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**A NATIONAL
SYSTEM OF ECONOMICS**

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A NATIONAL SYSTEM OF ECONOMICS

WITH A CONSIDERATION OF THE
PARIS ECONOMIC RESOLUTIONS
AND OF THEIR INFLUENCE ON
NATIONALITY

BY

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"ON THE RELATION OF IMPORTS TO EXPORTS"

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DEDICATED

TO MY FRIEND

SIR HERBERT H. BARTLETT, BART.

3412

PREFACE

IN the development of this work, being my third volume on National Economics, I have returned to the main theme indicated in the first Essay of my book on *First Principles of Production*. I have also found it desirable to reintroduce some of the definitions given in the first and second volumes, notably those on raw materials and free trade, as I believe that until these definitions are more fully appreciated and impressed on the public mind the study of national economic questions will prove to be what Lord Sydenham chose to call "a dismal science."

As a result of further thought and study I have been able to give a clearer and more precise definition of raw materials, which I hope may prove helpful in the development of our national business policy.

Although the Paris Economic Resolutions have been accepted and approved in principle by all the Allied Powers, yet very little, if any, progress has been made towards making them really effective. The public, business men, politicians, and even the ministers are, like Micawber, waiting for something to turn up; but this attitude may be more apparent than real. I am convinced, however, that

the delays that have occurred can be attributed to the mentality of certain of the Government Departments whose well-known prejudices in favour of *Laissez faire, Laissez passer* are notorious; and for this reason I cannot help but agree with Sir Edward Carson's suggestion that some form of organisation is necessary whereby the Government may apply for and secure a mandate from the country as to the measures to be employed in developing and making effective the Paris Economic Resolutions.

The establishment of Trade and National Committees by the Board of Trade is all to the good; but I have always maintained, and I do so still, that the work and conclusion of these committees must in the end prove to be abortive, or considerably stultified, unless there is secured, as the basis of their deliberations and our national business policy, a national system of economics.

The decisions of these Trade Committees will, in the end, no doubt, prove to be extremely useful to the Board of Trade; but I trust it will not be considered unjust of me to assume that their final conclusions might, had they a definite national economic system to guide them in the course of their discussions, all have been co-ordinated and developed with more certainty in favour of our national and imperial interests; and consistent with every consideration that ought to be shown to our loyal Allies.

But so long as we have Ministers in control of the essential Public Departments whose pre-war views were essentially *Laissez faire, Laissez passer*,

and who have as yet given no indication of having definitely abandoned that policy, a want of confidence and progress must continue to prevail in so far as it concerns our future national business policy.

What is needed most at the moment is a courageous and illuminative policy, the development of which should be conducted with energy and vigour by the Ministers concerned; and the country must see to it that they seek and are provided with the necessary mandate. It is all very well to assert that in consequence of the war we should not invite Ministers to do this, but we have to bear in mind that we occupy a peculiar position inasmuch as we alone of all the nations have two definite economic schools of thought; and that the Government Departments most concerned with the development of our future trade policy are controlled by Ministers whose minds are saturated with *Laissez faire, Laissez passer*. In these circumstances I consider that the public should be invited at the earliest possible moment to decide whether this silent but passive opposition should be allowed to continue.

Let us remember what Bernhardt stated—I make no apology for submitting a quotation from him, as it would be to our advantage if certain of our Ministers only imbibed some of the spirit which he indicates in the prosecution of the war and more particularly in the development of our future trade policy—namely: “that great Ministers were not those who balanced the national

accounts by sparing the national forces while renouncing the politically indispensable outlay, but he who stimulates all the live forces of the nation to cheerful activity, and so employs them for national ends that the State revenue suffices to meet the admitted political demands. He can only attain this purpose if he works in harmony with the Ministers for Commerce, Agriculture, Industries, and Colonies, in order to break down the restrictions which cramp the enterprise and energy of the individual, to make all dead values remunerative, and to create favourable conditions for profitable business. A great impulse must thrill the whole productive and financial circles of the State, if the duties of the present and the future are to be fulfilled."

