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THE DELUSION OF PROTECTION

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A PLEA FOR TARIFF REFORM

By

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With Introduction by

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TO THE MAN ON THE LAND

Single-handed and unaided he has hewn our civilization
from the wooded wastes of a vast, unpeopled continent.
To him, in token of gratitude and admiration, this book is
dedicated.

PREFACE

IN putting forward this little volume for the consideration of the Australian public, the authors have been influenced by the practically universal demand for some explanation of the extraordinary slump of 1930.

On every hand it is admitted that the causes of the slump are twofold—a sudden cessation of borrowing abroad, combined with a fall of £32,000,000 on the wool and wheat prices for the season 1928-9. A cessation of borrowing can mean nothing else than a falling off in the imports which the borrowed money represented. A fall in the price of wool indicates that fewer imports are being received to pay for the same quantity of wool sent away. As a consequence it is obvious that the slump, so far as it affects Australia, is merely a slump in imports in the first instance. Just as a famine can only be overcome by securing plentiful supplies of food, such a situation could only have been rectified by endeavouring to restore imports to their former volume.

If responsible administrators had grasped the fact that a bad deal occasionally falls to the lot of the luckiest trader, and left the situation alone, all would have been well. Time and freedom to secure a better exchange in the future were the only possible cures for the situation. Such disasters occur through the laws of supply and demand, and are as much beyond legislative interference as losses due to floods.

The action taken was to increase the tariff, with a view to preventing further imports. From a grasp of the principle that imports and exports are different aspects of the same process of barter, it is obvious that such a course could only aggravate the evil it was designed to remedy.

From a strictly economic point of view such a glaring mistake affords an interesting example of erroneous thought. Translated into human terms, it represents an amount of suffering and privation associated with years of war, rather than with times of peace and plenty. While there can be no question of the good faith behind the action taken, good intentions, without exact knowledge of the issues involved, are as worthless as the unskilled attentions of the unqualified amateur to a patient whom only medical knowledge can cure.

As amateur economists have decided that an extension of the tariff is necessary, and as the pros-

perity of millions of Australians depends on the correctness of their decision, it is imperative to examine the foundation upon which the whole fabric of protection stands, before endorsing their action. Such an investigation reveals that it is grounded not on the rock of economic truth, but on the shifting sands of misconception.

Although the mischief for the present is beyond repair, the privations of a disastrous year may provide a fruitful soil for the moral this volume is intended to draw.

GEORGE H. WINDER.

CLUNY MACPHERSON.

INTRODUCTION

FROM what angle can an attack upon the fetish of high protection be most effectively directed? The National or the International? Is the principle of discrimination, frankly adopted as a policy of economic selfishness, to be assailed on the ground that it is unwise or on the ground that it is wrong? Shall we try to prove that freedom of trade is beneficial to ourselves or that it is essential to the peace of the world and the well-being of all peoples? Unfortunately, political exigencies force into the foreground the doctrine of economic nationalism. If people can be made to think that a policy is good for themselves it is futile to argue with them that it is harmful to other folks. A duty on cotton goods may be attacked on the ground that it compels the Australian user to pay a higher price for—possibly—an inferior article. The contention that it might condemn operatives in Lancashire to unemployment would fall on deaf ears. A prohibition on the importation of glassware might offend the artistic sensibilities of a lover of Venetian, Tiffany, or Whitefriars, but would

excite little sympathy for the consequently dismissed workman in England in Italy or in Czechoslovakia.

The pity of it is that this method of argument is necessarily inconclusive. Political economy is by no means an exact science. In the ordinary affairs of life most of us have a fairly accurate idea of what is right and what is wrong: not one in a hundred thousand can predict unerringly the consequence of any particular action. Someone has put it much better than I can hope to do:

Right and wrong are in the nature of things. They are not words and phrases. They are in the nature of things, and if you transgress the laws laid down, imposed by the nature of things, depend upon it you will pay the penalty.

It would require much hardihood to contend that it is right for nations to refuse to trade with each other, and amongst economists the world over there is general agreement that the most embarrassing feature of the post-war period has been the development in almost every country of an intense nationalism that has found expression in swiftly soaring tariffs. The League of Nations has not hesitated to declare that this tendency constitutes the chief obstacle against reconstruction, and embodies the most potent threat of recurring warfare. The accumulated wisdom of the world

sends out a trumpet call for international justice, international friendship, international trade: and then the League dissolves into its constituent elements, and each element bows to the will of an aggressive nationalism and declares for more and more discrimination in favour of its own people and against its neighbours. The day is still distant when the mission of the cross shall

Knit land to land, and blowing heavenward
With silks, and fruits, and spices, clear of toll,
Enrich the markets of the golden year.

So far the League of Nations has found it idle to insist that hampering tariffs are lowering the standard of living in all countries, and so the task falls upon the protagonists of peace and right and justice in each country to endeavour to satisfy a reluctant people that whilst it is natural for them to love themselves better than they love their neighbour, they cannot do that neighbour material injury without suffering themselves. The United States of America, with an accumulation of wealth undreamed of at any period in the world's history, is faced to-day with tragic miseries arising largely from the poverty her policy of trade exclusiveness has forced upon people who might otherwise be purchasers of her products. The maladministration of the gold standard, to which some at least of present world troubles must be attributed, is in

large part the consequence of American policy in demanding gold instead of goods in settlement of the obligations of her debtors. Five years ago it was predicted that America's policy in regard to debts and tariffs, if persisted in, would bring the economic structure of the world down in ruins. To-day the prophecy is perilously near to fulfilment.

In January of this year the Vice-President and managing director of the Royal Bank of Canada, commenting on the "practical corner on the world's gold supply" created by America and France said:

Both are using their best efforts to avoid receiving payment in goods on amounts owed, and, temporarily at least, both are unwilling to offset amounts owing by loaning abroad. This is an impossible situation, which if not met in a statesmanlike manner can only have disastrous results to the world.

The truth of this is steadily gaining recognition in the highest financial circles of America and France, not, it must be confessed, because of the disaster threatening other countries, but because of the now obvious consequences to the two offending nations.

At the moment the old world is agog because of certain tariff arrangements pending between Germany and Austria. The merits of the matter are not for discussion here. The incident emphasizes the fact that while in past centuries religious

animosities formed the major occasions of war, to-day trade antagonisms provoke the nations to conflict.

And what are we in Australia doing about it? In our present attitude towards national defence we are showing a childlike, pathetic confidence in the ability of the League of Nations to prevent war. At the same time, with strange perversity, we ignore every appeal of the League to do those things which alone can make possible a real and an enduring peace. We are deaf alike to the demand for a tariff holiday and to the recommendation for conformity to world currency and price levels. Our craze for nationalism is asserting, and endeavouring to implement, an isolated economy—beachcomber in its conception.

No other country has gone so far or so fast in the direction of economic exclusiveness. That such a policy has excited reprisals is natural: that these have not been more general or more severe is due to the kindly indulgence older countries are ready to extend to the eccentricities of youth. Upon tariffs and bounties we have piled prohibitions, until the wall to keep other people's goods out forms an effective obstacle to the export of our own products except at ruinous loss. Surely it is a fair thing to ask that the success or failure of this policy should be judged by the position in which it has

landed us? That we are affected by adverse world conditions merely emphasizes the fact that we cannot live to ourselves alone. But those conditions alone could not have wrecked us. Australia is a great country with vast and widely diversified resources. Australians spring from the finest stock the centuries have evolved and all their strengths have been nurtured by the kindest environment nature could bestow. Since the war, the world demand for the things we have to sell has given to our products prices that should have made us rich. Nothing but gross mismanagement of our own affairs could have brought us—almost immediately—to an abject state, with a percentage of unemployment without precedent here or elsewhere, and with our credit so impaired that our stocks have fallen to the level of those of second-rate republics: communities through whose zodiac revolution chases repudiation with rapid and unflinching regularity.

And what are we doing to meet our troubles? Merely taking further doses of the dope that has enfeebled us. More and more bonuses to industries incapable of profitable exploitation; higher tariffs or total prohibitions designed either to support inequitable and arbitrary industrial awards, or to continue production for which natural conditions or the limitation of markets render Australia

unsuited. All the time increasingly heavy burdens are cast upon the natural industries of the country until they in turn are robbed of all possibilities of expansion. Incapacity to provide employment for our small population is the result, together with what amounts to refusal to receive the immigrants needed alike for the development of our resources and the security of the nation.

To two outstanding characteristics of the Australian tariff referred to in this book, special attention should be directed. The first is its unjust discrimination between States—discrimination contrary to the spirit of the constitution and fatal to the smooth working of the federal plan. The nature and extent of the disabilities imposed upon the States of smaller population have been closely determined by expert investigation. A partial attempt has been made at recompense in the form of special grants to States, but this has failed—and always must fail—to reimburse the plundered industries. No more convincing evidence of the error of Australian fiscal policy could be provided than lies in the fact that after a long succession of reasonably good seasons and exceptionally high prices the first blast of adversity has found our primary industries without any accumulated resources, and brought the people who have been the backbone of the nation to the verge of bank-

ruptcy. The consequent drying up of their employing capacity and purchasing power has been reflected in the acute depression of every one of the city industries the tariffs were designed to help. Not yet has the lesson been learned that the well-being of Australia depends not upon the building up of one or two densely populated cities upon its eastern seaboard but upon the adequate using of the whole of its natural resources from Wyndham to Hobart and from Thursday Island to the Leeuwin.

The other unhappy fact that one would like to ignore is the definitely corrupting influence of bonuses and tariffs and prohibitions upon the public life of the country. Professor Marshall stated a truth that all experience tends to confirm when he said:

Tariffs start on the basis of simplicity. Vested interests press, and tariffs become intricate. Any tariff, taxation or other matter that becomes intricate becomes corrupt—not perhaps from the cash point of view, but from the corruption of mind of the politician, caused by the pressure of vested interests.

Let any one who doubts the existence and the influence of this pressure of vested interests visit Canberra about the time that a tariff schedule is being tabled or when a tariff debate is expected and he will come away saddened and disillusioned.

. A whole book might be written on the extent to which tariff policy associated with extensive Federal and State borrowing has destroyed public finance, leading to the creation of spurious surpluses and the scattering of largess: perhaps the most dangerous form of corruption with which any country can be afflicted.

To-day, when untoward world conditions, resulting largely from this same policy of obstructing trade and commerce between one country and another, have brought into grim relief the weaknesses of Australia's economic structure, and when people are eager, as they have never been before, to study the public questions on which they have to vote and on which their material welfare so much depends, this book makes timely appearance. Within the necessary limits of a work commendably and attractively brief it furnishes a comprehensive view of a big subject and throws light on previously dark places. The principles it expounds are worthy of the patient examination of the student, and the instances it furnishes will enrich the field of public controversy. It is noteworthy that it does not make a fetish of free trade nor ignore the need for reasonable consideration of the claims of all sections. But it does insist, vigorously and convincingly, that trade is the life blood

of nations, that on the exchange of goods between peoples depends the progressive enlargement of national and individual standards. A policy of exclusiveness can lead only to retrogression and to poverty in the country that practices it; to hatred amongst the nations and finally and inevitably to war.

HAL COLEBATCH.

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PART I. PROTECTION

CHAPTER I

THE PROGRESS OF PROTECTION

DURING the past thirty years a movement for the consolidation of protective duties has gradually overspread Australia, and to a lesser extent, New Zealand.

The principles of free trade, for which our ancestors fought desperately in bygone years, are forgotten. In their stead extensive propaganda on the part of those to whose imagined interest it is to raise the tariffs, has established in the public mind an unexamined doctrine of political economy utterly at variance with the principles of common sense, and with the codified common sense of economics.

In an enlightened democratic age it seems reasonable to assume that the great majority of the citizens can no longer be induced to accept an utterly false belief; that since universal education emancipated the human mind from superstitious thinking and abject ignorance, public opinion cannot be moulded to suit the convenience of a mis-

guided minority, no matter how plausible the fallacy it propounds. If the striking success which has hitherto attended the spread of protectionist propaganda in Australia can be considered an indication, it is manifestly possible "to fool all the people some of the time." By press, hoarding and advertisement, interested sections of the community have dinned into the minds of the Australian people that protection will bring wealth and prosperity, in the very teeth of impartial economists, who conclusively show that protection means lower wages, less work and a more slowly increasing population rate.

Imperial historians of the future will record as the greatest tragedy of the nineteenth century the practically unanimous desertion by the Dominions of the free trade principles under which the Empire attained its zenith. The abandonment of a common economic policy will do more to dissolve the British Empire than any other single factor. Both from the Imperial and from the Dominion point of view, economic enlightenment is the most pressing issue of the times.

Perhaps the first duty of a Government is to give accurate information to the people on the costs of taxation. It is to the almost universal ignorance of the enormous cost and crippling effects of tariffs that the protectionist has owed his past success. If

there is to be still further protection the cost of that protection should be first ascertained, and prior to this the cost of our present Customs policy should be estimated and published. *The Australian Tariff; An Economic Enquiry*, conducted under Federal auspices by impartial investigators, gives the most complete account available. Unfortunately it is not cast in a popular form, and its effects on the administration which brought it into being appear to be hitherto negligible.

The primary object of this brochure is to expose the cost and fallacy of protection. Any computation of the cost must necessarily be inexact, owing to the paucity of the data obtainable. It is to be hoped that the results obtained will, however, at least cause Australians to pause for consideration before venturing further on the primrose path that leads to higher tariffs. In the course of an enquiry into the cost of protection such problems as employment, wages, population and revenue come up for immediate consideration. This naturally leads to an investigation into what comparative success has attended free trade and protection wherever they have been put into practice, in order to give any conclusions reached a practical rather than a theoretical backing. Some special applications of the subject in Australia next come up for consideration, while no treatment of the topic would

be complete without some reference to Imperial and world affairs.

It is earnestly requested that this little book be read with an impartial mind, anxious only to arrive at the real facts of protection, and however the reader's conclusions may diverge from those here expressed, he must at least realize that the tariff is the most vital political issue which the people of this generation have to face. In our hands rest not only the fate of Australia, New Zealand, and the Empire, but possibly the beginning of unheard of effects in world policy.

Having roughly outlined the scheme of presentation, some statement of an alternative policy must be given prior to any discussion on the subject.

There are two distinct types of tariffs. The first is the protective, with which Australians are familiar. The object of this is to reduce imports, and consequently the more successful it is, the less revenue will be collected from it. An ideal protective tariff would prevent all imports, and consequently yield no revenue at all.

A low revenue tariff is not meant to restrict imports, but to collect a small percentage on them. Such duties as those on spirits and tobacco reach a respectable total without imposing any percept-

ible hardship on the consumers. This type of tariff exists in the United Kingdom.

Thus, under a protective tariff, Australia collected £117,528 on imported slop suiting in 1926. Under a purely revenue tariff of 15% she would have collected something like £1,500,000.

It is impossible to have simultaneously a revenue tariff, which encourages imports, and a protective tariff, which restricts them. Yet protectionists claim to do both, as the speech of the Right Hon. C. C. Kingston, Minister for Trade and Customs, on the initial tariff of 1901 conclusively shows:—

We recognize fully that at this time in our history neither free trader nor protectionist can have his way entirely. . . . There can be no extremes of revenue-production and protection-giving in any one line—the two things are mutually destructive. We stand in a position to-day where we must give fair attention to both. The first condition is revenue, but, protection, to existing industries at least, must accompany it.

The policy of his successors has been to continue this impossible compromise, but the stress has shifted from revenue to protection. It is on such an unsound basis that the Federal revenue policy rests in Australia to-day.

There are three remedies for this situation. The first is to extend the protective policy until the country becomes absolutely self-contained. In later

chapters it will be shown that this is impossible in any civilized community. For immediate purposes it is enough to say that it has never been done on so large a scale, and it is unlikely that it ever will.

Secondly, tariff duties might be abolished altogether, and absolute free trade introduced. However, the revenue lost in Customs would have to be made up from another source, probably income tax. Such direct taxation is so unpopular that no Government would dare to increase it sufficiently to replace Customs revenue. In the next chapter it will be shown that Customs duties fall so heavily on the consumer owing to the manner in which the costs are passed on to the public, that it would be much cheaper to pay the Government the same amount directly. The tax is so hidden in the price of the article that the consumer does not realize he is paying a tax at all. However, it is paid, and the revenue is collected without an outcry. If the same amount were raised directly, the Government would be unseated. For this reason only, absolute free trade must be dismissed as impracticable for many years to come.

The last possibility is a form of free trade already successfully practised elsewhere, which admits a low revenue tariff. Such is the policy advocated by the present authors. The advantage of substituting a revenue for a protective tari

would be the enormous increase in the amount of revenue collected, which would enable great decreases to be made in income tax. Australia is in the peculiar position of being able to enormously improve her financial situation by decreasing the rate of her Customs duties, while at the same time reducing her direct taxes.

England, for example, collects as large a revenue per head as the U.S.A. through her Customs tariffs, but the rates are negligible, since they are only high enough to levy a contribution from trade, but never to prohibit it.

Another interesting comparison is that in 1926 New Zealand, with a much smaller population, collected £267,000 from a 25% duty on footwear, as against Australia's £93,074 with a minimum duty of 35%.

The general consumer would benefit greatly by this policy, since the price of all commodities would be much lower than under protection.

The objections to this course are, firstly, that all Customs taxation falls most heavily on the poorest members of the community. Whether the poor should be taxed at all is a purely ethical question, with which the authors have no immediate concern, but in any case, this objection applies with far more force to the present protective tariff, and any reduction of it to a purely revenue level cannot but

prove an inestimable boon to the wage-earner in the form of lower prices.

Secondly, the costs of collection are increased by the indirect nature of the tax. However, this sum would not be exorbitant, and is at present much greater under protection. The only way to avoid this difficulty is absolute free trade, which has already been dismissed as premature.

In the past those who have been called upon to meet direct taxes have allied themselves with the protectionists in the belief that they were passing on some of their burden to those who did not otherwise contribute. Leaving aside the point that indirect taxes hurt the direct tax payer as much as his poorer brother, the position is now aggravated by the circumstance that Australian tariffs have become high enough to cause a serious diminution in revenue from Customs, and that the deficiency must be made up in further direct levies. Unless the payer of income-tax dissociates himself from protection, he will find that he is paying not less, but more, owing to this very cause.

