewarned.

We are quite aware that our purpose is not very modest, but although the habit of apologising to the reader has been out of fashion for a long time, our case is so serious that we have to make use of this convention.

Our attempt is excessively audacious. Its only excuse is that it is *an attempt*.

Audacious—first because we criticise other protectionist systems, which we consider completely insufficient, at least as far as modern protection is concerned.

Again, because of our object, which is to construct a *general* theory of protection.

And lastly, because we have made up our minds to swim against the stream and to uphold the principle of protection, against which, at Geneva and elsewhere, it is fashionable to use one's biggest guns.

To accomplish a great task without the help of those who support the same cause, and to go against the current of present day ideas, is an undertaking beyond the most powerful resources.

We know from the beginning that we shall not fulfil this task alone.

We shall be happy, however, if we can reach the first stage, which consists in the raising of doubts.

Doubt is the beginning of wisdom.

When people begin to doubt the value of the actual theory of the division of international labour and of the recommendations of the free-traders of Geneva, the rest will follow easily.

Our work is far from being complete. It develops a theory, but does not deduce all the implied conclusions.

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It fails especially to make a complete revision of the old protectionist and free-trade arguments in the light of our theory.

The aim of this book is, mainly, to introduce to science a new point of view which we believe will prove to be very fruitful in results.

If our theory and our point of view are considered to be legitimate, perhaps others, more qualified than we, may finish our task, perpetuating our principles, and planting them like young trees along the path of human knowledge.

MIHAIL MANOILESCO.

The author desires to express his grateful appreciation of the help given by M. Arthur Holban, of the Roumanian Legation in London, in the preparation of the English edition of this book.

M. M.

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APPENDIX I

A SCHEME FOR THE INTERNATIONAL UNIFICATION OF THE STATISTICS OF EXTERNAL TRADE

It is a well-known fact that statistics of foreign trade are difficult to utilise.

Classification of imports and exports is done in different countries according to the nomenclature of their respective customs tariffs.

This nomenclature differs greatly between one country and another, and as a consequence in two different statistics under the name of the same group of articles the same goods are not always comprised.

For instance, the group "chemical products" does not mean the same thing in all statistics, and does not in all countries indicate the same goods.

And when to these difficulties we add the difficulty of estimating in money the value of imports and exports, we must not be surprised at the contradictory results of statistics!

The most well-known fact, and one so often appealed to, is the non-coincidence of foreign trade statistics. For instance, German statistics show an export of textile products to Roumania to the value of a certain number of millions. The Roumanian statistics show an import of textile products from Germany to the value of a certain number of millions. These two figures, which ought to be the same, are absolutely different.

In order to be able to weigh all these difficulties, and others not mentioned here, an attempt has been made to devise a single international nomenclature for all customs tariffs and for all statistics of the world.

In the following lines we shall suggest a method which will constitute an international nomenclature for customs tariffs, allowing each country to adapt the tariff to its necessities without changing the unit of international nomenclature.

Our system is essentially based on the idea of decimal classification, applied to all goods that are the object of international exchange.

How should we proceed to constitute such an international nomenclature, *i.e.* a unique type of customs tariff?

First, all goods for international exchange will be classified in

ten large groups. We propose, for instance,¹ the following classification :

0. Live animals.
1. Animal foodstuffs.
2. Various animal products.
3. Vegetables in a natural state.
4. Vegetable foodstuffs.
5. Various vegetable products.
6. Minerals and transformed mineral products.
7. The above-mentioned substances, physically combined.
8. The same, combined chemically.
9. Reserved.

Each group will be classified in its sub-division ; for instance, group 2, Various animal products, will have as sub-groups, still according to the decimal classification :

20. Furs.
21. Hides.
22. Leather articles.
23. Wool and woollen articles.
24. Silk and silk articles.
25. Various.
- 26, 27, 28, 29. Reserved.

Woollen articles of 23 will be sub-divided into :

230. Raw wool.
231. Woollen yarns.
232. Woollen fabrics.
233. Woollen knitted goods.
234. Woollen clothes.
235. Various.
- 236, 237, 238, 239. Reserved.

Article 231, Woollen yarns, will be sub-divided as follows :

2310. One ply.
2311. Two ply.
2312. Three ply.
2313. More than three ply.
- 2314, 2315, 2316, 2317, 2318, 2319. Reserved.

Article 2311 will also be sub-divided :

- 23,110. Two-ply woollen yarns up to 10,000 m. per kilo.
- 23,111. The same from 10,000 to 20,000 m. per kilo.
- 23,112. The same from 20,000 to 30,000 m. per kilo.
- 23,113. Over 30,000 m. per kilo.
- 23,114, 23,115, 23,116, 23,117, 23,118, 23,119. Reserved.