I have considered it desirable in developing the main theme of this work to use quotations from the works of distinguished economists; I make no apology for so doing, inasmuch as, apart from the justice and equity rendered in the acknowledgments, they lend more authority to the principles involved and enunciated.

I am glad to be able to acknowledge that with the recommendation of Lord Faringdon's Committee in favour of the establishment of a Trade Bank, with a view to extending financial facilities for the development of national industries, all of the detailed reforms advocated in my first two volumes have been made effective, or have received official recognition. The main issue, however, is not yet determined, namely, *the establishment of*

a national economic system as the basis of our national business policy; and, as a corollary to this, the establishment of a Ministry of Industry and Commerce to develop the new system in favour of our national and imperial industries.

If I were asked if the country had made any progress in matters economic since war was declared in 1914, I would say that it has made great progress. The spirit which dominates organised labour and our business men to-day is entirely different to that which prevailed in pre-war times, and it affords great encouragement for the future. In fact, in so far as it concerns this particular aspect of the question, if the further reforms herein advocated were made effective we could truthfully assert that Germany had lost the war, since we could claim that our country had been regenerated; and that if the war were to afterwards terminate we should have nothing to fear from Germany in future.

It leads me to hope, therefore, that this work may receive the same due consideration as hitherto; and in concluding these few remarks I would just like to remind my readers that Napoleon, in the many moments he had for meditation during his exile at St. Helena, expressed the view that what Europe suffered from most was the want of (a) a common law; (b) a common measure; and (c) a common monetary system. Unity and co-operation is here contemplated and suggested, and as a basis of an Imperial trade policy, nothing, in my opinion, could be more useful; but before this

great reform can be achieved we must first of all begin to organise on National lines, subsequently on Imperial lines, and ultimately on International lines; after which we might begin to contemplate another principle and add it to those suggested by Napoleon: namely, that what the British Empire and Europe suffered from most was the want of (d) a common economic system. If this could be achieved it would, I believe, more than anything else secure and ensure a lasting peace to Continental Europe and the world in general.

J. TAYLOR PEDDIE.

London, October 3, 1916.

POSTSCRIPT

SINCE the foregoing was written several events of considerable importance have occurred to which reference must be made, namely—

(1) There has been a change of Government, and the constitution of the new Government, and the announcement of its policy, encourage us to hope that the new Ministers may conduct their respective offices with more energy and vitality in the national interests than we have been accustomed to experience hitherto. For obvious reasons, however, the Author has, notwithstanding, decided to publish the manuscript as it stands, without alteration.

(2) In the Preface to his last book the Author stated that "the greatest exponent of National

Economics in the modern sense was Adam Smith himself." After completing the present work a friend referred him to an American translation of Frederick List's *National System of Political Economy*. So remarkable is this work that the statement above referred to must be modified; in the strict sense List is by far the greatest exponent of the system; but Smith, nevertheless, will always remain the father of it.

(3) In glancing through the books of a second-hand book-shop the Author came across two copies (Tenth Edition) of Adam Smith's *Theory of Moral Sentiments*, in which there is a preface written by Smith after he had completed the *Wealth of Nations*; it cannot be generally known, but it confirms the general conclusions the Author had formed for himself, that Smith's *Wealth of Nations* was intended to constitute the basis of a national system.

In the circumstances the Author has deemed it to be necessary to add a further chapter to the present work, "On the Relative Systems of Political Economy and National Economics," in which opportunity is taken of discussing List's national system in relation to Smith's, and their influence on the present situation. Smith's preface to his *Theory of Moral Sentiments* is also published therein for general information.

Needless to say, the Author has not been in any way indebted to List for any views he has expressed on his own system of National Economics, not having had an opportunity of reading List's work

until he secured the copy of the American translation above mentioned. But the extraordinary resemblance of ideas naturally affords him considerable gratification, since, for the first time, he feels that his own system rests upon a sure and solid foundation. The resemblance of views may be attributed to the fact that List had a thorough first-hand knowledge of commercial practice, having successfully engaged in railway enterprise in America before finally settling down in Germany.