CHAPTER II

THE COST OF PROTECTION

It is so trite a saying that protective Customs duties necessarily bring about a higher cost of living, that the phrase begins to lack significance. To discover its vital meaning, as applied to Australia, is a task whose difficulty is only equalled by the rarity with which it is undertaken. However, an examination of the problem may disclose some compensation for high protective duties, if there is any to be found.

Readers who are on nodding terms with the business world will support the assertion that any sum outlaid on Customs duties by a wholesale distributor will be passed on in the form of increased costs to the consumer. An importer cannot however charge an optional price for an imported article; competition forces him to settle on a certain margin of profit, roughly corresponding to the amount enjoyed by rival importers. The deciding factor in the wholesale distributor's selling price is the amount the article in question costs to land.

To quote a working illustration of this principle, the duty on a 5s. pair of stockings is 50%. The extra 2s. 6d. then goes on to the price which must eventually be paid by the typist, factory employee, or wife who buys them. If the wholesale distributor works on the common $33\frac{1}{3}\%$ and the retailer on a 50% basis, the comparison of the following columns shows the price of the stockings, with and without duty. The difference represents the increased price to the consumer solely due to protection:

PROTECTED PRICE		PRICE WITHOUT DUTY	
Value of Stockings	5/-	Value of Stockings	5/-
Duty	2/6	Importer's profit at	
Importer's profit at		33 $\frac{1}{3}\%$	1/8
33 $\frac{1}{3}\%$	2/6	Retailer's profit at	
Retailer's percentage		50%	3/4
at 50%	5/-		
	<u>15/-</u>		<u>10/-</u>

The difference amounts to 5s., or the original value of the stockings. In this case protection means that the public has not only paid the duty collected by the Customs department, but also the respective profits justly demanded by the wholesale distributor and the retailer on their outlay in meeting the duty.

The protective policy is to force the consumer

to purchase locally made stockings in order to escape these increased costs. However, the fact that the duty of 50% on the imported stocking makes that article 5s. dearer to the purchaser, is the local manufacturer's opportunity. He may sell his article at the same price as the foreign one, or slightly undercut it to encourage trade. If his 5s. pair of foreign stockings sells at 15s. after paying a duty of 2s. 6d., it is reasonable to assume that a local article of similar quality will be sold for about 14s. 6d. Obviously local manufacturers would not constantly press for a higher tariff, if their product could be sold for much less. If the duty against foreign stockings were abolished they could be sold for 10s., and the Australian article, to be sold at all, would have to come down to a similar price.

As a consequence it can be seen that the duty not only sends up the price of the foreign article, it permits a similar increase in the cost of those made locally. To sum up, under a high tariff, the consumer has the choice of paying, either:—

- (1) The actual Customs duty collected by the Government.
- (2) The importer's profit for his outlay on such Customs duty.
- (3) A similar profit for the retailer.

or A practically equivalent sum as the increased price at which the Customs duty allows the locally made article to be sold.

Of these amounts, only one can be stated with absolute certainty; the Customs duty actually collected by the Government.

The importers' and retailers' figures range over all rates of profit. It is quite impossible to estimate an average percentage of profit gained on all imports, since profits vary from 5% in a few instances, to 100% in others.

For the same reason, the increase in price of the locally made article, caused by the Customs, is equally difficult to estimate with any accuracy.

Consequently, the writings of statisticians and economists on the tariff carefully avoid any estimate at all of the latter costs, and through fear of inaccuracy, make no attempt to indicate their existence. Such blameless articles leave the public in ignorance of the large amount which is paid, over and above the sum collected by the Customs department. Rather than allow the consumer to pass over these amounts as if they were inconsiderable, it appears desirable to make a rough computation.

In calculating the amount of profit made by the importer, we know that during occasional wartime prosecutions for profiteering, the defendant

invariably escaped conviction if he could show that his gross profit was not more than $33\frac{1}{3}\%$ of the selling price, which is equivalent to 50% profit on his outlay. At the same time, anyone the least conversant with the clothing trade would consider this a very poor return, especially on feminine garments.

In the case of the many articles which pass through two or more hands, a conservative estimate would give the importer 25%, and the retailer $33\frac{1}{3}\%$, making a total increased rate of $66\frac{2}{3}\%$.

For example, on £100 worth of goods the wholesaler's price would be £125, and the retailer's £166 13s. 4d., giving a total increase of £66 13s. 4d.

Admitting that many articles carry a smaller percentage, a rough general estimate will allow 50% as the average gross profit shared between importer and retailer. The reader may judge of its fairness from his own experience.

The implication of this is, that in 1926-27, for example, the Australian consumer as well as spending £31,832,600 on Customs duties, spent another £15,916,300 to pay the importers' costs and charges on this advance to the Customs department.

To arrive at the increased cost of the local

article with any accuracy is even more difficult than to estimate the increased amount due to importers' profits, but the task must be attempted to enable the consumer to realize, however obscurely, every payment he is compelled to make.

In the year 1926-27 the added value given in Australia to raw material, cloth, and partly made up goods through protected manufacturing processes, was over £150,000,000.

Taking, for the sake of convenience, the protected industries which received the benefit of a tariff of 20% or over, the following list of those industries, the amount of protection enjoyed by them, and the value of their production is easily compiled.

Industry	Tariff Protection	Value of Production
Tiles & Earthenware	23%	£ 1,590,000
Wood turning, Carving etc. ..	24%	1,211,000
Electric Apparatus	28%	2,356,000
Iron Works & Foundries	20%	15,678,000
Gas Fittings & Meters	23%	377,000
Blankets & Flannel	27%	1,733,000
Knitting Factories	32%	5,310,000
Dressmaking & Millinery	36%	5,294,000
Hats and Caps	31%	2,054,000
Paper	22%	3,638,000
Musical Instruments	27%	1,492,000
Motor Bodies	39%	5,686,000
Chemicals & Drugs	20%	3,955,000
Matches	40%	566,000
Rubber Goods	35%	6,222,000
Leather Belting Etc.	24%	1,429,000

THE COST OF PROTECTION

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Cement	24%	2,796,000
Brass & Copper	26%	2,762,000
Stoves & Ovens	26%	1,452,000
Confectionery	28%	7,098,000
Boots & Shoes	35%	9,739,000
Clothing & Mercery	33%	19,545,000
Rope & Cordage	24%	1,073,000
Furniture	32%	6,159,000
Saw Mills	20%	12,744,000
Agricultural Implements	30%	3,819,000
Engineering	20%	11,220,000
Railway Workshops Etc.	26%	15,590,000
<i>Average Percentage</i>	24	<u>£152,588,000</u>

As well as the articles mentioned above, there are numerous protected manufactures which it is impossible to mention in detail, in addition to a heavy duty on soft woods and timber.

However, in a few cases the raw material used has paid a duty which we have already estimated under the heading of Customs duties. If both these minor items and the subordinate protected industries are omitted, such double reckoning will more than balance itself.

Taking merely the items mentioned, it may safely be assumed that without protection such merchandise would have come into the country at a cost of at least 20% less. Consequently, the consumer has had to contribute, without any personal benefit, at least £30,500,000 towards the upkeep of these factories, and in addition has paid the profits of the merchants and retailers who first

outlaid this amount for him, at our estimated increase of 50%.

Totalling up these items of increased cost it is found that,

(1) The amount collected by the Australian Customs Department	£31,832,600
(2) The amount paid for Importers' profits on their outlay	15,916,300
(3) The amount paid in increased costs to Australian Protected Industries	30,500,000
(4) The amount paid for Dealers' and Retailers' profits on their outlay	15,250,000

In all, this reaches the respectable figure of £93,498,900. This is a rough but nevertheless conservative estimate of the amount paid by the Australian consumer per annum as a result of the present Customs Tariff.

This works out at approximately £14 7s. 6d. per head of population. Allowing four persons to the family, the average married man spends £57 10s. per annum, or over 22s. per week on account of Customs duties. The Australian people would bitterly resent any attempt to extract half this amount from them in income tax, and yet passively acquiesce in a form of taxation which falls with most weight on the poorest members of the community.

The estimated cost of protection which has

been given, affords an example of the difficulty of assembling suitable data. Even the authors of the semi-official *Enquiry into the Australian Tariff*, to which the authors must acknowledge their indebtedness, experienced the same handicap throughout their investigations. It will also be noted that we have confined our examination to the cost of secondary industries.

Lacking suitable information, which could only be amassed by extensive Government enquiry, it is merely possible to indicate where the increased costs of protection are to be found, and it is out of the question to state them with any approach to finality. Sufficient data has been available to show that they enormously exceed the bounds which public opinion usually ascribes to them. The man in the street may reasonably enquire what he receives in return for such an enormous outlay. It is the business of the following chapters to tell him that the answer is ———
Nothing!

CHAPTER III

THE COST OF TYPICAL PROTECTED INDUSTRIES

THE criterion by which any industry is judged is that it must be of use in itself, and serve other industries. For example, if a fishing industry sprang up at Byron Bay it would be of service to the dairyman, poultry farmer, maize-grower, butcher, baker, builder and tradesmen generally; in short to every individual throughout the district. Its tendency would be to increase the supply of fish, and thus reduce the price charged to the consumer.

Any such industry, created without artificial aids, such as protection, must inevitably be a boon and an asset to the country at large. It gives as much employment as a protected industry, interferes with the prosperity of no other industry, and reduces nobody's income. It may possibly save expense by reducing prices, and finally complies with the sole law that justifies the existence of an industry—it serves other industries, and benefits the community as a whole.

It remains to be seen if certain typical protected industries fulfil this requirement.

Throughout this chapter the authors avoid later figures, in order to present the case for protection in a more favourable light than the excessive tariffs of more recent times would permit.

In the case of footwear, for example, the figures for 1927-28 show that £9,586,828 worth of boots and shoes were made in Australia. Allowing for an excess cost of 35%, permitted by the tariff, the retailers had to pay the local manufacturers an unnecessary sum of £2,485,469. Imported footwear realized a duty of £129,344 on which the importers and retailers recouped themselves to the extent of £64,672, allowing the agreed rate of 50% profit. Tabulating this:—

Excess cost due to 35% protection	
paid by Retailers	£2,485,469
Retailers' profit on their outlay at 50%	1,242,734
Duty on imported Footwear	129,344
Merchants' profit at 50%	64,672
	<hr/>
	£3,922,219
	<hr/>

we find that if boots had come into the country free of duty, this £3,922,219 would have been enough to pension off the employees of the industry on their wage-bill of £3,114,552, and, after compensating the Government for its paltry

£129,344 leave the public in pocket to the extent of £678,323.

Again, the most quoted of the protected industries is the manufacture of wearing apparel. Owing to the varied rates of duty and differences in recording it, it is impossible to group all apparel under one heading. An average example is the manufacture of slop suits, and outer garments.

The value of slop suiting and outer garments produced in 1927-28 was £10,827,374. The increased costs may be shown as follows:—

30% excess costs paid by Retailers	£2,498,622
Increased price charged by Retailer to obtain a gross profit of 50% ..	1,249,311
Duty on imported goods	87,431
Merchants' profit @ 50%	43,715
	<hr/>
Total increased cost to the public	£3,879,079

yet the amount received in wages by employees was only £3,616,157. This affords another example where Australia could have shown a profit by giving some of its working population a perpetual holiday on full pay.

If the figures are similarly examined, nearly all the protected industries of Australia may be shown to be a liability and a dead loss, rather than an asset. However, space permits of only one more detailed investigation.

This example is chosen because the particular industry only survives through a Customs tax whose incidence is particularly cruel since it affects a class whose meagre income is least able to bear such an iniquitous imposition. The case referred to is the tariff on hosiery, and particularly the silk variety. If any class in the community can reasonably be immune from taxation it is the young girl whose wage is from 30s. to 60s. per week. In this case a natural and necessary pride in her appearance costs the young citizen an extra 50%, which is sacrificed to the fetish of protection. Under the Pratten Tariff the duties on stockings were:—

British	{	Silk	..	..	..	35%
		Woollen	..	..	..	45%
Foreign	{	Silk	..	..	..	50%
		Woollen	..	..	..	60%

For some reason the manufacture of silk stockings in Great Britain is not very advanced, although the trade is rapidly improving. Hence the U.S.A. is the enemy from whom the protectionist shields the little working girl, for that country is always trying to slip over the tariff wall to tempt her with something cheaper and better which would interfere with the sale of a locally-made article. Consequently, the normal increase in this case is not 35%, but 50%, whether the

stockings bought are American or Australian. This means that stockings cost 7s. instead of an absolutely free trade price of 4s. 8d.; or 5s. instead of 3s. 4d. Alternatively, under a revenue duty of 15% the price would be 5s. 4d. instead of 7s., or 3s. 10d. instead of 5s., whilst incidentally a larger revenue would be collected.

It is difficult to separate the statistics for the production of silk hosiery from those of the knitting industry generally. The report of the Economic Enquiry published last year shows that the increased cost of all Australian-made knitted goods in 1926-27 due to the tariff was £1,699,000, at the factory. The full cost to the public, therefore, was as follows:—

Excess cost paid by Retailers	£1,699,000
Retailers' gross profit of 50% ..	849,500
Duty on imported goods	875,995
Merchants' profit @ 50%	437,997
	<hr/>
Total increased price to the public	£3,862,492

By shutting down the factory, and substituting free trade, a saving would be effected sufficient to pay the £1,269,000 wages of the employees in this industry, meet the £521,000 collected in Customs revenue, and leave a balance of £1,540,500 in the people's pockets.

It is such factories as these, in which the em-

ployees are doing less good for Australia than if they spent their time working a treadmill, that the protectionist describes as "our local industries." Australia may unquestionably build any type of factory, fit it out with the most up-to-date appliances, give the most attractive conditions of employment, and wind up with the most efficient office system and effective advertising campaign to be found anywhere in the world, but unless such a factory can support itself unaided, it will only continue to exist on the condition that the mass of the people can be deluded into paying for its losses.

It is true that the figures here given are only approximations. They do not represent the actual cost to the public, but indicate merely the minimum cost. In arriving at them, every advantage has been given to the protected industry. In each case the minimum rate of duty is given, while a great part of the production is covered by a much higher duty. Finally the 10% added to cost before statement for revenue purposes is omitted.

The great tragedy of the whole system is not so much that thousands of employees are wasting their energy and the public's money in these wild-cat ventures, when they would be doing greater service by accepting wages to remain idle, but

that these same hands would be increasing national prosperity by leaps and bounds if they were employed in some genuinely productive Australian industry.

The truly indigenous Australian industry is that which flourishes here without protection, and not the exotic hot-house parasite that can only exist under a tariff which sucks the life-blood from the genuine native industries.

It is sometimes argued that the protected industries encourage a population to buy the goods of the unprotected industries. This is far from true, but if it were, what shopkeeper would give a customer £5 so that the customer would purchase £1 worth of goods from his shop? Such is the attitude the native Australian manufacturer and producer is asked to adopt towards expensive imported industries, which are only a curse to the country at large. It is rather too much that the latest arrivals should label their goods "Made in Australia, By Australians, For Australians," when every article they sell knocks another nail into the coffin of the really Australian industries which are called upon to support them.

If the capital now poured down the bottomless pit of protection, and the busy hands it employs were diverted to payable unprotected industries, we would have as many, and probably more

factories to supply us with our needs at a reasonable price. There would be an equal, if not greater population to purchase the goods of the local producer, and "Australian-Made" would be a label with a meaning, instead of a disguise to cloak the operations of industries which are not indigenous to Australia.

The great majority of our industries exist on this equitable principle, and there is no apparent reason why a licence should be granted to a few to batten on the rest.

Given the energy, time and money which have been wasted in the attempt to naturalize industries not suited to Australia, the manufacture of ice in hell would be feasible, but there is no evidence that it would be profitable.

CHAPTER IV

THE PROTECTOR AND THE PROTECTED

EVEN protectionists admit that protection implies a class to be protected and a class to protect. It is the business of the present chapter to investigate what classes of the community are called upon to do the protecting.

New South Wales has a larger proportion of protected industry than most of the other States, and will serve excellently for illustration. The country round Dubbo, for example, produces wool and wheat, which constitute the means of livelihood of the primary producer. The inhabitants of the town are solely dependent on the surrounding farmers for their support, and their fortunes are as much bound up in the fate of the wool and wheat crop as if they were themselves farming.

At certain periods in the year, the surplus of wool and wheat not required in the district is sent away. As neither wool nor wheat is protected, the crops must be sold at the world's market price. In return for their crops, the farmers receive certain

commodities and luxuries, such as manufactured wares, motor vehicles, and wireless sets.

Most of these articles are either dearer in price, owing to being imported under a Customs tariff, or else, as pointed out earlier, correspondingly dearer through being produced locally under a tariff. The unprotected commodities the farmers secure are in their turn dearer, owing to the fact that industries which manufacture them are called upon to meet the costs of protection, and must pass them on. The result is that the farmer sells in a free trade market, and buys in a protected one. To put the position in another way, he sends away as much produce as he would under free trade, but receives fewer articles in return for it. As a result he is poorer, and the difference is the price he is called upon to pay as a subsidy to protected industries. Since the townsfolk depend upon the farmer, and his spending power is reduced, the butcher, baker, doctor, lawyer, shop hand, tailor, and their dependants suffer a corresponding reduction in their standard of living. Dubbo and its environs are definitely poorer through protection, and it constitutes part of the class which does the protecting.

The position of Dubbo is the position of all the country towns of New South Wales.

Coming to Broken Hill, it is found that minerals are sent away at world's parity prices, while the

township and its environs pay the piper. Newcastle sends away coal, and the ultimate result is the same. Some minor exceptions occur in the steel-works at Newcastle, sugar- and banana-growing on the Richmond and the dairying industry. However, it is apparent that, with these exceptions, the country population of New South Wales, numbering about 1,000,000 people, derive no benefit whatever from protection, and are numbered among the protecting class.

If the benefits of protection are anywhere to be found, they must be in the secondary industries of Sydney. A list of the largest of these would run roughly:—

- Building—largest of all secondary industries
- Meat freezing and preserving
- Cordial factories
- Gas works
- Electric light works
- Brick works
- Printing of newspapers
- Ice works
- Wool scouring
- Bakeries

and none of these enjoys any protection at all. This circumstance should resolve the doubts of those who assume that the protection controversy

is between primary and secondary industries. Practically 80% of the secondary industries are unprotected.