¹ All the following classification, with its divisions, is only given as an example. We have not had the necessary time to study such a classification thoroughly. Nevertheless, this example may illustrate the principle that we wish to present.

This system will allow the logical classification of all goods subject to international trade.

This nomenclature might be composed for all existing customs tariffs in all countries of the world. No article would be missed out.

In a first preparatory scheme all actual tariffs might be united as they now are without any attempt at logical simplification.

In a second scheme one might proceed towards this simplification, eliminating any absurd differentiations, and imposing certain differentiations according to a definition common to all States.

For instance, if the yarn which we have just given as an example were classified in a country according to the length per kilo between 10,000, 20,000, 30,000 m., and in another country according to length per kilo between 8000, 16,000, 24,000 m., this classification would require to be unified, defining the articles in all countries according to the same unit of length.

Thus a logical and uniform tariff might be established, which would correspond to the necessarily complex variety of different goods.

This single tariff (and this is a particularity of our system upon which we can never sufficiently insist) shall not be a tariff in which the differentiations will be obligatory for all countries.

A country could easily renounce certain differentiations of the uniform tariff, remaining, however, within the same outline, thanks to the decimal system.

The nomenclature of each State will therefore be a particular nomenclature, representing a part of the general uniform nomenclature.

To utilise the former example, if a country renounces the decimal differentiations of article 2311, *i.e.* it does not find it necessary to classify yarn in 23,110, 23,111, etc., according to length per kilo, it would need to have in its nomenclature only Article 2311 of the international nomenclature, *i.e.* two-ply woollen yarns.

But there might be a more complex case.

For instance, a country wants only two differentiations for Article 2311—namely, a yarn with a length per kilo below or above 20,000 m.

In this case, it could inscribe in its nomenclature the combined article of 23,110 and 23,111. And a second article 23,112 with 23,113. Or, with another denomination, "the other 2311's."

With this classification, all displacement of goods 23,110 could not be examined in international statistics. But the important point is that we could follow the displacements of goods 23,110 in countries to whose interest it is to put them in evidence separately, and at the same time the displacement in all countries of the goods of Article 2311 could be examined.

Therefore for international statistics we should always have the same basis for nomenclature, and it would always be possible to compare one country with another as regards goods and groups of goods which correspond exactly to the same definition in all countries.

We have shown that a combination of neighbouring articles could take place, and even combinations of neighbouring groups could be utilised for simplifying tariffs in certain countries where too great a complexity is not needed.

But what will not be permitted in any country is to abandon altogether this international nomenclature, by introducing any new article which does not exist in the international tariff, whether by combining two distant articles in the single international tariff, as, for instance, 56,614 with 2322. A simplification of this kind must be forbidden, and the structure of the international tariff must be such as to prevent the opportunity of such a resemblance of different articles.

However, if a State wanted to have the same customs taxes for Articles 56,614 and 2322, it could do this, with the proviso that each article be kept in its right place. For the statistics of foreign trade, based on the nomenclature of the customs tariff, the identity of the taxes would have no effect, because each kind of goods would be separately classified and in its right place.

APPENDIX II

ON NON-PROPORTIONAL OUTPUT

AN aspect of the production problem which was not considered in our demonstration upon international trade and protection is production according to the law of decreasing or increasing output.

Nevertheless, this aspect has been studied from the theoretical point of view of international trade by other authors—namely, by Kellenberger in his article “Zur Theorie von Freihandel und Schutzzoll,” published in *Weltwirtschaftliches Archiv*, January 1916.

The greatest originality of this author is that he shows how, in certain circumstances, protection presents a direct and immediate economic advantage for the country adopting it.

But, from what we have seen (see par. 31), this thesis is rare in economics; generally all arguments in favour of protection admit that protection does not represent an advantage for a country, but, from the economic point of view, an actual sacrifice.

All Kellenberger's demonstrations—which we cannot sum up here—come to this general conclusion, that expanding productions (such as industry) present a big advantage over non-expanding productions (such as agriculture), and that, the more non-expanding a branch of production is, the less advisable is it to limit national production to this branch.

What modification does a non-proportional output bring to our theoretical conclusions?

There is no question of a modification, merely of a correction.

Indeed, if a branch of production works according to the law of increasing output, then, after the production of a certain quantity of goods, each unit of goods produced demands less effort and a lower production cost than the previous units.