So practical an economist was List that he actually formed an association of merchants and manufacturers shortly after his appointment to the Chair of Political Economy, in the University of Tübingen in 1817, to suppress the Customs on the interior boundary of the German States; and also to attain for Germany the same industrial and commercial development which other nations had obtained by their commercial policy.

If the Author's system can attain for Great Britain what List's has attained for Germany he will be more than repaid for the many months of labour it has involved.

December 25, 1916.

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RECOMMENDATIONS OF THE ECONOMIC CONFERENCE OF THE ALLIES HELD AT PARIS ON JUNE 14, 15, 16 AND 17, 1916.

(Translation)

I

THE representatives of the Allied Governments have met at Paris under the presidency of M. Clémentel, Minister of Commerce, on June 14, 15, 16 and 17, 1916, for the purpose of fulfilling the mandate given to them by the Paris Conference of March 28, 1916, of giving practical expressions to their solidarity of views and interests, and of proposing to their respective Governments the appropriate measures for realising this solidarity.

II

They declare that after forcing upon them the military contest in spite of all their efforts to avoid the conflict, the Empires of Central Europe are to-day preparing, in concert with their Allies, for a contest on the economic plane, which will not only survive the re-establishment of peace, but will at that moment attain its full scope and intensity.

III

They cannot therefore conceal from themselves that the agreements which are being prepared for

this purpose between their enemies have the obvious object of establishing the dominion of the latter over the production and the markets of the whole world and of imposing on other countries an intolerable yoke.

In face of so grave a peril the Representatives of the Allied Governments consider that it has become their duty, on grounds of necessary and legitimate defence, to adopt and realise from now onward all the measures requisite on the one hand to secure for themselves and for the whole of the markets of neutral countries full economic independence and respect for sound commercial practice, and on the other hand to facilitate the organisation on a permanent basis of their economic alliance.

For this purpose the Representatives of the Allied Governments have decided to submit for the approval of those Governments the following resolutions—

A

MEASURES FOR THE WAR PERIOD

I

The laws and regulations prohibiting trading with the enemy shall be brought into accord.

For this purpose—

A.—The Allies will prohibit their own subjects and citizens and all persons residing in their territories from carrying on any trade with—

1. The inhabitants of enemy countries whatever their nationality.
 2. Enemy subjects wherever resident.
 3. Persons, firms and companies whose business is controlled wholly or partially by enemy subjects or is subject to enemy influence and whose names are included in a special list.
- B.—They will prohibit the importation into their territories of all goods originating in or coming from enemy countries.
- C.—They will devise means of establishing a system enabling contracts entered into with enemy subjects and injurious to national interests to be cancelled unconditionally.

II

Business undertakings owned or operated by enemy subjects in the territories of the Allies will all be sequestered or placed under control; measures will be taken for the purpose of winding up some of these undertakings and of realising their assets, the proceeds of such realisation remaining sequestered or under control.

III

In addition to the export prohibitions which are necessitated by the internal situation of each of the Allied countries, the Allies will complete the measures already taken for the restriction of enemy

RECOMMENDATIONS

supplies, both in the mother countries and in the Dominions, Colonies and Protectorates—

1. By unifying the lists of contraband and of export prohibition, and particularly by prohibiting the export of all commodities declared absolute or conditional contraband;
2. By making the grant of licenses for export to neutral countries from which export to enemy territories might take place conditional upon the existence in such countries of control organisations approved by the Allies; or, in the absence of such organisations, upon special guarantees such as the limitation of the quantities exported, supervision by Allied consular officers, etc.

B

TRANSITORY MEASURES FOR THE PERIOD OF
COMMERCIAL, INDUSTRIAL, AGRICULTURAL
AND MARITIME RECONSTRUCTION OF THE
ALLIED COUNTRIES.