The distributing and selling trades enjoy no more protection than the tram conductor, wharf labourer, civil servant, professional man, teacher, or housewife.

All these classes pay for protection in the form of increased prices, and enjoy no benefit from it. The ones who do so must be confined to the ranks of those who derive their livelihood from protected industries.

The New South Wales Year Book shows that after nearly thirty years of protection the number added to the personnel employed in its factories is 116,525. This amounts to only 4.5% of the population. Included by the Register under the term "factories" are iceworks, brickworks, gasworks, newspaper plants, and many other entirely unprotected industries. When we have made allowance for these it seems doubtful if more than 3% of the people actually owe their positions to the protection of secondary industries. Even when dependants are added the percentage remains very small, because in protected factories there is a disproportionate number of employees under the basic wage. For example, the average wage paid by the knitting industry is £2 10s. Making full allowance for

such dependants, it is certain that no more than 10% of the people of Australia are protected, and that any benefits accruing from protection are exclusively enjoyed by them.

They may in turn be divided into two classes, the employers and employees. Taking the case of the employees first, it is obvious that protected industries pay no higher wages than unprotected, or there would be an immediate rush for such positions. No such rush has occurred, judging from statistics; but since the unprotected worker is poorer through protection, the wage of the protected worker must also be lower than it would be if all were employed in natural free trade industries. Consequently the great majority of the 10% are not benefited in any way by the protection extended to them by the rest of the community.

All the elusive benefits of protection must then be concentrated in the increased dividends of a small section of the employing class. However, it also stands to reason, that if higher returns could be secured in protected industries than in others, there would be an immediate flow of capital into them. But the very figures given above show that such has not been the case. The inference is that even the protected manufacturer, despite a lavish expenditure in propaganda, is not securing any greater benefit than he would in some free trade

industry. In fact since his profits are reduced through protection, he is apparently in his turn a sufferer from it. The only case in which the protected manufacturer is making an excessive profit is that of a monopoly. Since this can also occur under free trade, though not with the same facility, the point may be omitted. It remains to be seen where the enormous sums quoted in the last two chapters are going. The only answer is that they are sunk and lost in an endeavour to carry on production in an unsuitable, and consequently expensive environment.

The results of an enquiry into what classes of the community are protected, and what classes supply the protection, show in the first instance that as a result of protection few members of the community benefit in the slightest.

The protectors can be divided into three great classes. The first consists of those engaged in all unprotected secondary industries, who stagger under a burden of constantly increasing costs, which are tending to hamper, and ultimately strangle them.

The second is that portion of the community who dispose of their services without actually showing visible production. Among these may be numbered the professional men, civil servants, traders, shop assistants, bankers, clerks, wharf

labourers, transport workers and those employed in innumerable occupations connected with the sale and exchange of goods. They have suffered a gradual decrease in the purchasing power of a more or less fixed income.

The last, and greatest class is that of the man on the land, whose plight is so pitiable that it merits a chapter to itself.

Poverty gives no relief from this awful burden of taxation. Customs lists show that absolute necessities are taxed, and that the load falls with almost equal severity on poor and rich alike, whenever they purchase food, clothing, or other necessities. The luxury tax on a motor-car often amounts to £100, but on the other hand a cheap pair of socks doubles in price through the duty. The home builder is one of the greatest victims since he must pay increased prices on his timber, locks, stoves, galvanized iron, pipes, paint, etc. In the case of a large Sydney bank, 250,000 ft. of Oregon pine cost in duty alone £1325.

The most docile and profitable of the victims of protection is woman. Under the system of charging duties on cloth by the piece it is possible for the Australian woman to pay over 100% increase in the price of clothing alone.

All women have heard of, and some have actually experienced the wonderfully low prices of

clothing in England, but the freight on a pair of silk stockings or a dress is negligible. Duty alone makes the difference. If the womenfolk were to work out their clothing bill for the year, they would discover that approximately one-third of this amount was solely a result of protection. This applies not only to the mistress, but also to the maid, the wife of the employer, and also his typiste.

One conclusion reached in this investigation into the position of the protecting classes is that woman's franchise appears to be cherished rather as an honour than as a means of self-defence.

CHAPTER V

PROTECTION AND THE MAN ON THE LAND

WHEN the man on the land sells his produce he receives the same return for it, whether the sale is effected in Australia or abroad. The only possible price for the commodity he has for sale is the equivalent of that paid in every mart of the world, and no law passed by any national Parliament can increase this amount by one penny. If the price for wool is $1/6$, the wool-grower receives exactly that amount.

When the same man uses his wool cheque to purchase his requirements, he finds that practically every article he requires, from barbed wire to dog-traps, is either dearer through the tariff, or considerably above world's parity owing to the costs of protected manufacturing.

The man on the land has no option but to sell in a free trade market, and he is legally compelled to buy in a protected one. If a law were passed stating that every primary producer had to work

one hour a day without pay for the benefit of certain privileged members of the community, there would be an immediate outcry. When the same producers are forced to give twenty bushels of wheat for a protected suit, whose free trade value is sixteen bushels, they are being compelled to grow four bushels of wheat for the benefit of a manufacturer who has no right to the fruits of the agriculturalist's toil. Protected industry is not a real source of production, but represents the four bushels of wheat which would otherwise belong to the farmer.

This misfortune is only the beginning of the troubles of the man on the land. Every other industry which is hurt by the tariff is enabled to pass on some of the cost to the consumer in the form of increased prices. In the case of the exporting, which are practically speaking the primary industries, it is impossible to force an increase in the price of a commodity, against the competition of other countries in the world's markets. The costs of the tariff are passed along, killing exporting secondary industries, such as sawn timber, as they go, and finally come to rest in the primary producer's pocket.

Statistics show that the effect of such a policy is to penalize primary, in order to create secondary industries. The loss suffered by the first is greater

than the gain to the second. The difference is the wastage caused by fruitless experiments to make silk purses out of sow's ears. The factories which do arise are not productive, and represent capital which would have been more profitably invested in the primary or unprotected secondary industries.

Statistics show that the 53,000,000 acres in Queensland which were unoccupied in 1915, had grown to 100,244,000 by 1925. The population of Sydney is equal to that of the rest of the State of New South Wales. Instances might be multiplied to show that there is a constant "drift" to the unproductive protected factories of the town, while the country is being denuded of the men who keep Australia's billy boiling.

It is useless for the old pioneer to deplore the effeminacy of his sons, and say that they prefer the gaiety of city life to the hard, healthy toil which made their father what he is. The sons belong to the same stock, and are as ready to face drought, flood and bush-fire as their sire, but they cannot contend with protection; however concealed the reason may appear, the "drift to the city" has only one cause. Australian land is rich enough to support its owners, seven Parliaments, and Australia House, comfortably. Even protection did not overtax its wealth for a time. Then its ever-increasing burden overcame one primary

industry after another. Timber perished, and the busy hum of sawmills gave way to the dismal silence of rusting plants, which dot every country landscape. Its share of the burden fell on the shoulders of the wool and wheat men. Butter staggered under the strain, and became itself protected, handing over not only its own load, but adding to it by being protected. One by one the mineral products, such as coal and gold, lost their export markets through excessive protective costs, and finally wool, wheat, and beef alone were left to bear a burden, which was inappreciable when many helped to carry it.

Every bushman will recall the prosperous selections which dotted marginal land in his boyhood days. Busy axes were ringbarking and suckering gum-trees, and forest passed into grazing land. Scrubs were being felled, and burnt, to produce clearings enriched by the ashes of the very growth that had previously made them a waste.

To-day, once he rides beyond the confines of the district's richest land, he journeys through an ungrubbed waste of eucalyptus and softwood saplings, which overgrow the ruins of the settler's lonely homestead in a tangled wilderness. Solitude and silence brood over the former playground of healthy young Australians, broken only

by the mournful call of a curlew, or a dingo's eerie howl.

Any lover of the land which bred him cannot but regret the passing of the ancient order, with its health and beauty, while the smoke of factories belches forth to besmut the green paddocks of childish memories. When he realizes that this is not being done in the cause of progress; that with the passing of the country is going the true resources of the State; that the smoking chimneys are merely burning good coal to no purpose, his gorge must rise in regret and righteous indignation against the system which despoils his native land.

Returning to the issue, protection in Australia must follow the course of protection in the U.S.A., as far as the man on the land is concerned. What may be anticipated is shown by the report of a select committee, appointed by the Senate to enquire into the position of primary industry in America:—

“While 27% of the population of the United States were occupied in agricultural pursuits, they received only 7.5% of the national income.

“The number of farms decreased between 1920 and 1925 by 56,785, and the area under cultivation was reduced by 31,564,363 acres.

“The farm population had decreased by

2,632,600, and the value of farm property by £24,000,000, while the mortgage debt had increased by over £102,656,000."

Norman Angell, the well-known publicist, draws a vivid world-picture of the same conditions:—

"On the farms in the South and South West, in a third or more of "Golden America," there was no longer an air of liveliness and prosperity, but an oppressive atmosphere of poverty and insolvency, of decrepit and tumble-down houses, poor food, tramps, anxiety, debt and hopelessness."

If the backblocks of Australia are to escape the same fate, from an identical cause, there are but two possible remedies open to the men on the land.

Primary industry may in its turn become protected to a certain extent. In some cases this has already happened. The Paterson Scheme allows butter to be sold at an extortionate price to the Australian public, and the surplus is dumped in the English market at cut rates. The difference in the price paid by the Australian and the British consumer provides the small profit which enables the dairyman to keep going at all. The Australian public acts as a fairy godmother to the manufacturer and the foreign consumer. The dairyman is

no better off, as he is the first to admit, than he was before protection. His prices have gone up on the local market to balance the rising costs of production due to protection, while the world's price remains the same. By becoming protected, the dairyman has progressed round the circumference of a circle to the point where he started, except that he has lost some of his prosperity on the journey. The butter man has no axe to grind from retaining a form of protection, which he was forced to adopt to shield himself from others' tariffs.

Sugar is a typical protected industry, no more Australian in character than the labourers who cut the cane, and has not even the sentimental claim on our charity possessed by dairying, which is a native comrade fallen on hard times from causes affecting the rest of us.

It is claimed that sugar circulates £10,000,000 among us every year. Of this amount £7,000,000 is due to the Australian consumer being forced to pay £37 6s. 8d. a ton to the sugar monopolists, who dump the residue overseas at £10 10s. The remaining £3,000,000 represents good money which might have been invested in a productive native industry instead of being wasted in the support of an exotic parasite which sucks the life-giving sap from the once mighty gum that

nourishes it. Naturally, the whole £10,000,000 is ultimately good wool from the merino's back.

If, as protectionists claim, no other industry can use the cane-fields, and the population have no alternative occupation, it is more profitable to let the fields lie idle for ever, and pension off the cane-growers and cutters, than to pour money down a sweetened sink. If Queensland is ever to produce sugar on a profitable basis, and there is no real reason why it should not, the impetus must come from capital, labour and scientific research. Protection never brought an industry into being without the sacrifice of better ones.

Australia has fruit in abundance, ample tin, and fertile orchard soil. It is often asked why we are unable to compete in the jam and canned fruit export trade. The Eastern market lies at our very doors. For once Australia's distance from both the Old and the New World gives her, not a handicap, but a start in the freight costs. The only possible answer is that the prohibitive price of sugar prevents the trade from coming into existence as effectually as cutting the throat of every orchardist in the Commonwealth. Because sugar is protected, fruit-growing must be subsidized, and canneries sheltered by a tariff wall.

Any particular instance of protecting a primary industry proves almost as futile as protecting a

secondary one. Working on these lines, the only logical conclusion is to protect every primary industry. Protectionists promised the man on the land that the new factories would supply a body of consumers to take his produce, and render him independent of his export market.

Since the effect of protection, as will be shown presently, is to decrease population, such a proposition is scarcely feasible in the first instance. In the second, the protected worker does not even produce his own wages, except by robbing the farmer of the fruits of gruelling toil. The situation is similar to a deputation of unemployed waiting on a restaurant-keeper to ask for £5 apiece, on the strict understanding that each recipient is to spend £1 in purchasing meals from his benefactor.

Again, if universal protection were practicable, it would simply amount to an expensive, perverted, and ridiculous form of free trade in washing one another's clothes. Obviously, in that case the farmer would have nothing to gain from being unprotected, and less to gain from being protected. That such a proposition is politically impossible is shown by the fact that no protectionist government has ever attempted it, or is likely to.

The last, and only resort of the man on the land is to insist on buying in the same free trade

market in which he sells. This can only be brought about by the abolition of protective tariffs. In the past the efforts of farmer and grazier have been spasmodically directed against casual increases in duty on Fordson tractors, or wire-strainers, which have met with a uniform lack of success.

If the future is to hold more hope than the past, the onset of protection must not be attacked piecemeal, but fought on a question of principle. The man on the land must oppose every increase in his present burden in whatever form it may appear. He must fight a duty on silk hosiery as bitterly as an embargo on harvesters, since the result is the same; the primary producer pays for it all in the end.

CHAPTER VI

PROTECTION AND WAGES

It has become apparent that protection sends up the cost of living for every citizen of Australia. It remains to be seen whether the Australian citizen receives any increase in his wages or standard of living to compensate for this.

Because there is a popular belief that the U.S.A., a protected country, has a higher cost of living, but also higher wages than free trade England, it is almost universally argued that while protection increases costs, it will also increase wages.

This is purely an example of loose thinking. In comparing these countries as typical examples of the effect of protection on wages the following facts become apparent.

During the whole of England's free trade period she was able to pay higher wages than any of her protected European competitors. This alone shows that protection is not the deciding factor, since what is true for protected America should hold good also for protected Germany.

The question goes somewhat deeper. During the last century both America and Australia have been great reservoirs of untouched wealth, and whoever tapped their resources must necessarily have become sufficiently wealthy to pay high wages, irrespective of whether the country was protected. However, it may be noted, that in spite of this enormous advantage, Mr Carrol D. Wright, of the United States Labour Department, stated before the war that the real wages of the United States have always been less than the real wages of England.

America has been in a position to pay high wages, irrespective of protection, for the simple reason that the greater part of her wages have always been paid by her unprotected industries. It is commonly overlooked that in Australia nearly all wages are paid by industries which enjoy absolutely no protection, and that it is the wages of these industries which set the standard of living for all.

It must be apparent that protection cannot enable the great freezing industries of Australia, the mines of Broken Hill and Newcastle, and the wool and wheat grower, for simple illustration, to pay a higher wage. No law ever passed in Australia will help them to receive one penny more for their products with which to pay it.

In actual fact only a small minority in either country can ever hope to be protected, and the remaining industries can receive no help whatever through protection.

We have already estimated that only 10% of the population of Australia derive employment from essentially protected industries. It is manifestly impossible that protection should enable the remaining 90% to receive higher wages. On the other hand they suffer from the increased costs of production and living caused by protection, and consequently the purchasing power of their wages is decreased. It is estimated that the real wage of Australia has only increased 3% since 1901, while its nominal value has easily doubled. This relatively slight increase is due to other factors than protection, such as improved industrial efficiency, arbitration, and natural development of resources previously idle.

In the example of Dubbo, it was established that each employer in town and district was poorer through protection and less able to pay as high a wage as previously, far less a higher one. The same applied to every unprotected industry throughout the State, and the only possible beneficiaries were the employees of the protected industries themselves. While it is natural to assume that such was the case, it was seen that

even the protected employer was impoverished by his policy, and less able to pay a higher wage. It also appeared that the protected employee could not hope to enjoy a higher wage than his unprotected brother, and since protection reduced the purchasing power of this, even the protected worker's remuneration was reduced by protection. In point of fact it is usually lower than the unprotected wage. The average wage of the knitting industry, for example, works out at something under £2 10s. per week.

The Arbitration Courts exert a certain influence on the wages of about 25% of the people of Australia, but they exercise no jurisdiction over the sources of wealth pertaining to the industries whose wages they decide. If pressure of this kind is to be used to force the majority of industries to pay a higher wage, then such industries should be given a fighting chance to meet the additional outlay under free trade, where they are receiving the full value of their output, without a compulsory levy to support inefficient protected concerns.

Any reader who believes that protection will increase his wage, has only to consider the particular industry in the employ of which he is. If he is employed in any primary or exporting industry, protection cannot increase by one penny

the price his products will fetch on the markets of the world, to enable a higher wage to be paid.

If a professional man, or any of those who sell their services in unprotected industries, such as carpenters, wharf labourers and composers examine their position they will see that protection, by impoverishing their clients and employers, leaves them less able to increase any remuneration paid.

An arbitration court may increase wages; a boom may; even a strike may; but increased wages under protection are negatived by its very nature.

90% of Australian industry belongs to a group which enjoys no protection, but must pay for it. 10% belongs to a group which is protected, but which is no better off through being protected.

The claim that protection can raise the wages of either the majority or the minority is as patently false as the theory that protection increases employment, which we will deal with in the next chapter.

CHAPTER VII

PROTECTION AND EMPLOYMENT

For the past three decades the wage-earners of Australia have cast their votes in favour of constant increases in protective Customs duties in the fixed belief that they were securing to themselves a higher wage and more employment. The claim that wages can be increased by means of a tariff cannot be taken seriously, and it remains to examine the alternative contention that more employment will be created under protection, and thus compensate for the reduced income of the workman by assuring him a constant occupation.

This argument is usually advanced in some such concrete form as the following example. An investor has £10,000 with which he is anxious to found a boot and shoe factory. In order to start he requires a minimum duty of 35%. If he secures this concession, certain people will obtain work in the factory, and another avenue of employment is opened up to the population, while the public will have to pay an increase in the price of their footwear.

Let us assume he is not successful in obtaining this tariff. He must look round for some other source of investment for his capital. He may, for example, decide to go in for trawling. This industry will pay just as much, if not more, in wages as the boot factory, and provide equal employment, while its tendency will be to cheapen the price of fish to the community by increasing the supply. In this case the investment will be a service rather than burden to the community.

The moral to be drawn from this example is that it is not protection, but capital which creates industries, and consequently employment. The same capital is involved in both cases. If no duty were placed on boots it would not have lain idle, but would have been invested in some industry not requiring protection, and consequently possessing greater economic efficiency than a protected one.