Therefore, in this case the production per workman, *i.e.* the productivity of this branch, augments according to the total quantity produced.

Therefore, for a certain branch of production, increasing output is also increasing productivity.

In the same way, decreasing output means decreasing productivity.

What are the consequences of these deductions?

In our theoretical scheme, criticising the theory of international

trade, we came to the conclusion that in all cases where $\frac{q}{qI}$ is inferior to K direct production is preferable to the commercial solution (import).

But when the article Q is produced according to the law of decreasing output (the general case with agricultural goods), and the article Q^1 is produced according to the law of increasing output (the general case of industrial goods), then the coefficient q , which represents the diminished agricultural superiority, and the coefficient qI , which represents the augmented industrial superiority, therefore the ratio $\frac{q}{qI}$ decreases.

At the same time, the coefficient K , which represents the report between industrial productivity (which augments) and agricultural productivity (which diminishes), is increased.

Therefore, if, according to the law of constant output, we have $\frac{q}{qI} < K$, this condition is satisfied by the law of decreasing output.

The direct production of article Q^1 is much more advantageous than its importation.

If now this article Q (which we have only conventionally—see par. 60—supposed to be an agricultural article) is produced according to the law of increasing output, and the article Q^1 (which we have equally conventionally supposed to be an industrial article) is produced according to the law of decreasing output, then q augments, qI decreases, and $\frac{q}{qI}$ augments, while K decreases.

The condition $\frac{q}{qI} < K$ chances to be no longer satisfied, and the commercial solution may outweigh direct production.

But this case is really exceptional, as it seldom happens that an agricultural article is produced with increasing output and that an industrial article is produced with decreasing output.

The general case is the one first examined.

Thus this case does but confirm our conclusions.

APPENDIX III

ON THE INCREASE BY PROTECTION OF THE PURCHASING POWER OF NATIONS

AN argument never lacking in any free-trade demonstration is that protection, by favouring the existence of production branches with a smaller output than that of foreign branches, decreases the total production of the nation, therefore also its revenue, raising the prices for those protected products and decreasing purchasing power.

But the purchasing power of nations, playing a part in the world crisis following the war—as we showed in the discussion on the policy of Geneva—this anti-protectionist argument does not fail to produce a particular impression.

We must therefore revert to this in two or three words.

What happens if a protected industry of large productivity (a large intrinsic productivity) takes its rise in a country?

A number N of workmen and other producing agents are displaced towards this industry, after having left other industries and other branches of production which represent a smaller productivity.

Therefore, according to what we have so often shown, this displacement represents a rise in national production, therefore in national revenue, therefore in the purchasing power of the nation. We need not repeat this argument.

On the other hand, free-traders pretend that the dearness of protected products in a country is a cause of diminishing purchase power.

To this second argument we have not yet replied. This is what we intend to do now.

It cannot be denied that internal dearness is not a cause of diminished purchasing power (as regards the articles which have become dearer), but the whole question is to know whether this diminution is greater, or not, than the rise in purchasing power caused by the rise of national revenue as a consequence of the progressive industrialisation of the country.

This comparison quickly leads us to categorical results.

Indeed, when the N productive agents are displaced towards the protected industry with larger productivity, the rise in national revenue is usually very high.

We showed that in all countries the average productivity of industries is twice or three times larger than the average productivity of agriculture.

But there are industries—namely, the ones which we recommend for protection—with a productivity five or ten times greater than the productivity of agriculture.

Therefore a displacement of agricultural labourers towards industry represents a considerable multiplication of their productivity.

In the same proportion the purchasing power of other agents is multiplied (the purchasing power of persons outside the actual industry: bankers and bank clerks, merchants and their assistants, forwarding agents, etc.).

What is, from the point of view of this real increase of national revenue, the diminution of purchasing power caused by the high prices of protected goods?

The augmentation of prices of goods, through protection, is generally 10–20%, rarely 40%. This augmentation diminishes consumption (measured in quantity of goods) in a certain proportion. But this diminishing, which touches merely those goods, is not to be compared—according to the results of the above-mentioned figures—to the so considerable augmentation of the nation's purchasing power (which, for the producing agents of those goods, is twice, four, and ten times greater than before).

We could reproduce here exact calculations which we have made on various branches of American industry. But we consider it unnecessary, especially since the final revenue from protected industries—historically verified—confirms our conclusions.

Indeed, industrial protectionist countries have a much larger purchasing power than agricultural countries. Protection, favouring industrialisation, does not diminish the total purchasing power of a nation; on the contrary, protection augments this power.

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