I

The Allies declare their common determination to ensure the re-establishment of the countries suffering from acts of destruction, spoliation and unjust requisition, and decide to join in devising means to secure the restoration to those countries, as a prior claim, of their raw materials, industrial and agricultural plant, stock and mercantile fleet, or to assist them to re-equip themselves in these respects.

RECOMMENDATIONS

xxi

II

Whereas the war has put an end to all the treaties of commerce between the Allies and the Enemy Powers, and whereas it is of essential importance that, during the period of economic reconstruction which will follow the cessation of hostilities, the liberty of none of the Allies should be hampered by any claim put forward by the Enemy Powers to most-favoured-nation treatment, the Allies agree that the benefit of this treatment shall not be granted to those Powers during a number of years to be fixed by mutual agreement among themselves.

During this number of years the Allies undertake to assure to each other so far as possible compensatory outlets for trade in case consequences detrimental to their commerce result from the application of the undertaking referred to in the preceding paragraph.

III

The Allies declare themselves agreed to conserve for the Allied countries, before all others, their natural resources during the whole period of commercial, industrial, agricultural and maritime reconstruction, and for this purpose they undertake to establish special arrangements to facilitate the interchange of these resources.

IV

In order to defend their commerce, their industry, their agriculture and their navigation

against economic aggression resulting from dumping or any other mode of unfair competition, the Allies decide to fix by agreement a period of time during which the commerce of the enemy powers shall be submitted to special treatment and the goods originating in their countries shall be subjected either to prohibitions or to a special régime of an effective character.

The Allies will determine by agreement through diplomatic channels the special conditions to be imposed during the above-mentioned period on the ships of the enemy powers.

V

The Allies will devise the measures to be taken jointly or severally for preventing enemy subjects from exercising, in their territories, certain industries or professions which concern national defence or economic independence.

C

PERMANENT MEASURES OF MUTUAL ASSISTANCE AND COLLABORATION AMONG THE ALLIES

I

The Allies decide to take the necessary steps without delay to render themselves independent of the enemy countries in so far as regards the raw materials and manufactured articles essential to the normal development of their economic activities.

These steps should be directed to assuring the

independence of the Allies not only so far as concerns their sources of supply, but also as regards their financial, commercial and maritime organisation.

The Allies will adopt the methods which seem to them most suitable for the carrying out of this resolution, according to the nature of the commodities and having regard to the principles which govern their economic policy.

They may, for example, have recourse either to enterprises subsidised, directed or controlled by the Governments themselves, or to the grant of financial assistance for the encouragement of scientific and technical research and the development of national industries and resources; to customs duties or prohibitions of a temporary or permanent character; or to a combination of these different methods.

Whatever may be the methods adopted, the object aimed at by the Allies is to increase production within their territories as a whole to a sufficient extent to enable them to maintain and develop their economic position and independence in relation to enemy countries.

II

In order to permit the interchange of their products, the Allies undertake to adopt measures for facilitating their mutual trade relations both by the establishment of direct and rapid land and sea transport services at low rates, and by the extension and improvement of postal, telegraphic and other communications.

III

The Allies undertake to convene a meeting of technical delegates to draw up measures for the assimilation, so far as may be possible, of their laws governing patents, indications of origin and trade marks.

In regard to patents, trade marks and literary and artistic copyright which have come into existence during the war in enemy countries, the Allies will adopt, so far as possible, an identical procedure, to be applied as soon as hostilities cease.

This procedure will be elaborated by the technical delegates of the Allies.

D

Whereas for the purpose of their common defence against the enemy the Allied Powers have agreed to adopt a common economic policy, on the lines laid down in the Resolutions which have been passed, and whereas it is recognised that the effectiveness of this policy depends absolutely upon these Resolutions being put into operation forthwith, the Representatives of the Allied Governments undertake to recommend their respective Governments to take without delay all the measures, whether temporary or permanent, requisite for giving full and complete effect to this policy forthwith, and to communicate to each other the decisions arrived at to attain that object.

BOARD OF TRADE,
June 21, 1916.

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