Protection cannot create new, but only divert capital into different industries. Behind every concern brought into being by protection, there lies the ghost of a superior one which would have existed, had it not been for that very protection.

Protection influences employment only to the extent that it takes work from the male and gives it to the female, and displaces the rural worker in favour of the urban.

The effect of starting a protected factory to manufacture rubber tyres, for example, with a capital of £100,000 will be to provide work for some 100 hands, of whom fully 70 will be girls. As a result of this enterprise the public will be mulcted for an increase of 25% to 40% on all tyres bought.

On the other hand, if there had been no duty on tyres, the capital would not have lain idle. For example, it could have been used to give work to 100 miners, or have been profitably invested as a loan to start 100 young men on wheat farms. An equivalent amount of employment would have been provided, the public would not have been needlessly out of pocket, and the work would have been diverted into the hands of potential bread-winners, who would then have been in a position to marry the female employees who would otherwise have displaced them. While the authors have no desire to disparage the female worker in any way, nature has ordained that marriage is essential to continue the race, and this is only economically feasible when the male commands a position where he can support his mate.

In the same way, the effect of protection is largely to divert capital from productive primary industry into certain secondary channels which are worse than useless to the community, with a

consequent shifting of the stress of employment from country to city. Since paying industries must make good the deficiencies of the non-paying, the ultimate amount of capital available to create avenues of employment is proportionately decreased.

This may be illustrated by assuming that every £100,000 invested in Australia is a unit of potential production and employment. Each £100,000 so invested will, in the ordinary course of events, produce approximately the same amount of wealth, and after deducting the cost of producing this wealth, will return about the same amount of profit. For the sake of argument only, it may be assumed that this rate is 10%. Under free trade each unit invested must return the average rate of profit, or it will not be left in a non-paying industry, but shifted to some concern which does pay. Each £100,000 is kept at work only in paying industries.

There are some enterprises which can never be made to pay, owing to geographic disabilities, limited population, or lack of requisite resources. Unfettered private enterprise will do the obviously sensible thing by making no attempt to invest in such industries.

If, by some artificial means, it were possible to make all the successfully invested units of

production contribute to make up the losses of the unsuccessfully invested, the owners of the latter would have no incentive to change their investments. Their money could be kept in the wrong field by deducting say 2% from the profits of all other enterprises. Thus all capital would tend to return say 8%, instead of its former 10%. The country as a whole would be correspondingly poorer and less able to provide employment.

The artificial factor which actually brings about this preposterous state of affairs in Australia is protection. It allows the unsuccessful industries to charge an artificial price for the article they produce, and the successful industries have to pay this. Protection means that instead of all capital showing good dividends in paying industries, much of it is in non-paying industries which yield no return, but take the profits of others to pay their dividends. The result is that the aggregate return earned by all units will be much less under protection than under free trade, and the opportunity of affording employment correspondingly reduced.

However the evil does not even end here. The profits of one year constitute the capital for fresh investments during the following. Consequently under protection there is less capital to be invested each year than under free trade, which means less

work, and as a result of this, a slowing up in the increase of the population.

Protection affects population by diminishing employment in two ways. The first is that the economic age for marriage is raised, while tending to cause birth-restriction amongst those already married.

In the second place, scarcity of work restricts the flow of immigration. The cessation of emigration plans at Australia House affords a working illustration of this principle.

This is well borne out in the respective examples of Victoria and New South Wales. When Victoria became protected in 1866, protection did not absorb the unemployment due to the petering out of the goldfields, and during the next thirty-five years its population only doubled, while that of New South Wales, under free trade, trebled. Over the same period the external trade of Victoria increased by 30%, while that of New South Wales increased by 175%. Even factory statistics during the same period do not favour Victoria. In 1866 Victoria had 869 factories, while New South Wales had practically none. In 1901 Victoria had 3097 factories employing 64,267 hands, while New South Wales had 3077 factories, with 60,779 workers. The wages paid in factories in New South Wales amounted to £4,943,079 against £4,589,412 in Victoria.

One more argument is usually advanced on this question, when it is assumed that imports throw people out of work. This will be dealt with more fully in the next chapter, but a provisional answer is necessary before leaving the topic of employment. If, for example, we import £100,000 worth of steel rails from England, we must pay for those rails by exporting £100,000 worth of some commodity made in Australia. The manufacture of this £100,000 worth of Australian goods will give just as much employment in Australia as if the rails themselves were made here. The difference is that the employment will not be in a non-paying steelworks, but in a naturally productive field. Finally, under protection, the cost of making the rails locally would be nearer £129,000 than £100,000 at a minimum estimate, and the loss of £29,000 would actually increase unemployment.

The statistics of unemployment over the past twenty years show that this reasoning is not merely academic, but borne out in fact. Taking the figures over five-year periods, they show:—

	Average unemployment
1907-1911 inclusive	5.5%
1912-1916 "	7.1%
1917-1921 "	7.4%
1922-1926 "	8.1%
1927-1929 (3 year period)	9.6%

It appears farcical that despite the reasoning of economics, the evidence of common sense, and the logic of properly-interpreted figures, Australians, over a period of twenty years' ever-increasing unemployment should have blindly sought to cure the evil by constantly augmenting the greatest single cause of unemployment in Australia—Protection.

CHAPTER VIII

EXCHANGE

THE circumstance that the tariff question is intimately bound up with the problem of exchange causes most people to despair of understanding the position, and it is left to those who are assumed to possess a better knowledge of the subject. In reality nothing is simpler than the working of the exchanges of the world, and statesmen who are supposed to grasp its principles cannot have really done so, when they allow the Australian public to think that the whole question is beyond popular comprehension, and betray the confidence reposed in their reputed knowledge by supporting protection. The Press is an unconscious victim of muddled thought in this connection, and the circumstance that leaders on exchange problems are usually incomprehensible leads to the belief that the subject is in itself obscure, when the sole difficulty lies in confusion on the part of the writers. Such a criticism is made in no carping spirit, but it cannot be avoided when responsible

Ministers of the Crown are every day reiterating that money is leaving the country to pay for imports, and that purchases of foreign luxuries are bleeding the country white.

In point of fact the amount of money sent out of the country to pay for imports is infinitesimal, while the imports themselves consist partly of money. The following table shows the movement of specie for the years 1921 to 1926, which have been selected as normal years.

MOVEMENT OF SPECIE

Year	Imported	Exported	Excess of	
			Imports	Exports
1921-2	£74,286	£4,336,569	.....	£4,262,283
1922-3	£53,964	£3,344,576	.....	£3,290,612
1923-4	£82,852	£3,892,865	.....	£3,810,013
1924-5	£10,548,493	£2,065,304	£8,483,189	.....
1925-6	£426,674	£5,473,435	.....	£5,046,761

The volume of our over-sea trade for the same years is:—

EXCHANGE OF GOODS

Year	Imports	Exports
1921-2	£103,060,000	£127,847,000
1922-3	£131,758,000	£117,870,000
1923-4	£140,618,000	£119,487,000
1924-5	£157,143,000	£162,030,000
1925-6	£151,638,000	£148,562,000

It appears that while Australia imported some £684,000,000 worth of goods, she only sent away over and above her receipts in specie, about

£8,000,000. In this connection it must be borne in mind that Australia is a producer of gold and a manufacturer of specie, and it is quite natural for her to export gold in exchange for some more desirable form of wealth.

It may also be noted that France paid her enormous indemnity to Germany, after the Franco-Prussian war, with hardly any transfer of specie. To give yet another example, during the years 1871, 1872, and 1873, England lent £400,000,000 to foreign countries without any gold leaving the country, while at the same time she was actually importing gold.

These figures show that as a medium of international trade gold is comparatively unimportant, more especially as since the war every country except the United States has imposed what practically amounts to an embargo on the export of gold. Consequently no reputable authority is justified in stating that gold is going out of the Country to pay for imports.

The next fallacy commonly propounded is that Australia is in a parlous state because her imports exceed her exports, and thus create an adverse trade balance. Such an error arises through confusion with the profit and loss account of a merchant. On this basis of calculation, the less a merchant outlays on material, and the more he

receives for his goods, the greater will be his profit, or to put it simply, the less he gives and the more he takes, the better for him. It is then argued that the less this country pays for its imports, and the more it receives for its exports, the better will be its position.

It has been shown that there can be no question of paying for imports in money, since the only universal medium of exchange, gold, is too scarce to carry on the world's trade for a year, and practical examples prove that it is not so used. The only other possible means of carrying on trade is barter. In actual practice goods are exchanged for goods. In such an exchange there is no possibility of either party making a profit. Each party to the transaction simply exchanges a surplus which he does not require personally, for the other's surplus, which he does require. In precisely the same way the surplus of Australia's wool, for example, is bartered for the surplus of another country's automobiles. In such a deal it must be obvious that our exports are traded for our imports, and that the advantage would lie with us if we could constantly secure more imports than the amount of exports we traded for them. Unfortunately such a desirable state of affairs cannot be brought about, since no country can be found sufficiently backward to give the world more

than it gets in return. In other words imports equal exports, and not even protection can enable Australia's exports to exceed her imports, which is a very fortunate circumstance for her.

There are apparent exceptions to this rule, which are bemoaned or applauded as "adverse" and "favourable" trade balances. The explanation is simple. The greater part of the population sells, not goods, but services. Nations also sell their services. Australia, for example, is indebted to England not only for goods, the importation of which can be definitely gauged from foreign trade statistics, but for interest on loans, freight on goods carried by sea, insurance and other services. To pay for these services, whose value cannot be shown in any statistics on trade, Australia must export slightly more than she imports. However, if the services themselves are regarded as "invisible" imports, imports and exports again balance each other.

Yet again, Australia has been accustomed to borrowing large sums on the London market. It is obvious that these loans have arrived here not as specie, but as goods. Consequently over a prolonged period of borrowing, an excess of imports over exports must occur, if the borrowed money is to be collected. On the other hand, such loans

have one day to be repaid in goods, so that in the long run imports will again balance exports.

If, as is commonly done by those who deplore the "adverse" balance of Australian trade, only visible imports and exports are taken into account, England has been for over half a century in the happy position of having the largest "adverse" balance of trade in the world. Its extent may be gauged from random figures selected throughout her free trade period.

ENGLISH TRADE BALANCE

Year	Imports	Exports
1855-9 yearly average	£146,000,000	£116,000,000
1880-4 " "	£344,000,000	£234,000,000
1905-8 " "	£519,000,000	£368,000,000

The excess of imports over exports between 1893 and 1903 averaged £161,000,000 per annum.

Such balances indicate that England secures a greater value in goods than those which she gives in exchange. This is accounted for by a constant flow of interest from the enormous sums invested by Englishmen all over the world, and swelled by her receipts as the world's greatest maritime carrier, insurance agent, exchange broker, and financier. Practically every penny of this interest, or payment for services rendered, comes into England in the form of goods, and the whole situa-

tion conforms to the law that trade consists merely of the exchange of goods or services.

The enormous amount of fallacious thinking which has been expended on international exchange, particularly as it affects protection, is primarily due to a misconception of the function of money. Money is merely a medium of exchange, to facilitate the cumbersome and difficult process of barter. Goods are changed into money, which possesses a relatively stable value compared to the fluctuating values of other commodities, and again changed into other goods, so that goods are exchanged for goods, and money disappears from the picture. Thus a man sells his services for wages. The wages are spent on food, clothing, housing, and luxuries. Money has merely been a convenient means of exchanging a certain amount of labour for an amount of goods of equivalent value.

All trade can readily be seen as an extension of the primitive forms of barter. Unfortunately, money has obscured this simple point. The man who received his wages in the last example looks on being paid for his work as one transaction, and the purchasing of his requirements as another, having no relation to the first. In reality, the two actions are component parts of the same transaction.

The numerous people who receive their keep as part of their wages are implicitly admitting that services are exchanged for goods. In such an instance money has been dispensed with, as the transaction could be as readily accomplished without it. Consequently, the whole realm of trade is merely a constant interchange of goods for goods, or goods for services, and all forms of trading are merely bartering, whether the participants in the deal are nations or individuals.

That money is not intrinsically necessary to the process is shown by the fact that anything will do for money, so long as it is known that others will accept it as readily in exchange for goods required by the owner of the money, as he accepted it for the goods he previously parted with. Money need not necessarily be gold. Cattle, furs, corn, salt, hides, tea, cowrie shells, opium, knives, spades, bullets in Abyssinia, rum in N.S.W., silver in India, have all served as an excellent form of money in their time. Even paper, which possesses little intrinsic value, is a universal medium of exchange.

From an examination of the exchange position it is evident that protectionists desire one of two alternatives. The first, and most commonly expounded, is that we should export a great deal of Australian products, and import as little foreign

merchandise as possible. In other words, we should give away all we possess and ask for nothing in return. In accordance with this policy, recent Australian tariffs have been designed to reduce an excess of imports over exports, and to stimulate Australia to export more than she imports.

The excess of imports represented money which had been borrowed abroad, and could only enter Australia as imports, in excess of her exports. Whether such borrowing was desirable is not the concern of the authors, but any attempt to make imports balance exports could only have taken the form of ceasing to borrow money abroad. Once the money was borrowed it had to come into the country, and could enter in no other way than by adding to the volume of imports. Since the tariff could only make its entry more expensive to the borrowers, without in any way preventing it from entering, the only effect of such a measure would be to reduce the amount of imports coming into the country as part of the normal course of exchange. But since imports equal exports, the amount of exports would have to be correspondingly reduced. As a consequence of this, the discrepancy would still remain, while the volume of legitimate trade would be reduced.

Those who wish us to be paid in gold for our

exports have forgotten that the object of money is to assist us in obtaining goods, and confuse the means with the end. No nation could long continue to purchase our wool and wheat with gold, owing to the comparative scarcity of gold. Even if this could be accomplished, we would be no better off. If gold became plentiful, it would lose in value, and purchase less of other commodities. As a result prices would go up like a skyrocket. As a further result, the higher cost of living would so increase the costs of production that our former customers would cease to buy from us. With the loss of our export trade in wool we would fortunately lose our import trade in gold.

The United States has followed the policy of hoarding most of the gold in the world, and results are occurring there similar to those suggested in the above paragraph.

Thus it becomes apparent that the only feasible policy is not to interfere with the exchange of goods in any way that can be avoided. Before leaving the topic of exchange, it is perhaps desirable to examine the machinery with which it is carried out.

A certain merchant in Brisbane who sends £100,000 worth of wheat to London does not receive £100,000 from England in return, but goes instead to his bank with a bill of lading and a bill

of exchange in duplicate drawn on his customer, with a due date of, say, three months ahead. After deducting a small percentage for its services, the bank pays him the balance of the £100,000 in cash. It then sends the first copy of this bill to its London office and it is presented to the customer for acceptance. On signing the bill, the customer receives the bill of lading which entitles him to the wheat, and at the end of three months it is his business to see that the money is in the bank ready to meet the bill of exchange. At this stage both the Australian exporter and the English importer step out of the picture. The Australian has received his cash, not from the Englishman, but from his local bank, and the Englishman has received and paid for the wheat, through the agency of the English bank which holds his cash.

The next question is how the banks adjust the matter between them. On the day the Australian bank sent the first copy of the bill to England, the second was also put into circulation. It immediately became part of the finest medium of exchange known to the civilized world. A bill of exchange on London has such a ready market that shipments from one country to another are usually settled by means of such a bill.

The bill in question may have gone first to Ceylon to pay for tea, and then to Singapore to pay for

rubber, and may have been endorsed over to half a dozen different holders. In fact, it has become a form of international bank-note, backed by the security of a shipment of wheat. What a pound-note is to the man in the street, this bill has become to foreign banks in their dealings with one another. Like many more of our bills it may have gone to America. Thus the so-called "adverse" balance of trade with the U.S.A. is settled, since we have a favourable balance with other countries, such as France and Italy, also trading with the United States, and the difference is passed on to her by the medium of bills of exchange from them. In the long run bills of exchange are shuffled round until each country's exports equal its imports. So wool and wheat sent to London, pay for motor-cars purchased from America.

When the due date arrives, the bill is duly met in London. This is not done as a cash transaction. In the meantime some Sydney merchant has purchased £100,000 worth of goods in London, and there is now a bill held by the London Bank for that amount payable in Sydney. The two bills pay for each other, and the Banks make the necessary adjustments in their ledgers, the bills are cancelled, and the matter is finished. No money has passed, and £100,000 worth of Australian produce has been exchanged for £100,000 of British.

goods. During a complete year, if bills for over £150,000,000 are sent to England, they are met by bills on Australia for the same amount, and as each bill represents commodities, and is issued for commodities, it is as obvious that goods are paid for by goods as that the workman was paid for his labour in goods.

In the case of a loan, an identical process is followed. If £100,000 is borrowed on the London market, that money is paid into an English bank, and serves to meet English bills of exchange, drawn on Sydney. Thus Australia is enabled to secure £100,000 worth of imports, which are paid for by London investors, instead of by her exports. When the time comes for repayment, £100,000 is placed in a Sydney bank to the credit of the London investors. This serves to meet Australian bills of exchange drawn on London, and £100,000 worth of exports leave the country to repay the loan. The process is no different from the suburban practice of borrowing and returning a lawn-mower.

If protection were to succeed in its aim of exporting more than Australia imported, there would not be enough bills on Australia to meet the bills on England. The surplus of bills on England, being plentiful, would go down to something less than their face value, while the bills on Australia,

being correspondingly scarce, would become dearer.

Since the Australian exporter would not obtain full value for his bills, while the English exporter exchanged his bills for Australian bills of a higher face value than his own, the Australian exporter is really fined, while the English exporter receives a bonus. The effect of this will be to encourage imports, and check exports until the balance is again normal. The delicate barometer which registers this constant process of correction is known as the rate of exchange. It simply expresses a ratio between imports and exports. The process of balancing imports with exports is going on daily, and it is quite outside the power of banker or politician to control it, since the adjustment is due to the fact that anyone who sends away £100,000 worth of goods wants £100,000 for them, and not a penny less. Since this can only occur if £100,000 worth of goods came into the country in return for them, there is no escape from the fact that imports equal exports.

To put the matter simply, international trade, like other trade, is merely barter. In one case a workman barter his labour for an equivalent amount of goods which he requires. In the other a nation barter its exports for its imports. The

two things are component parts of the same transaction, and cannot be considered separately. It is to the habit of regarding imports as one thing and exports as another, having no connection with the first, that the protectionist has owed his past success.

CHAPTER IX

THE COOLIE QUESTION

FROM a knowledge of the laws of exchange, it is possible to examine the question of the cheap foreign labour bogey, by the threat of which the Australian workman has been coerced into taxing away his employment for the past thirty years.

It is notorious that Russia, Japan, Greece, and Spain, although they rank among the most highly protected countries in the world, pay the lowest wages. Evidently protection has failed to safeguard the wages of the worker in these cases.

In the instance of Australia, free trade cannot throw us into competition with underpaid foreign labour, for the simple reason that 90 per cent of the people of Australia already enjoy no protection from the competition of Japan, or any other country.

In the Statute Book no record can be found of any act to protect the primary producer against cheap foreign labour. Such measures as the Paterson Scheme, or the proposed bounty on wheat

protect the farmer, not from cheap foreign labour, but from increased costs of production, which are solely due to protection.

The rural workers employed by the primary producers of Australia enjoy no protection save the Immigration Act, which is not a "protective" measure at all, but a question of the White Australia policy.

No urban electrician, carpenter, plumber, brick-maker, wharfinger, confectioner, or shop assistant has the slightest protection against the lowest paid worker in the world, except the very nature of his employment.

The factor which keeps Australians in employment is not protection, but the elementary fact that no article, produced even by the cheapest foreign labour, can enter this country unless an equivalent article, made in Australia, by Australians, and at the Australian wage-standard, leaves the country in payment for it. However cheaply an article is made abroad, it can have no harmful effect on the Australian worker.

In the next chapter it will become apparent that different countries are endowed with aptitudes for producing different commodities, and that any exchange of these products can be only beneficial to both parties to the deal. Otherwise the transaction would not be made.

A much quoted example is the cheapness of Japanese crockery, at present produced by sweated labour. Obviously, if protectionists wish to compete in this particular line, two alternatives are open. Either the Australian wage standard must fall to the level of the Japanese coolie, in order that the crockery can be made at a competitive price, or else we must make up the difference in the respective wage standards out of our own pockets for ever. There is a third possibility, that machinery and efficiency may one day enable Australia to produce the same article on a paying basis. However, this could only come about under free trade conditions, since crockery-making under the protection of a tariff is as futile as any other form of subsidized industry.

There is no necessity for such competition, since it is much easier, and infinitely cheaper, to exchange a natural Australian product, such as coal, for crockery. If the competition does arise, whether the wage standard is lowered in the crockery industry, or the workers of all other industries are taxed to keep up the standard of the crockery-maker, the result must be an all-round lowering of the Australian standard of living.

The Southern States of the U.S.A. are adapted for both cotton and tea production. At present only cotton is grown there, while tea is imported

from China. If tea were substituted for cotton, America could grow sufficient for her own requirements, and cease to import it. At the same time she would lose her cotton production, since the cotton fields would be sown with tea. However, cotton is a more valuable crop than tea, and the United States finds it profitable to purchase all her tea with a small quantity of cotton, and retain the balance to exchange for other requirements. At present the cotton worker is not thrown into competition with the coolie tea-picker of Ceylon or China, but a change of occupation to tea-growing would bring this about, while at the same time, the nation at large would be poorer through such an effort to grow its own tea, and less employment would be available.

The contention that free trade with any other country will hurt the Australian workman is to suppose that trade is capable of making people poor, when the sole reason they trade is to make themselves wealthier.

Many protectionists admit that "free trade is all right in theory, but impossible in practice." No theory which will not work in practice can possibly be considered as correct at all. What such contention amounts to is that free trade would pay Australia if all other countries also adopted it. If Australia were to abolish her duties without recip-

rocity, nations with a lower wage-standard would immediately flood the market with "dumped" produce, and leave no field of employment to the Australian workman.

Unfortunately, the picture of Australia as the world's "dumping ground" is a dream of the opium pipe. There is no apparent reason for cheap foreign labour to sweat itself to death in order to supply its Australian brother with his requirements without toiling for them, or making any return. Australia is missing a golden opportunity of becoming a lotus-eaters' paradise if all we need is waiting for us gratis, merely excluded by a tariff wall.

Whatever is "dumped" on us requires a return of our exportable products. "Dumping" merely implies that we secure more of a certain product than previously for the same outlay. The increased wealth brought into circulation would be an advantage to all. It must not be forgotten that such an exchange would also benefit the nation producing the "dumped" articles, or it would have no reason for exporting them.

In some cases, such as Russian wheat, the benefit to the producer may seem to us more apparent than real. However, that does not alter the fact that to the Russian mind, from the Russian point of view, such a plan appears desirable. The psych-

ological or industrial wants of one party to a transaction may induce him to barter his wares without reference to anybody else's scale of values. Thus, a native may exchange a diamond for a trader's beads. We unconsciously assume that the trader has secured the best deal, while overlooking the fact that, in relation to his needs and environment, the beads are much more valuable to the native than the diamond.

As far as Australia is concerned, if Russian competition at cut rates is to be permanent, we must either abandon wheat-growing, or reduce our production costs to a competitive level. No such attempt can be made while the costs of wheat-farming are increased by the tariff.

If our imports doubled, trebled, or quadrupled, our exports would have to correspondingly increase, providing every Australian with work in abundance, and giving each man the greatest possible return for his labour in the form of goods bought in the cheapest market. If Australia sticks to her exporting and naturally sheltered industries, cheap Japanese or dear American labour can have no effect on our standard of living, except to improve it by allowing us to purchase a greater quantity of our requirements with the same expenditure of effort.

For protectionists to aver that free trade would throw Australians into competition with coolie labour, when the only way in which such competition is possible is to indulge in protected industries, is little short of a gratuitous insult to the national intelligence.

CHAPTER X

THE BURIED TALENT

SILICA, a small island in the Pacific, produced £100,000 worth of guano per year, while its working population numbered 100. Phosphates are in universal and constant demand, so the population of the island were assured of a ready market for their goods, and enjoyed a high standard of living from the return on their produce. Their requirements consisted of food, clothing, housing, tools, and machinery and certain refinements of life. These were obtained by bartering guano for them, or importing them.

The cost of working the guano and maintaining the population at its accustomed standard of necessities, made it essential for £20,000 worth of goods to be imported each year. After meeting their working expenses, the population had £80,000 to exchange for those luxuries which make all the difference between a full life and a bare, drab struggle for existence.

A prophet came to Silica and proclaimed that by

growing its own food, making its own clothes and manufacturing its own tools and machinery, the islanders would no longer have to import £20,000 worth of foreign produce, but could pocket that amount themselves. He pointed out that the island could still go on exporting guano, and be paid for it in gold, which was valuable, and could be spent locally. Mass meetings of patriotic citizens were held everywhere, and a prohibitive tariff was placed on all the imports which formerly entered Silica. The new measure was hailed on all sides as an unparalleled example of constructive statesmanship. It was pointed out that the United States had done the same thing on a smaller scale, and there were confident anticipations that the island would soon excel that country in power and wealth, since it had "boldly" adopted no such half measures as other countries, but had carried protection to a logical conclusion, where its benefits could be immediately felt. The only regrets expressed came from certain ambitious citizens, who privately wished that they had thought of the scheme themselves, and envied the prophet the plaudits showered on him by the grateful islanders.

It was found that nature had adapted Silica rather to the production of phosphates than to the growing of food. The ground was very unsuitable for the purpose, and certain articles could not be

produced at all, since they only grew in a tropical climate. However, the prophet overcame the difficulty by taking 15 men away from digging guano to hoeing the ground, and with heartbreaking efforts the soil yielded its scanty wealth. The prophet next commenced to grow the more exotic tropical vegetables under glass, and by removing five more men from the guano, he even contrived to make orchids blossom, where it had previously been difficult to secure the delicate growths at all.

The growing of beef and mutton did not progress quite so favourably, since the sheep died of fluke, and the steers contracted ringbone from constant falls on the rough soil of the island. This, however, was of no great consequence, since even if they had survived, there was insufficient grass to feed the animals necessary to supply the population with meat.

Patriotic sentiment came to the rescue, and it was pointed out that the Silicans really should not prefer beef and mutton, which were products of the foreigners who had previously exploited them, when there was a local article equally as good in the fish swimming round the coast, which possessed the additional advantage of being good for the brain. The islanders took readily to this diet, with unfortunate results for the prophet, as the sequel will reveal. The only disadvantage

was that ten more men had to abandon the guano fields in order to spend their time fishing. Still the islanders agreed that all classes of the community should take their share of the sacrifice, since the island was really becoming self-contained.

When the question of manufacturing picks came up for consideration, it was found that the small quantities required did not justify expenditure on up-to-date machinery, so the heads were hand-forged, and the hafts cut from a local tree, which really gave better results than the imported article, and so compensated for the fact that a Silican had to expend as much time and energy on a single pick, as the Birmingham artisan had used to produce a thousand. As a result of this laborious process, forty men had to be withdrawn from guano-digging to make necessary utensils of trade. This, however, did not greatly matter, as there had been sufficient guano produced to satisfy the requirements of the local market, and there was a large surplus of it waiting on the wharf. For some inexplicable reason no offers had been received for it, although the citizens went round assuring each other that the matter was all gossip promulgated by the *Silican Bulletin* in order to increase its circulation by scare headlines.

In regard to printed matter, a prominent citizen pointed out that the island could not hope to be

self-contained in this respect, since it would take local authors at least five years to replace the world's classics with a superior local literature. The tariff on printed matter was accordingly reduced to an intermediate level, and a shipload of books arrived in the island. The results were two-fold. The local authors pointed out that they were working under a disadvantage compared to the pickmakers, who were completely protected, and successfully demanded a bounty. The second result passed unnoticed at the time, but the ship which brought the books to the island picked up a little guano. Curiously enough, the value of the cargo of guano was almost the same as the price paid for the books. The prophet said that his policy was beginning to show results. Silica had become self-contained, and after the initial hardships, the export trade was improving. Everybody agreed that things were looking up, and bent to their tasks with increased vigour.

After a time, the guano position became serious. Although there were now only 30 men left to work the deposit, the industry seemed to be suffering from the effects of over-production. Even out of the thirty men available, ten were unemployed, nine were working broken time, six were marking time, and the position of the remaining five had become insecure since the departure of the ship

which brought the books, and they were only kept going by the demand of the local market. It became necessary to inaugurate some system of relief for them, since even the protected pickmakers disliked to see the wives and children of their fellow-workers starving.

Trade was coming to a standstill, the oldest inhabitant could not remember a worse time since the supply-ship was wrecked in '93, and the sole topic of discussion became the depression. The prophet felt that some action was required of him, and he raised the already prohibitive tariff to unheard of heights, placed a total embargo on the importation of books, and secured positions as compositors for a percentage of the unemployed guano-workers. Every Silican admitted that such an action was certainly drastic, but that the situation required it. However, things became worse still, and a number of young men formed a "Cheer Up" club, and went about proclaiming that everything would come right in the end. This prophecy proved perfectly accurate.

At the time when the shipment of books arrived, an islander had bought a copy of the *Child's Primer of Economics*. Aided by the beneficial effects of the fish diet, he had laboriously mastered its contents, and felt that he was now in a position

to place his finger on the sore spot in the economic life of the island.

He called a public meeting and pointed out that, instead of concentrating on its natural sources of wealth, and taking full advantages of the facilities for trade which the island had formerly possessed, the energies of the Silicans had been frittered away in wasteful avenues, which would never be productive. What was the result? Every inhabitant of the island had been working as hard, if not harder, than he did under the old free trade system. They had certainly avoided importing £20,000 worth of imports. What of the £80,000 which had formerly been gained as profit? They could see for themselves that guano was rotting on the wharves for lack of a buyer, while the greater bulk of this commodity was still lying untouched in the hills. On the other hand, there was the smoke of the new forge, which was to provide employment for generations of Silicans to come; there were fields of wheat where none had flourished before, and food, if not abundant, was plentiful for those who had not lost their jobs. Was it worth it? Over a period of twelve months, they had given protection a thorough trial, and the only result was a dead loss of £80,000 worth of commodities and an unemployment problem, which he jocularly requested the prophet to solve.

88 THE DELUSION OF PROTECTION

An executive committee was appointed, which acted without delay. A posse lynched the prophet on a local tree, with a rope of his own manufacture. All duties were repealed the same day, and the date set aside to be a holiday in perpetuity.

PART II. TRADE

CHAPTER XI

THE ORIGIN OF TRADE

IN a very primitive state of society trade was little known, and each individual produced the bulk of his own requirements. Each man grew his own crops, chased his own game, and cared for his own herds. As well as food derived from these sources, wool, spun by the womenfolk, and hides, tanned by the men, clothed, shod, and armoured the early nomads. Their homes were either tents similarly made, or rude huts built from the trees of the surrounding forests. Self-contained such peoples may have been, and are to-day, but their material and spiritual wealth was slight.

As civilization advanced, it was found better for each individual to confine himself to what his land produced best, and to exchange the surplus of this for the spare products of those who specialized in other occupations. The women of the family ceased to weave cloth, and the task was left to a weaver who did nothing else. Houses were built by specialists who devoted all their time to car-

penry. The primitive nomad became a prosperous farmer, relieved of all duties but the production of crops. He was thus in a position to produce greater bulk of stock and cereals than formerly when his energies were dissipated in many directions, and to have sufficient to spare of his own particular produce to exchange for the unwanted products of others, and be richer for it. This tremendous discovery was merely the division of labour, or specialization, with which we are familiar in civilized communities to-day. The effect is to leave each individual to his favourite and most productive work, and by allowing him to concentrate all his skill in one direction, enable him to produce a particular article in larger quantities than if everyone were a jack-of-all-trades. Thus the total wealth of the primitive community became larger, as goods and services began to be freely exchanged.

A farmer to-day could be completely self-contained, if he so desired. He could easily build his own home and furnish it, shoe his own horses, and even make his own plough. He would obviously have to forgo amenities of life, such as automobiles and wireless sets, since their manufacture and maintenance presupposes highly specialized labour. At the same time, his production would decrease owing to the fact that more time would be taken

away from his work. This would be offset by the circumstance that he would require no surplus, since he had dispensed with trading.

The result would be that while he was self-contained, and spent nothing, he would be poorer than if he had concentrated solely on producing sufficient surplus of wheat, for example, to enable him to secure in exchange the products of labour skilled in other occupations.

It is obvious that specialization and trade go hand in hand on a path that leads to wealth and plenty; and even more than material comfort depends on trade.

As the Phoenicians scoured the ancient seas in an unending search for trade and ever more trade, they not only brought home goods, but ideas gleaned from every corner of the known globe. Thus a knowledge of the alphabet, and the rudiments of mathematics were dissipated over the trading centres of the time, and with them came civilization, art, science, and community government. With each advance in trade went a corresponding advance in the refinement of human living.

It has never been contended that the merchants of Athens threw their fellow-countrymen out of work, when their galleys swept into the Piraeus, laden with the wealth of the distant East.

If trade made Rome poor, why did the Romans wish to trade? Neither party to a deal concludes it, unless he is satisfied that it is to his advantage to do so. Trade is a voluntary act, and its benefits are so obvious that everyone willingly participates in it.

So tremendous have become the ramifications of commerce that London, with its wealth and glory, is merely a monument to trade.

Every barrier to trade makes mankind poorer. Oceans, mountains, waterless wastes abound, and hinder the advance of trade and culture. Every country in the world is seeking to enlarge its markets, despite such obstacles. Protection is nothing but another hindrance to trade, unnecessary and superfluous, which takes the bread from the very mouths of those who raise the obstruction.

By many it is thought that free trade is merely the primitive form of exchange, and that protection is a refinement of it, introduced by superior modern understanding. Exactly the reverse is the case.

It is claimed that tariffs enrich a country by making it self-contained. If this were true in principle, each family would be wealthier if it produced its own requirements behind the shelter of a private tariff-wall, instead of having only one Customs barrier for the whole Commonwealth.

Of protection we have either too much or too little.

For Australia to become self-contained, it must throw away every advantage of trade which cannot be found within its own borders, fly in the face of historical teaching on the advantages of trade, and progress backwards instead of forwards. Protection can only mean a return to a primitive form of existence; wealth and civilization can only advance with the removal of each barrier to trade. Whether the barrier has been erected by nature or man is immaterial.

Those who desire a self-contained Australia were born two centuries too late, as Professor Brighden shows :—

“Not so long ago Australia was entirely self-contained. No pernicious or other imports were dumped into Australia to compete with the products of the aborigines.”

CHAPTER XII

WESTERN EUROPE UNDER THE ANCIENT SYSTEM OF PROTECTION

THROUGHOUT the Dark Ages during which Europe was striving to reorganize the scattered remnants of Roman civilization, the legacy of comparative free trade, which had always accompanied the Imperial eagles, was completely supplanted by an extreme form of protection carried to theoretical perfection.

The insular and barbaric spirit of the times dictated that each hamlet should look on its neighbour as a "foreigner," although kindred in race and speech. All the resources of a modern state could not emulate the impenetrable tariff wall which "shielded" the local agriculturist and artisan from importing the barest comforts of life, as we understand them to-day. Along every pass, at every ford, and on each cross-road operated the prototype of the Customs official, the robber baron and his sturdy villeins, exacting toll from the itinerant chapmen. Communities starving in the

midst of plenty, the scarcity and paucity of commercial highroads, the appallingly low standard of living, amply illustrate the effect of an embargo on trade, which could only be paralleled to-day by every country town becoming a protective unit.

The superior contemporary civilization of the East reflects the material and moral advantages of a system of trade which was not hampered by artificial barriers. It must be admitted, however, that Tartar hordes frequently deducted their percentage *ad valorem* from the wares of the too-adventurous trader.

The rise of Western Europe from barbarity to ripe civilization and prosperity can be restated in terms of the gradual enfranchisement of trade from barriers to commerce. As the national state arose, and feudal power decayed, local interference tended to disappear, and internal free trade gave rise to national prosperity. It is noteworthy that the free trade cities, Genoa, Venice, and Hamburg, far exceeded in power and prosperity the contemporary States of Central Europe, who staggered under an appalling load of local duties. The failure of the Holy Roman Empire can be directly attributed to an economic disunity, which lasted until the nineteenth century. A similar anachronism in France gave rise to the economic evils which precipitated the French Revolution. The German

Empire and the French Republic have been factors of real commercial importance only since their enfranchisement from internal tariffs. So much even a protectionist will admit.

For long trading conditions at sea were unsettled owing to the activities of pirates of Norse, Saracen, and Mediterranean extraction. Their depredations must have enormously increased the prices of sea-borne commodities. Such enterprising pirates were the citizens of Tarifa, in the south of Spain, for instance, that the word "tariff" arose and still exists in our vocabulary in much the same sense.

From the period when national consciousness became a force strong enough to create national trade the main centre of interest shifts to England which is conveniently isolated for purposes of comparison.

No sooner had internal tariffs been admitted in failure than attempts were made to perpetrate venerable errors on a larger scale. The first protective measure on the Statute Book dates from the reign of Edward III. Numerous Flemish weavers had settled in England, and were threatened by competition from their old home in Flanders. In order to foster this promising infant industry Edward was induced to impose an anti-dumping duty. Historians record this praiseworthy, if mis-

guided, piece of patriotism, and leave untouched the somewhat interesting results which attended the experiment. The normal increase in the price of the locally-made protected article followed as a matter of course, and the blame was justly enough attributed to excessive costs of production. To combat this a ban was placed on the export of wool, the raw material, which accordingly became plentiful and cheap. Consequently the costs of production fell, but woven products were still dearer in England than in Flanders. The growing of wool became so unprofitable that it was largely abandoned, and the loss of the former export trade in wool caused unemployment and poverty in what had been a well-established trade and a national asset. A subsequent lapsing of both measures restored the threatened prosperity of the wool trade.

During the reign of Good Queen Bess everything Italian became the vogue. Italian swords, fashions and plenishings were imported, much to the annoyance of the good tradesmen of London. Accordingly, Elizabeth was prevailed upon to place an embargo on a long list of foreign articles. Fortunately these failed in their object of annihilating the Italian trade, or England might not have benefited from an early grasping of the fruits of the Italian Renaissance.

The people thrown out of employment by this

particular protective venture were absorbed by the contemporary boom in maritime enterprises. The loss in national income was offset by large imports of Spanish gold, concerning which neither duties nor questions were asked. Thus the evil passed unnoticed.

Such haphazard legislation later gave place to the discredited mercantile system, of which the adherents are only to be found among certain political thinkers who are still endeavouring to hamper commercial development. The argument is that of a merchant's profit and loss account. The lower a merchant keeps his outlay or purchases, and the higher his returns, or sales, the greater should be his profits. By analogy it is argued that a country's exports must exceed her imports in order to show a profit. Thus arise such terms as "adverse" and "favourable" trade balances. This overlooks the fact that in international trade exports are the outlay with which imports, or returns, are acquired. A nation whose exports exceeded her imports would be making an outlay for which she was getting an inadequate return. On their own argument the adherents of the mercantile system must admit that a country attains prosperity by an excess of imports, rather than of exports. In actual practice no country is so philanthropic as to send away more than it receives in

return, so international trade becomes an exact exchange of goods and services, which should balance to a penny. Only by loose thinking in terms of money can any other conclusion be maintained.

Adam Smith was the first to expound this elementary truth, in the *Wealth of Nations*, which has had a greater effect on English history than any book, excepting the Bible. Walpole was the earliest politician to abandon the mercantile system, and the last may possibly be found in Australia.

Contemporaneously with the regime of the mercantile system a more advanced policy had been pursued elsewhere.

There had been the example of Holland to provide an object lesson. A small country with few natural resources ranked as a power to be reckoned with. Sir Walter Raleigh had first drawn attention to this extraordinary phenomenon in his observation:—"The merchant ships of England are not to be compared with those of the Dutch. The Dutch give free passage inward and outward for the better maintenance and encouragement of navigation, and the encouragement of the people in their business."

The Dutch were the first to break away from the outworn mercantile system, and discover the secret

of commercial success by practising the natural laws of trade. The only free trade country in the world enjoyed wealth and influence out of all proportion to her size.

Holland did not fear dumping, for she realized that the increased quantity of imports she obtained for the same quantity of exports only made her the owner of more of the goods of the world, and increased her wealth. Her towns were the most hygienic in existence, her standard of living the highest, and her mercantile marine the most numerous which sailed the seas. The fine arts had followed commercial prosperity, as the Flemish School of painters and the famous University of Leyden bore witness. On one occasion the thunder of her guns was heard in the Thames.

Such an example was not wasted by those who expounded the doctrines of Adam Smith. England began to revise her tariffs. Trade treaties were concluded, and conditions of trade were being improved when the wars of the Napoleonic era set them back. After the cataclysm the old principles were again in force, backed up by fruitless enmities such as the present generation witnessed a decade ago. Duties were piled high against France. The Englishman was compelled to drink Portuguese wines "which he disliked, and

which gave him the gout, instead of French wines which he enjoyed."

There was the inevitable post-war slump. English industries suffered and further protection was asked for. This was duly given, and caused the country to slump still further, in the same way to which Australians are only too well accustomed.

The result was the most widespread general depression in the history of England. Poverty stalked abroad as never before or since. As with us, the agricultural industry felt the blow most. The farmer and his dependants, the landowner, townsman and workman, cried out that corn must be protected from foreign competition, which was threatening to overwhelm home production. Here the cry is against foreign clothing and manufactured wares. The essential difference is that a consumer sees his disability more readily when he is hungry, than he does when he must go shabby.

To preserve the parallel, the higher the duties were piled, the greater the depression became. The younger productive industries built up under the milder pre-war tariff and a virtual monopoly during the war years were failing under the burdens of protection, as for example, the Australian timber industry is failing to-day. Whole branches of the hardware trade were lost to Germany, and much of the woollen trade to Switzerland.

Macaulay has drawn a vivid picture of the destitution of the early forties.

Cobden and Bright at last brought the light to a half-starved people who were crying out for a real remedy from a plight more desperate than Australia has reached—as yet.

Peel became a convert to free trade, and in 1842 the Customs Duty was removed from 750 articles, and was followed in 1845 by a further relief on 450 articles. In 1846 the oppressive corn laws were abolished, and England entered into the period of commercial expansion under free trade, which was to make her the greatest power in history.

The almost instantaneous improvement in the well-being of the people, and the prosperity of the country was so wonderful as to be almost miraculous. Even the agriculturist, who had so long clung to the shibboleth of protection, was a gainer.

In 1877 John Bright said at Rochdale:—"Now we will go back to a period which I remember very well, and which many in this meeting must remember. We will go back to the year 1840. At that time there was great distress in the country. The duties upon goods coming into this country were almost beyond counting. I believe there were at least 12,000 articles on which, by the law of

England, taxes were levied when the goods came into Liverpool, London, Glasgow, or any other of the ports of the Kingdom. Everything was taxed, and everything was limited or restricted. Even bread, the common food of the people, was taxed more highly than anything else. Now you may imagine—nay, you cannot imagine, but you may try to imagine—in what kind of fetters all our industries were chained at that time. And you may try to imagine; but now in this day you cannot imagine, what was the amount of pauperism, suffering and abject misery perpetually prevailing among the great body of the working class in the United Kingdom.”

To any thinking man the signs are becoming more obvious in Australia day by day. The only remedy that is offered is the same old panacea of more protection, which is always doomed to failure, whilst the ranks of the unemployed grow every day, and those in actual want of the bare necessities of life are starving in the midst of nature's richest granary.

CHAPTER XIII

THE RISE OF ENGLAND UNDER FREE TRADE

GERMANY, at the beginning of the century, had over 200 internal tariff walls. In 1833 a Tariff Union was initiated, but it was only after the forming of the new Germany in 1870 that this became completely effective. It was not until this date that she had any pretensions to commercial rivalry with England. Germany had the richest coal and iron deposits in Europe, yet her economic policy allowed the more poorly-endowed England an enormous advantage in the fight for the world's trade. Protectionists have attributed the prosperity of both Germany and the United States to an external tariff policy, rather than to rich natural resources and to internal free trade. The supposed panacea merely prevented the development of these advantages to anything like the possible maximum. Even in the early part of the twentieth century Germany's industrial progress was confined to those industries in which her natural resources gave her an enormous advantage over England.

Where this advantage did not exist, England's policy of free trade gave her headway. This is notable in the comparison of the woollen industries of Britain, France and Germany between 1902 and 1912.

VALUE OF WOOLLEN TRADE

	1902	1912
France	£8,700,000	£7,700,000
Germany	£12,000,000	£12,500,000
United Kingdom ..	£15,900,000	£26,100,000

At all times England has paid a higher wage than Germany, or any other Continental country. Only one other country possibly outstrips her in this respect, the United States, where the standard may be attributed to the fact that external tariffs were insufficient to overcome the internal free trade, and the natural resources of the country.

Any argument which attributes the prosperity of the United States to protection entirely overlooks the fact that the American producer and manufacturer have the right of trading with 120,000,000 people before meeting a tariff wall. The only comparable free trade unit would be the British Empire under Imperial free trade. There are many American States larger in population than the total of the six Australian States, but each has complete free trade with every other American State. It must not be forgotten that the

United States had during the last century the inestimable advantage of free land and untapped natural resources. It is because of this that the country has prospered, and prospered in spite of the vaunted American tariff. The fact that a man could go West and obtain land for himself in a great granary of wealth only waiting to be opened, made wealth easily obtainable, and high wages common. So far Australia is in a somewhat similar position, but the fact that America prospered despite protection has led Australians to assume that she prospered because of it, and to imitate America's big mistake, without the same favourable factors that placed such an expensive error within the reach of the American purse.

In spite of the advantage derived from America's internal free trade, which made her the greatest economic unit in the world, she suffers from her high tariff as soon as she ventures to trade overseas, as Australia does to-day. The same depression is engulfing her, and it is largely due to the same causes.

Many years ago an American writer complained of the numerous instances in which America was first on the market, only to be subsequently driven out by British firms, who had followed in the footsteps of the enterprising American. In this connection it is significant that the chief articles

imported from America into Australia are motion pictures, automobiles, and artificial silk hosiery, all modern inventions, in which the United States obtained a long start during the war, and that during the last three years English competition is threatening even these virtual monopolies.

As England is able to buy her raw materials in the cheapest market, she is able to undercut the United States in the price of the majority of manufactured articles. In the cutlery industry, for example, an American must obtain his steel in Pittsburgh, and his casein (for handles) is made in New England. An English manufacturer may obtain his steel in Germany, Sheffield, or where it is lowest in price, and his casein in New Zealand or Denmark. Consequently, he makes the cheapest knife in the world, and American cutlery is seldom seen in Australia. The volume of America's external trade shows evidence of these factors.

PURCHASES FROM THE UNITED STATES AND
GREAT BRITAIN

1928	U.S.	ENG.
Australia	£35,000,736	£63,098,037
New Zealand	£7,958,761	£22,531,880

Perhaps the finest example of how free trade has enabled England to overcome American competition is given by the history of their respective shipping industries. There is a common belief that

the British naval and mercantile marine have been supreme since Alfred built the first fleet. Such is not the case, as Sir Walter Raleigh's observation in the time of James I illustrates.

In 1850, after sheltering for over a century behind the Navigation Act, the British mercantile marine was very little bigger than the fleet of the United States. Its tonnage was estimated to be 4,100,000 as against the United States' 3,750,000. The ships of the latter country, however, exceeded those of Britain in speed, efficiency and beauty, and the Baltimore clippers possessed a monopoly of the Atlantic traffic.

At this time England was entering upon an era of free trade, America of protection. Simultaneously iron was replacing wood in shipbuilding. The American shipwright now found that for the emolument of the Pittsburgh ironmasters he must pay an excessive price for iron, and in the same way for copper, rope, paint, and each item needed for his dockyards. The English shipbuilder bought his requirements where he could purchase them to best advantage, so that the trade flourished in Great Britain and the North of Ireland, as it waned in the United States. Since England was now a free trade country her overseas traffic naturally increased, owing to the amount of freight which awaited British ships. In 1902 Britain had a mer-

cantile tonnage equal to that of the United States and most of the rest of the world put together.

During the same period the United States did everything possible to build up their merchant fleet, and passed a number of statutes with this object. There is a Navigation Act, similar to the Australian one, which makes it impossible for foreign ships to carry American cargo between American ports, but nothing has been done which enabled her to make up the leeway lost through Protection. In spite of the huge shipbuilding campaign the United States made during the war, England still retains supremacy. Tonnages for 1927 were as follows :—

United States	12,530,714 tons.
Great Britain	21,695,831 tons.

Comparing the relative size and resources of America, England, and Germany, the wealth of Great Britain is amazing enough to show that free trade must lack the evils attributed to it by nations which have attempted to stimulate commercial rivalry by means of tariffs. While these hurt England, they hurt the people who impose them much more. The overseas trade of England reaches the respectable total of £40/11/5 per head, whilst the corresponding figure for the United States is £16/9/2 per head.

Reviewing the position it appears that England

during eighty years of free trade has nearly trebled its population, sure proof that there is work for all under normal conditions. During this period she had paid higher wages than any country of Europe. According to Mr Carrol D. Wright, of the United States Labour Department, her real wages were higher than those of the United States of America. This came about by a steady increase, simultaneously with a gradual decrease in the cost of living. Most remarkable of all, from the Protectionist point of view, her imports have consistently exceeded her exports.

Under free trade Britain has attained naval supremacy, and has consolidated the greatest Empire in the world. Her own lack of natural resources was compensated for by the ability to purchase the raw products and partly manufactured goods of other countries, and make them up for export to every part of the world. The freedom of her markets made her more than a producer; she became the carrier, banker, and merchant of the world. The goods with which she was paid for such services constituted an "adverse balance" of trade which raised her from the misery and want of the first half of the nineteenth century to the greatest and wealthiest power in history by the end of it.

PART III. POLICY

CHAPTER XIV

TEMPORARY PROTECTION

A favourite protectionist argument is that a tariff should be temporarily enforced in order to place a desirable infant industry on its feet. Given such assistance for a time only, the industry would find other means than the tariff with which to fight importing competitors. The suggested lines are that, with a virtual monopoly of the local market, leading to mass production and other economies of management, which are only possible in large scale production, the local industry would have advantages similar to those possessed by its rivals abroad. With the removal of the tariff, the industry would still enjoy the shelter of many thousand miles' freight.

If protection actually meant this, it is hard to find an overwhelming objection to the scheme. Any initial sacrifice would be worth while in view of the ultimate gain. Many Australians who realize the undesirability of a permanent tariff, subscribe to the present policy in the belief that it is only a temporary expedient.

In actual practice, the authors have been unable to find a single instance of an Australian infant industry refusing further spoon-feeding, and offering to strike out for itself. These lusty infants howl for higher and higher protection with the persistency of *Oliver Twist*. They have no alternative, since the very policy which creates them, destroys them. Industries which cannot exist without a tariff produce £75,000,000 per annum. Another £75,000,000 worth of production has to be protected against the costs of protection. There is no reason to assume that any infant industry will escape paying for the keep of its fellows, and less for concluding that their burden will be sufficiently lightened by further impositions, to enable them to give up tariff-touting and work for a living.

Even if this objection were overcome by abolishing all but temporary tariffs, the next difficulty would be to find a body capable of deciding which industries were actually desirable. Governments and Tariff Board alike have failed to exercise any discrimination in the past, and as long as Parliaments are elective, there is no guarantee that the Hon. Bill Jones will possess the necessary economic knowledge and foresight to make the decision, and less that his decision will not be biased by the claims of the electors who put him into office, rather than influenced by national considerations.

The futility of the Tariff Board is shown by its dependence upon political influence, and the fact that it has never imposed a new duty without admitting that thousands of claims and counter-claims have not been examined owing to pressure of work.

Even supposing that these pertinent objections were overcome by appointing a board of omniscient, infallible, and incorruptible supermen to examine all claims for assistance to suitable industries, two more points come up for consideration.

If any industry is really suitable to Australian conditions, it is not too much to expect it to establish itself. This much, at least, most of the industries called upon to support it had to do in the past for themselves.

Finally, having secured an industry which is in a position to show cause for exemption from all objections hitherto advanced, it is by no means certain that protection is the best form of assisting it.

Whatever aid is given to it, the money must ultimately come out of the pocket of the taxpayer. If this money is raised by a tariff, the cost of collection becomes exorbitant, as shown earlier, the public has no check on the amount of assistance it is giving, or on how the help is being utilized, while

the industry itself secures a purely negative benefit, in the form of removal of some competition.

If infant industries must be protected, it is preferable to grant them a bounty. The obvious benefits of such a course are that the cost of collection would be cheaper under direct taxation, there would be a definite and ascertainable limit to the help granted, and assistance would only be given to concerns which showed definite promise, instead of being indiscriminately showered round as vote-bait. Finally, many of the industries at present protected utilize the virtual monopoly conferred upon them as an excuse for obsolete and wasteful methods. They have no incentive to improve their position, since their dividends are laid on. If they did try, the tariff on machinery would make their efforts abortive. Under a bounty system, there would be an immediate check on the efficiency of the recipient, who could be made to progress by a threat of withdrawing the bounty. Under a tariff the corrective powers of the Government seem limited to an ineffectual threat of a public reprimand.

On the whole, it seems desirable not to interfere with the natural course of trade at all. Economic laws have a playful habit of hitting back when interfered with, instead of turning the other cheek, as has been supposed.

It stands to reason that if Australia urgently requires the products of any particular industry, there will be a demand for them. If the demand is sufficient, capital and labour will soon find it convenient to supply it. If the demand is insufficient to justify the establishment of a local industry in the normal manner, it is better to import the small amounts required, instead of penalizing all for the wants of a few. The general tenor of temporary protection is to use a steam-hammer to hit a tack.

CHAPTER XV

IMPERIAL PREFERENCE

IMPERIAL preference is a sentiment of the highest order, and is not subject to any form of economic law.

Australians and New Zealanders adhere to it, not because they believe they will gain any personal benefit, but because it assists the other units of the Empire, and especially England.

It is necessary to distinguish carefully between true preference to the Empire and a form of tariff which only superficially appears to give preference, whilst its actual effect is to greatly damage all oversea trade, including Imperial commerce.

The motive behind the increased tariffs, which have been lately enforced in Australia, is not preference to the British Empire, but protection for the Commonwealth. The chief ground of the policy is that tariffs must minimize imports. If the imports happen to come from Great Britain the tariff wall must be high enough to stop them.

Having securely destroyed the trade in any line

of articles from Great Britain, the policy is then, as a sop to strong Imperial sentiment, to place a higher wall against America, for example, who quite possibly did not send us these particular articles at all. However, honour and "Imperial Preference" is satisfied, and some mischievously gifted arithmetician then works out that this is as good as a gift of a prodigious number of millions to England.

An example of this ingenious preference to Imperial trade is afforded by the plated-ware trade. Against England there is a duty of 35% while against the United States of America there is a duty of 50%, a nominal preference of 15%. But as America is hopelessly backward in the manufacture of plated-ware at a competitive price, the fact that there is a greater duty against her does not help England in the least. The duty which does the damage is the smaller one, and yet such a preference is considered a gift to England.

The same argument applies to cotton piece goods, where the tariff disabilities are: against England 35%, and against the United States 50%, while the United States could not compete with Manchester on the Australian market, if her goods came in free of duty.

The duty of 35% on English motor bodies so

damages the trade that the duty of 55% against foreign bodies does not help England at all.

On the other hand the 17% duty on foreign un-assembled chassis which is not a protective duty, since no local industry exists, is perhaps the most notable of Australia's real preferences to England.

Imperial preference depends on the entry of the goods of our Empire into Australia's ports subject to a revenue tax only. Protection must kill Imperial Preference, because it is directed impartially at all oversea trade which rivals our own factories. If England happens to be the home of the competitor whose trade offends, that trade is killed with as little compunction as we would kill the trade of our greatest enemy.

The Australian policy expressed in a homely metaphor is to give British trade a tremendous whack in the eye, then give foreign trade two whacks in the eye, in order to inform Britain that thus a son displays his gratitude.

Sometimes the desire to retaliate against America for not purchasing our goods is used to emphasize the claims of Imperial Preference. In 1925 New Zealand imported from America £8,626,959 worth of goods, while her exports to America were only £4,349,758, showing what is called an "adverse balance" of £4,277,201. To this day we may be sure that some reputed politician is saying that this

adverse balance is draining the country of money, whereas the total amount of money remitted to the United States was £38,895.

This apparent discrepancy has to be explained. It is known that trade is a system whereby goods and services are exchanged, so America has apparently made New Zealand a free gift of £4,277,201, and New Zealand seems to have the best of the deal. While this explanation is quite as feasible as the popular political expositions, it allows too little for American brains. If America sends New Zealand £8,626,959 worth of goods, she wants back exactly that amount, and receives it, because the balance is adjusted with Great Britain, to which New Zealand had sent £44,073,323 worth of goods in the same year, whilst only receiving back £27,262,507.

Australians are apt to forget that there are many countries whose imports from us exceed our imports from them. Italy and France are examples. It is of no importance how we balance with individual countries, since we know that in the aggregate an even balance will be struck between imports and exports. We cannot receive one penny's worth more than we send away in return.

This is a sufficient answer to those who would place a prohibitive embargo on American cars and pictures, on account of the "adverse balance" of

trade with the United States. In the end, the damage would recoil on our exporting industries to an exactly equivalent amount.

To give another example, a little while ago New Zealand sent butter to the United States, but that country placed a duty of sixpence per pound on it, and New Zealand, on recovering from this setback, had to find a fresh market for her butter. The ultimate damage to New Zealand was comparatively slight, but the working population of the Pacific Slope are still paying sixpence a pound more for their butter. The loss fell on the people of the United States rather more heavily than on those of New Zealand, since they also lost an equivalent amount of export trade.

To retaliate New Zealand might place a heavy duty on American paint, for example. The loss to America would be inappreciable, but would be felt in New Zealand every time a brush was dipped in a paint-pot. Retaliation always damages the country which tries to retaliate more than the country against which the measure is directed. If Australia and Great Britain were the only free trade countries in the world, they would be better off by remaining so than if they imitated the mistakes of others.

Retaliation is particularly obnoxious when it occurs between two parts of the Empire, and gives

to foreign powers a false impression of our mutual loyalty. In this connection an editorial in the *Saturday Evening Post*, headed "Trade Rivalry Between Dominions," is worth reprinting. It reads :—"International trade between European States is notoriously replete with preferences and discriminations and the interminable bickerings connected with political policies in commerce. This state of affairs has usually been attributed to multiplicity of neighbouring states, artificial frontiers, and nationalistic jingoism. That comparable situations may arise between brothers, geographically widely separated, is illustrated in the present relations between Canada and Australia, fellow dominions of the British Empire." The article then informs the world that Australia used the Paterson Scheme to charge threepence per pound extra to Australian citizens, so that she could sell cheap butter in Vancouver. The Canadians retaliated with an anti-dumping duty. The Australians evened up by practically doubling the duty on Canadian cars. The ridiculous feature of this internecine strife is that the Canadians want Australian butter and we want their cars.

Australia and New Zealand also have their tiffs. The Paterson Scheme gave New Zealand a chance to sell butter in Australia, until it was nipped in the bud. New Zealand scored next with a duty against

Australian flour, and to give good measure has a special tariff against Australian goods, known as the Australian Reciprocal Tariff, in which she charges Australia a higher rate of duty on innumerable goods, notably footwear, than is the case with the rest of the Empire.

Perhaps the most devastating blow ever administered by one sister Dominion to another was administered when Australia placed a prohibitive tariff against Fijian bananas and oranges, following on a previous embargo against Fijian sugar. This struck Fiji with more force than her periodical hurricane, and, unfortunately for Australia, caused the chief inter-island line to shift its headquarters from Sydney to Auckland.

Such instances of inter-Dominion retaliation might be indefinitely multiplied. England has stood patiently by for a long time. Retaliation on her part is too awful to contemplate. Yet political and commercial events in England are daily growing more ominous. A powerful English firm recently wrote:—"We are not going to continue to take these increases in tariffs lying down any longer. The Bradford Chamber is sending a reasoned protest to Mr Bruce pointing out how necessary cheaper wool is to conform to the buying capacity of the world's users, and how the Australian tariff policy is increasing the cost of

production of wool. At last meeting of Halifax Chamber several speakers had pointed out bitterly the uselessness of Colonial preferences when the tariff was prohibitive in the first case, and also the wrong of a country pleading Imperial sentiment for Colonial produce whilst doing its utmost to knock us out with high tariffs. I suggested that the proper line was to adhere to Imperial preference, but to classify it; to buy firstly from Canada, New Zealand, and South Africa, where the tariffs are moderate, and lastly from Australia, where the tariffs are immoderate." The letter adds that the Chamber was going publicly to advise the people of Halifax to pursue this policy.

The criticism of the *Saturday Evening Post* takes added weight when it is considered that in the country where it is printed there is no tariff wall throughout a population of 120,000,000 people, and that no American State can ever raise a tariff wall against any other American State.

Australia, which has exceeded all others in its efforts to pile duty upon duty against the sister-Dominions and the Old Country, brazenly asks for one limited type of preference. It is suggested that England should create duties against foreign foodstuffs in exchange for the preference Australia now gives her. England is to give a real preference in exchange for a preference which, with minor exceptions, exists only in the columns

of the Tariff Schedule. Doubtless any representative we send abroad only gains the plaudits featured by the papers from admiration akin to that with which any enterprising youth views the exploits of Ned Kelly.

If Australia reduced her duties against British goods to a point where they were in no way hindered from entering the country, and increased the barriers which foreign goods have to overcome, the scheme would at least have the merit of fair play. When Australia has definitely entered upon an orgy of protection, the object of which is necessarily to check rather than to promote trade with England, Imperial preference becomes a farce.

Under the present system of protective duties, with different rates against English and foreign goods, the paper preference does not help England, and never will, whilst the duties have a protective object in view. Such duties are designed to aid Australian, and not British manufacturers, however large the preference may appear on paper. If England were to reciprocate in kind for the tariff privileges granted to her, the beneficiaries would be Holland or China rather than her own colonies.

The only form of Imperial preference for which England could possibly abandon her present system would be Imperial free trade.

CHAPTER XVI

THE UNDERLYING MOTIVE FOR PROTECTION

WHAT is everybody's business is nobody's business; few champions fight without thought of gain for the rights of the people as a whole. Dictates of active minorities carry greater weight in politics than the passive acquiescence of a supine majority. Thus ten people demand a duty to protect a glass factory, and with clamour and applause the measure is passed, while the public imagines that an increase in the price of glass does not affect its own particular windows, and the protests of a few free-traders and similar cranks pass unheeded in the cheery confusion of whitewashing yet another elephant. So the merry game is played; Australians have a well-earned reputation as good losers.

To push another tariff through means money in the pocket of the protectionist, and the lobbies of Canberra resound with the cries of tariff-touts. Yet, to do them justice, they believe that they are serving their country as much as themselves.

There are too many men of integrity and proven patriotism among the ranks of protectionists to justify the assumption that the entire process is purely a confidence trick. It is easy to accuse the protectionist of self-interest, but difficult to show that he gains less from his policy than if his efforts were directed into legitimate free-trade channels. The immediate profits from a new duty may be enormous, but by impoverishing his fellow-countryman the protected manufacturer robs himself. It is not only charitable, but just, to conclude that he has unwittingly constructed a Frankenstein to devour its maker.

Among the ranks of the victims are the workman, who really believes that a tariff is going to create more employment for him, the farmer, who thinks that protection will increase the population to consume his produce, the politician, who toys with dreams of superlative tariff policies and the gratitude of posterity for them, the importer, who patriotically considers his loss the country's gain, and the ardent citizen who says "Australia First" and means it. It is hard to conceive what force binds together such a mass of different interests, and carries them headlong to mutual ruin.

To the savage wood is burned in the fire, and disappears for ever in smoke. The scientist knows beyond dispute that matter is indestructible, and

that the wood has only changed its form, but not its substance. Any dispute between free trade and protection cannot be a controversy between opinions each possessing merit, but is merely akin to an endeavour to impart scientific knowledge to the untutored savage, who sets the evidence of his own eyes against the accumulated experience of the human race. The factor which deludes the savage is not an inferior intelligence, but ignorance of elementary chemistry. The force which to-day binds Australia in shackles of its own making is ignorance of elementary economics. In both cases the remedy is the same—enlightenment.

It seems so incredible that a whole nation should be deliberately attacking its own interests through sheer lack of knowledge, that the thinking man is forced to remind himself that Galileo was burnt at the stake by the wisest men of his time for asserting that the earth went round the sun, before an historical parallel can be found.

It remains to discover by what means the blind have led those still more blind into the impassable morass of protection. The principle is the age-old fallacy of the particular instance.

The whole question hinges on imports and exports. By presenting them as two unconnected things, the protectionist has glossed over the fundamental relation between them, which sounds the

death-knell of his case. However logically the argument for protection may be worked out, nothing can overcome the fact that its premises are wrong.

But even the elaboration of the case is not coherent. Nearly all arguments for a higher tariff are based on individual instances of losses to a few, which are inevitable wherever there is improvement. To oppose the importation, or rather the exchange, of goods because a few workers will be temporarily thrown out of employment, is parallel to asserting that the building of the North Shore Bridge is undesirable, since it will cause certain employees of the Sydney Ferry Co. to lose their positions. The greatest good for the greatest number is the only consideration which can be entertained.

Protection resolves itself into the circulation of a fallacy by a few who ultimately lose by it themselves, using arguments which are wrongly based and illogically expounded to convert others, who are the greatest losers of all. The whole process is a crime without a motive, since nobody gains from it. If there is an underlying reason for protection, the only possible one is ignorance, aided by apathy.

For the lethargy which has allowed such a state of affairs to come about there is but one

remedy. Those who are in a position to know the real facts of protection must deem it a bounden duty to assist less fortunate countrymen to a better understanding of their position. The economic education of Australia, however, is a thirteenth labour of Hercules, which only years of unceasing effort, or a commercial debacle of tremendous proportions, can bring about. In the meantime the evil cannot be allowed to go on unchecked.

In the past a movement to increase the duty on hosiery meant that the opposition was left to a few soft goods merchants, while the farmer stood aside and giped at them for sectional and unpatriotic motives. A higher tariff on wire netting meant protest from the farmer, while the merchant stood aside in his turn. The full forces of protection were arrayed against the various bodies of sufferers from it, and were everywhere successful. Yet a duty on hosiery has no more economic or ethical justification than a duty on netting, or any other protective duty, while the community at large was the sufferer, no matter what the article protected may have been.

The only resource, pending a reaction of indignant public opinion, is for all those who are directly affected by the tariff, and conscious of the fact, to unite and fight every increase in the present system tooth and nail. It may be a long time be-

fore any effective resistance is organized to support them, but the only immediate hope must necessarily be a forlorn one.

Although no underlying motive can be found to justify, or to palliate protection, there is abundant evidence that most of those who profess it, save only the tariff-tout, support it from sincere and exalted motives rather than from any thought of possible personal gain.

In this connection an Armenian story is worth reprinting. A certain priest, after much fasting and contemplation burned down a theatre, together with its patrons, in order to spare them the trials and tribulations of this world and transfer them to a better. The excellence of his motives was beyond dispute. Their sincerity was proved by the discovery of his charred body among the remains of his victims. Yet the law decreed that his corpse was to be hung in chains by the common executioner as an incendiary, a malefactor, and a salutary example to others.

After this wholesome measure both the priest and his victims remained almost as dead as they had been before.

CHAPTER XVII

SOME NATIONAL PROBLEMS

PRACTICALLY every responsible critic in Australia has stated that Australian costs of production must come down. Every labouring man feels that the reduction in costs should not be made at the expense of a hard-won wage, that barely suffices to maintain a decent standard of living. The difficulty is the reconciliation of two demands, each of which is, in its way, quite legitimate. A study of the coal industry, for example, may show both the cause of, and a remedy for a ridiculous state of affairs.

At the beginning of the present century, Australian coal enjoyed the reputation of being second to none, and a considerable export trade was flourishing. Thirty years later the industry is struggling desperately to maintain its existence. The variation in the market price of coal is negligible, and the sole factor which has destroyed the Australian collieries is excessive costs of production. While the displacement of coal by oil

as a fuel may have helped to reduce production, there is sufficient demand for coal to justify the existence of every mine in Australia.

With the coming of the tariff, practically every piece of material required in the mining of coal became progressively dearer in price, until the question of plant and maintenance assumed embarrassing proportions. At the same time the miners found that their requirements were going up in price, and they were forced to utilize every means in their power to keep their wages in sight of the ever-increasing cost of living. The greatest loser in this race was the owner of the mines, who found himself beset by increased costs for plant, higher cost of personal living, and an ever-mounting wage bill for the same work, while the price of his product became no higher. Ultimately the only way to keep the mines working was to raise the price of Australian coal above world's parity. Naturally this will spell the end of our export trade.

The owner, with longing eyes fixed on the lost overseas trade, deplored the unreasonableness of his employees, who constantly increased their demands, instead of accepting the small reduction which would just enable Australian coal to be again produced at a competitive price.

The employees, on the other hand, found that

no amount of recourse to awards, strikes, and slowing-up of production put them one step closer to an elusive cost of living which always won, no matter who else lost the race.

Both parties hurled recriminations and abuse at one another, each imagining that the other was gaining the profits from coal, which it was not getting itself. The result was a state of industrial strife, which killed the residue of the trade with ease and brought Australia to the ridiculous position of importing coal for its own use. To preach co-operation between employer and employee was to invite both to work harder in order to make their position worse.

The sole cause of the disaster was increased costs of production due to the tariff. Industrial strife was a consequence, not a cause. If both sides were to turn their united energies to the abolition of protection, it is certain that industrial disputes in the collieries will disappear as rapidly as the export trade will be regained.

Many causes have been assigned for Australia's strikes, class-strife, prohibitive costs and the rest, but in many instances the root cause is the tariff, and its abolition would go far to unravel the apparently insoluble labour problems of the moment.

The interference of the tariff has become so marked in the primary industries, that various attempts have been made to establish a controlled monopoly to force up the world's parity value of a particular commodity. Such marketing schemes have been defeated by the circumstance that no one nation can control the world's market, and if it could, a prohibitive price first weakens the demand, and later leads to competition at a lower price from some other source. Thus Australia's monopoly of high-grade merino wool at prohibitive prices is a major stimulant to the manufacture of synthetic substitutes abroad. Even the rubber combine of a few years ago failed, in spite of a monopoly. A marketing scheme cannot increase the price of Australian wheat or wool, while one other solitary oversea producer of these articles remains. If the controlling board guarantees a fixed price for either, the measure is merely a gamble that a certain price will be reached or exceeded. Such ventures possess a marked sporting interest, but cannot be acclaimed as far-sighted statesmanship, as students of political form proclaim.

Carrying the review into the field of practical politics, the question of secession is being raised with more insistence every day.

The case is a clear one. Western Australia, South Australia and Tasmania, depend almost exclusively on unprotected secondary and primary industries for their sustenance. They naturally receive the full blast of the tariff, undisguised by the superficial benefits which make it palatable to the New South Welshman and Victorian. The Navigation Act, which makes it compulsory for all coastal freight to be carried on Australian ships, is an additional form of protection, which is particularly galling to these States. It largely destroyed the export trade in Tasmanian apples, and the little island is gradually being forced to live more and more on scenery.

Westralia, which has no secondary industries to speak of, is the main sufferer from a policy which restricts its exports. The Commonwealth promised to provide in return a protected market in the populous Eastern States. Since the Easterners only purchase £2 13s. worth of Western Australia's produce for each £24 worth bought from them by the people of the West, the promise has taken a long time to materialize, and it will take an eternity before it is fulfilled under the present Customs policy.

These three States have sacrificed most of their potential export market, and have been given a gold brick of local manufacture in return. If they

are ever to become prosperous, they must have free trade. The people of these States are conscious of the fact, and are being forced to present an ultimatum to the Federal Government, demanding repeal of the tariff or secession. First-fruits of an attempt to bind Australia together by a common Customs policy!

Every State Government is beset by the difficulty of making its railways pay. The conventional view is that they should be sold to private companies, since Governments seemingly cannot make anything pay but governing. However, it is hardly fair to blame the State Parliaments for the errors of a Federal House over which they exercise no control.

Most of the non-paying lines were laid out in anticipation of closer settlement in sparsely populated districts. Such enterprises were not as a rule undertaken blindly. On the analogy of earlier statistics, the probable increase in population was estimated, and the construction of the permanent way only undertaken when responsible officials concluded that there were reasonable grounds for assuming that the line would pay its way in a predetermined period. For some reason the population has failed to materialize, and the lines remain unproductive. Immigration policies and

closer settlement schemes have failed to supply the people necessary to populate the districts concerned, and the calculations of railroad statisticians have gone helplessly astray.

The cause of the entire miscalculation is not incompetency, but the unforeseen factor of protection. The drift to the cities was inseparable from it, and the only means of putting the State railways once more within sight of a paying basis is to do away with a policy which drives away native Australian settler and immigrant alike.

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Many people admit that there is no case for protection, but contend that the main causes of Australia's plight are continued borrowing abroad for useless public works, and the decline in the world demand for wool and wheat. Since these dangers go beyond the province of free trade, it is contended that it can do nothing to remedy them.

It is true that even free trade cannot make other nations buy our wool if they do not require it, but a restatement of the case may put the matter in a different light.

Past borrowings have been largely necessary to make up for the loss of legitimate oversea trade precluded by the tariff. If the barrier to trade

were removed, the imports which have hitherto been borrowed, may possibly be secured as part of the process of exchange, and avoid the necessity of running into debt to get them. Such public works as have been built may quite possibly be useful for a larger nation, as in the case of the railways. Free trade would increase the population, and bring many of these white elephants into use.

The case of wool is not so hopeless as pessimists would believe. In the past exorbitant prices have been obtained for fine quality merino, of which Australia possesses a virtual monopoly. A fall in the price of this does not mean that the bottom has dropped out of the market, but that some approximation to a more normal price has taken place, a hint to the protectionist to set his house in order, nothing worse.

Certainly wool has been dispensed with in many cases, but there is no justification for the assumption that a certain amount of lost trade in feminine undergarments is going to cripple the industry.

The complete substitution of artificial silk for wool will undoubtedly be accompanied by a complete substitution of warm weather for cold.

The falling off in export wool is more probably caused by the inability of other nations to pay for it, since we refuse to take their exports in exchange.

Free trade can do much to remedy this state of affairs, and nothing to make it worse.

If the worst should happen and nobody require wool and wheat any more, protection can only aggravate the position by bringing about the catastrophe sooner than it would occur by natural means. Free trade, at the least, would give time for an alternative source of production to be sought and found.

It is again argued that, even if free trade does away with the intolerable burden of protection, the national debt must still be met, and that the present resources of the country are inadequate for the task. It is sufficient to answer that the money now wasted in bolstering up protection could easily pay off the national debt in a few years. In any case the debt must be paid by the exporting industries, and these are being crippled by the tariff.

There is a prevalent feeling among business men that the banks are playing an unfair game, and destroying public confidence in investments by refusing credit and reducing overdrafts. Their attitude, however, is an effect rather than a cause. The majority of the loan money controlled by

banks is advanced on the security of the wool and wheat crops. If the world price of wool drops 50 per cent overnight, the banker has no guarantee that it will not drop further, and render his security worthless. As a cover he must withdraw capital from every available source, with a consequent falling off in credit. Although this course has an unfortunate effect on public morale, the banks have no alternative. That they do not act wantonly is shown by the fact that public confidence and hopeful investment is their very life-blood. The remedy is not to dub the banker unpatriotic for unavoidably slitting his own throat, but to restore his securities to their former value by removing the barriers which impeded their sale.

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It is impossible to review the entire political economy of Australia within the scope of the present volume, but sufficient leads have been indicated to show that most of the apparently disconnected problems facing Australia for solution are really not causes in themselves, but effects of a common cause in the tariff.

Many attempts have been made to solve the questions touched upon in the present chapter, but as none have reached the core, they have necessarily failed. Future efforts must be directed towards the tariff question, and it will be found that

by solving her greatest riddle, the Commonwealth has gone far towards the solution of minor perplexities.

The reader may derive many a profitable evening's enjoyment contemplating apparently insoluble questions of national policy in the light of the effect of the tariff upon them. There are few problems of commercial or political importance upon which its influence is not exerted.

CHAPTER XVIII

DEFENCE

A stock argument is that protection aids Australia to be more completely self-contained in the event of emergencies, such as war.

In the first place, the majority of protected industries, such as the manufacture of feminine wearing apparel, are of no use at all for military purposes.

In the second, the requirements of a modern force are so varied in character that no country can hope to be self-contained in its ordnance stores, if it cannot produce all it consumes in peace time within its own borders. That this is impossible is shown by the fact that the whole resources of the Empire could not muster sufficient petrol and cotton to sustain its armed forces for a month.

Since importing must necessarily go on in war as in peace, part of the money squandered in protecting needless industries could be more profitably devoted to the maintenance of a navy to keep open the lines of communication.

If certain non-economic industries of a purely warlike character, such as Small Arms Factories, are necessary, there is no reason why they should not be paid for out of taxation, as other defence expenses are met. In actual practice, successive protectionist Governments have practically wiped out the defence forces of the Commonwealth, largely because the country could not simultaneously stand the burdens of protection and national insurance.

This argument is fundamentally based on the fear of blockade. Blockade is simply an act by which the enemy prevents us from importing and exporting. Protection has an identical effect. Obviously the only possible conclusion is that we should refrain from inflicting on ourselves in time of peace a disability, which the enemy strains every nerve to bring about in time of war.

Another effect of protection is to reduce the birth-rate of any country adopting it. As the essential factor in defence is man-power in the last resort, protection again falls short of the ideal policy.

Yet again, the sinews of war have to be considered. As protection diminishes the total wealth of the nation, the only effect it can have on a defensive policy is a detrimental one.

The main objection to protection is that if duties

are directed at the English export trade, we weaken our real protector, without in any way strengthening our own position. While the Old Country can be relied upon to look after us on purely sentimental grounds, which are about all our policy has left her, the cry of the Little Englander is justified, when he points out that there is no sense in pouring out blood and treasure to defend a dominion which is purely a commercial enemy to her parent country.

The only Pacific war-cloud on our immediate horizon is the failure of Australia to populate the Northern Territory. As soon as this expanse is filled up, our gravest military worry will be over.

Grazing was the most hopeful industry of this infant territory. The cattle man trucked his stock to Darwin over rails, which paid a duty of 1/1 per cwt., while the train was drawn by an engine which paid 27½ per cent. The beef was chilled by Vestey's, who had to pay increased prices on their machinery, timber and tools. The finished product was despatched in a vessel whose freights were protected by the Navigation Act. The company then paid the grazier, whose costs were further increased by the tariff on his iron, saddlery, clothes and household requisites.

Finally, the works were compelled to shut down in Darwin and concentrate in the Argentine, where

our rivals secured their rails free of duty, and only paid a nominal duty of five per cent on locomotives. Thus protection, which was designed to found new industries, only succeeded in killing two well-established ones, grazing and freezing. The infant territory lost its last hope of ever becoming populated, and a vast expanse of land remains empty before the hungry gaze of the teeming millions of the East. It must be borne in mind that we have no right to keep it, unless we develop it, and while it is undeveloped, the necessary man-power to hold it by force does not exist.

Not only is the Northern Territory inadequately held, but vast spaces exist in Queensland, South Australia, and Western Australia, which must be filled before our hold on the continent becomes more than precarious at best. The policy of protection is to denude these areas and concentrate the man-power of the Commonwealth in Sydney and Melbourne.

What the tariff is doing to remedy the evil is best shown by the words of the Right Hon. S. Bruce, himself a protectionist:—

“Known rich mineral deposits cannot be worked to-day, owing to lack of transport, first-class sheep lands to expand our flocks and wool production and to replace areas passing into agricultural and closer settlement are lying virgin for lack of such

facilities, great agricultural belts are untouched, awaiting their provision." Yet every vehicle used in transport from lorry chassis to locomotives, from tyres to tractors, is protected, as is every article the primary producer requires to develop the vast spaces of Australia.

When the protectionist points with pride to the factory smoke of Marrickville and Fitzroy, he must remember that even of this, little is his work.

When he gazes at the retrogressive and undeveloped areas of the continent, he may proclaim himself, without dispute, "monarch of all he surveys."

CHAPTER XIX

THE GATHERING STORM

“THE wars of the future, like the World War, will be due primarily to a complex chain of causes, beginning with the general increase of population in almost every portion of the globe, which in turn compels all nations to expand and thus inevitably brings them into collision with one another.”—
Bakeless: *The Origin of the Next War*.

There does not appear to be enough of the world to go round among the eager claimants for its surface. Everywhere production has apparently reached saturation point, and its wares are rotting for want of a buyer.

Every country in the world is facing this problem, and its twin evil, unemployment. The only remedy is fresh markets. Every potential one is a piece of territory belonging to somebody else. There is only the one means of securing the necessary land for colonies, markets and supplies of raw material—war.

A glance at the map makes the workings of this

inexorable force apparent. England is suffering from a glut of unsaleable produce, even with the wide Colonial markets it possesses, on paper at least; the scope of the Empire must be enlarged, if it is to survive as an industrial power.

Armies manoeuvre on the dusty plains of India; frontier forces guard the pioneers who are building military highways into Afghanistan, British 'planes patrol Palestine, Iraq, and Mesopotamia; the white ensign flutters on every sea of the known world; shallow draught gunboats sail the Yellow Sea and the inland waters of China; the whole panoply of Britain's might is arrayed as if for war. War it is—a death-grapple for the diminishing trade resources of the world.

The Russian bear snuffs uneasily for the tang of the salt sea air. He must reach open water to secure his share of the existing trade, before it is all gone. The late Russian harbours of the Baltic belong to Esthonia, Latvia and Finland. The ports of the Indian Ocean are held or controlled by Great Britain. To the East, China blocks the way, supported by Japanese jealousy over Chinese trade. Somewhere the bear must burst through the chain that throttles him. In 1920 he turned towards Poland and was repulsed. 1926 witnessed an unsuccessful attempt on the Yellow Sea. 1930 sees Russian and British engineers feverishly construct-

ing strategic highways through Afghanistan, within a hundred miles of each other. A century ago two thousand miles separated the frontiers. In Persia the bear is gazing hungrily towards the Gulf. Again Britain bars the way.

In Europe, both France and Italy must trade with Africa. France holds the lion's share and Italy rattles the sabre. Poland must have a port of her own, and can only hold it while Germany is split in two. Once German exports have ceased to be used for paying debts, they must find a market. Yet her colonies are held as mandated territory by powers which are not disposed to give them up without a struggle.

Even comparatively self-contained America is feeling the need for colonial expansion, as her unemployment problem and progressive colonial policy show.

The Pacific is the greatest storm-centre of all. Here, Old World Asia and New World Australia offer untouched commercial soil. Between them stretches an equally tempting archipelago. The distant rumblings of war are heard. New naval bases are springing up; fleets are being concentrated in the Pacific. In the Yellow Sea the warships of nearly every civilized power are to be found. These stormy petrels do not fly in vain.

As things stand at present, trade we must have

if civilization and the nations who profess it are to flourish. Just at the time when the demand for trade reaches its height, its fields are becoming circumscribed. No one nation can make its commercial future secure except at the expense of another. The only available means of adjustment is war. It may not pay in the long run. No war ever did. It may ruin the very commercial interests which started it. But the damning fact is that no other solution is offered for the problem of over-industrialization.

As in Australia, various aspects of a common problem have been tackled piecemeal.

Disarmament conferences abound. The combined result of their efforts is the scrapping of certain capital ships, whose value is by no means proven for use in the future. The money thus liberated is being spent on a race in cruiser construction. It is more than coincidence that cruisers are much more useful than dreadnoughts in a titanic economic struggle.

The League of Nations struggles to outlaw war. Its efforts are as futile as reading the Marquis of Queensbury rules to a starving man who must fight to win, if he is to eat at all.

Britain, although free trade has served her well, cannot help feeling the effects of a world-wide embargo on her trade. It is being proposed to safe-

guard her key industries. The reasoning is as false as the argument for protection in Australia. Even if Britain is staggering under the weight of other nations' protective policies, she will only cripple herself more by adopting such a futile means of defence. The point is not that free trade is hurting England, but protection abroad. By becoming herself protected she does not escape her former burden, but increases it.

In whatever direction the observer turns, there seems no solution for modern commercial puzzles, but the most disastrous of all—war.

But there is a ray of sunlight.

The first step to remedy the commercial position of the Empire is Imperial free trade. The only barriers are the protective tariffs of the various offshoots of the United Kingdom. The sole effect of these is to weaken every portion of the vast edifice, with no corresponding benefit of the slightest description.

An Empire can only be united in fact, when it is held together by mutually beneficial and indissoluble bonds of commercial intercourse. Free trade supplies the link to strengthen the British race against the tremendous conflict which inevitably faces it in the near future.

Free trade can do more. It may remove the very inevitability of the conflict. If Britain can

find most of her necessary resources within her own frontiers under Imperial free trade, she has no motive for participating in an effort to seize fresh territory. The only danger then becomes the fear of aggression on the part of some power which requires precisely those resources which the Empire would be hoarding under an external tariff.

The solution must go deeper. Some means must be found of disarming the commercial rivals who are already greedily eyeing our possessions. The only possibility is to remove the grounds of their jealousy.

A re-examination in the light of free trade of a few of the main economic causes leading to a future war discloses a common cause and a common answer to the problem.

While man lives upon the earth his wants will become so numerous and insatiable, that no amount of production can ever overtake them. If it were not for this very characteristic, trade would never have come into existence in the first place. If millions of tons of wheat, for example, are rotting in Canadian, American and Australian silos, while hundreds of thousands of human beings starve for bread in other parts of the world, and these persons actually possess commodities peculiar to themselves, which the wheat-growers urgently require,

there is a clear necessity for as much trade as possible between them. There are no insuperable natural barriers to be overcome. The only obstacle is an artificial one, set up by the hand of man. What is made by man can be destroyed by him. If the tariffs which hold willing traders apart are abolished, tales of over-production and world-wide unemployment would become part of the barbarous history of an ignorant past.

If Britain feared no barriers to her commercial development, there would disappear the reasons for her armed forces, except perhaps a necessary minimum for police purposes.

Russia would not vitally care who owned the ports of the world, if she were sure that the possessors would not interfere with her using them. If Italy had free access to the markets of Africa, she could not be adversely affected by the fact that France administered them. Poland could easily restore Dantzig, if Germany undertook to place no Customs and similar barriers against the entry of Polish goods.

Instances might be multiplied to show that free trade would go far to settle the national differences which had hitherto made war inevitable. Underlying every struggle is commercial suspicion and distrust. Remove the tariffs which engender it, and the basic cause of major wars is gone.

For the other cause of war, racial difference, free trade can supply no direct remedy. Indirectly, it would go far to bring about a better understanding between peoples who possess no other common ground. Such squabbles would be, in any case, insignificant compared to the headlong ruin into which tariff rivalry is leading us.

So bitter has the process become that trade is regarded as a conflict between civilians to fill up the boring spaces between full-dress commercial wars. Yet trade is not warfare, but a process of legitimate exchange, from which each party gains. How perversely has the tariff question directed human thought!

Universal free trade would mean that every portion of the earth would be producing what it was best fitted for, at the minimum cost and the maximum rate of production. The increase in the total store of human wealth would be immense, and with this increase there would be plenty for every man who was not too lazy to produce something to exchange for his requirements.

At present there are grave social problems facing the world. There are not sufficient goods to go round those who need them. Remedies of all descriptions have been tried, from charity to state socialism. All alike have failed, since none have been directed at the root of the whole problem.

Socialism, democracy, communism may cause a redistribution of wealth, but none of them can increase it. Whoever benefits for the time, others must go short. As a result there is as much human misery and discontent since the industrial revolution as ever before. The coming of the machine has infinitely multiplied the wants of man, and the means of satisfying them are in existence. Somewhere the mechanism of distribution has gone wrong. Once again the tariff question supplies the clue.

A picture of the entire globe working in unison for the common good is considered an impossible ideal. Yet that is the very object and essence of universal free trade. With the increase in material wealth, men would have less need to spend a whole existence in wringing scanty returns from unsuitable soils. Trade would give both the arts of civilization and the leisure to enjoy them. With free trade would disappear the necessity for armed forces to keep open markets which offered no barriers, and the money now wasted in armaments would be available for education and research.

Such a dream may well be described as an ideal. Tremendous forces oppose its realization in the form of ignorance, national prejudice and thoughtless apathy. But the dream is not impossible as so many proffered solutions have proved. Again,

the only alternative is the continuance of a state of affairs with which no one is honestly satisfied, with every prospect of civilization disappearing in a series of bloody wars for the apparently dwindling resources of the planet.

The whole course of history has been little more than a recital of the various barriers from whose hindrance trade and civilization have freed themselves. Commerce and the arts have gone in an unbroken progression from the bartering of the pre-Stone Age to the complicated commercial mechanism of to-day. The area of free trade has extended from the limited orbit of the tribal community to the vast free-trade areas now enclosed within each national frontier.

The logical continuation of history is to expand the boundaries of commercial freedom, until they encompass the whole earth. Any form of protection, any artificial barrier to natural trade, is as retrogressive as attempting to substitute flint for steel as a material for axe-heads. The onward march of the human race is as inexorable as the approach of death. The futile tariffs with which man tries to delay it must be swept aside like the chair of Canute.

A circumstance strengthening the case for world-wide free trade is that it is not necessary to await a simultaneous lowering of trade barriers

by all nations. If Australia were the sole free trade country in the world it would still pay her to keep her tariff wall down. The fact that other countries injure themselves by a mistaken policy does not prevent another which abjures that policy from profiting the moment it deserts protection. Whether others follow is not of immediate consequence.

It is in the hands of Australia to follow Great Britain, Holland, and Denmark in the greatest move for the advancement of civilization since the discovery of fire. The gratitude of unnumbered generations awaits the Australian statesman with the vision and courage to place her first in the advance of mankind by raising the fiery cross of free trade.

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