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ECONOMIC PROTECTIONISM

BY

JOSEF GRUNZEL

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John Bates Clark, Director

**ECONOMIC
PROTECTIONISM**

By **JOSEF GRUNZEL**

EDITED BY

EUGEN VON PHILIPPOVICH

PROFESSOR OF POLITICAL ECONOMY IN THE UNIVERSITY OF VIENNA

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INTRODUCTORY NOTE BY THE DIRECTOR

THE Division of Economics and History of the Carnegie Endowment for International Peace is organized to ' promote a thorough and scientific investigation of the causes and results of war '. In accordance with this purpose a conference of eminent statesmen, publicists, and economists was held in Berne, Switzerland, in August 1911, at which a plan of investigation was formed and an extensive list of topics was prepared. The programme of that Conference is presented in detail in an Appendix. It will be seen that an elaborate series of investigations has been undertaken, and the resulting reports may in due time be expected in printed form.

Of works so prepared, some will aim to reveal direct and indirect consequences of warfare, and thus to furnish a basis for a judgement as to the reasonableness of the resort to it. If the evils are in reality larger and the benefits smaller than in the common view they appear to be, such studies should furnish convincing evidence of this fact and afford a basis for an enlightened policy whenever there is danger of international conflicts.

Studies of the causes of warfare will reveal, in particular, those economic influences which in time of peace bring about clashing interests and mutual suspicion and hostility. They will, it is believed, show what policies, as adopted by different nations, will reduce the conflicts of interest, inure to the common benefit, and afford a basis for international confidence and good will. They will further serve to reveal the natural economic influences which of themselves bring about more and more harmonious relations and tend to substitute general benefits for the mutual injuries that follow unintelligent self-seeking. Economic internationalism needs to be fortified by the mutual trust that just dealing creates; but

just conduct itself may be favoured by economic conditions. These, in turn, may be created partly by a natural evolution and partly by the conscious action of governments; and both evolution and public action are among the important subjects of investigation.

An appeal to reason is in order when excited feelings render armed conflicts imminent; but it is quite as surely called for when no excitement exists and when it may be forestalled and prevented from developing by sound national policies. To furnish a scientific basis for reasonable international policies is the purpose of some of the studies already in progress and of more that will hereafter be undertaken.

The publications of the Division of Economics and History are under the direction of a Committee of Research, the membership of which includes the statesmen, publicists, and economists who participated in the Conference at Berne in 1911, and two who have since been added. The list of members at present is as follows:

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INTRODUCTORY NOTE

vii

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The function of members of this Committee is to select collaborators competent to conduct investigations and present reports in the form of books or monographs; to consult with these writers as to plans of study; to read the completed manuscripts, and to inform the officers of the Endowment whether they merit publication in its series. This editorial function does not commit the members of the Committee to any opinions expressed by the writers. Like other editors, they are asked to vouch for the usefulness of the works, their scientific and literary merit, and the advisability of issuing them. In like manner, the publication of the monographs does not commit the Endowment as a body or any of its officers to the opinions which may be expressed in them. The standing and attainments of the writers selected afford a guarantee of thoroughness of research and accuracy in the statement of facts, and the character of many of the works will be such that facts, statistical, historical, and descriptive, will constitute nearly the whole of their content. In so far as the opinions of the writers are revealed, they are neither approved nor condemned by the fact that the Endowment causes them to be published. For example, the publication of a work describing the attitude of various socialistic bodies

on the subject of peace and war implies nothing as to the views of the officers of the Endowment on the subject of socialism ; neither will the issuing of a work, describing the attitude of business classes toward peace and war, imply any agreement or disagreement on the part of the officers of the Endowment with the views of men of these classes as to a protective policy, the control of monopoly, or the regulation of banking and currency. It is necessary to know how such men generally think and feel on the great issue of war, and it is one of the purposes of the Endowment to promote studies which will accurately reveal their attitude. Neither it nor its Committee of Research vouches for more than that the works issued by them contain such facts ; that their statements concerning them may generally be trusted, and that the works are, in a scientific way, of a quality that entitles them to a reading.

JOHN BATES CLARK,
Director.

CONTENTS

PART ONE

THE GENESIS OF ECONOMIC PROTECTIONISM

CHAPTER.	PAGE
I. THE ORIGIN OF ECONOMIC PROTECTIONISM.	
1. NATIONAL ECONOMY AND WORLD ECONOMY. The classification of economic activity. Private economy, world economy, national economy	1
2. THE DEVELOPMENT OF PROTECTIONISTIC ECONOMIC THEORY. The mercantilistic theory of national enrichment. The classical world economics. Fichte's 'closed commercial state'. The newer conception of national economics. Present-day views concerning national economics and world economics	8
II. THE SUBJECTS OF WORLD ECONOMY.	
1. THE GREAT ECONOMIC SPHERES. The sphere of the state, the customs sphere, and the economic sphere. The division of the greater customs domains into economic spheres	22
2. THE SMALL ECONOMIC DIVISIONS. The evolutionary tendencies of the small economic divisions. The formation of customs unions. The specialization of industry with a view to foreign trade	31
3. CUSTOMS DISTRICTS WHOLLY OR PARTLY DEPENDENT. Colonies. 'Open-door' districts	46
III. THE OBJECTS OF WORLD ECONOMY	
1. WORLD COMMERCE. The concept of commerce. International commerce. The causes of international value transfers	73

ECONOMIC PROTECTIONISM

CHAP.	PAGE
2. THE INTERNATIONAL EXCHANGE OF COMMODITIES.	
The development of world commerce. Foreign and domestic trade. Relative extent of foreign trade. The currents of world trade. The causes and effects of the international exchange of commodities	79
3. INTERNATIONAL TRANSFERS OF CAPITAL.	
The essential nature of international capital transfers. The form. The causes. The effects	91
4. INTERNATIONAL MIGRATIONS.	
The essential features. The causes. The effects	115

PART TWO

THE DIRECTIONS ASSUMED BY ECONOMIC PROTECTIONISM

I. THE ECONOMIC PROTECTIVE POLICY IN GENERAL.

1. THE ESSENCE OF ECONOMIC PROTECTIONISM.	
The limits of the concept. Systematic general view of protective measures	125
2. THE THEORETICAL BASIS OF ECONOMIC PROTECTIONISM.	
Protectionist theories hitherto current. The new theory of protectionism	127

II. PROTECTION AFFECTING COMMODITIES, BY NEGATIVE MEASURES.

1. PROTECTION BY CUSTOMS DUTIES.	
The genesis of protective duties. Theories of protective duties. Import duties. Export duties	135
2. FREIGHT-RATE PROTECTION.	
The genesis of protection by freight rates. Schedules affecting imports. Transit tariffs	163
3. ADMINISTRATIVE PROTECTION.	
The genesis of administrative protection. Veterinary police-power exclusions. Exclusion through measures for the protection of industrial property. Protective provisions in regulations affecting food products. Exclusion measures connected with the awarding of public contracts. Other protective measures	179

CONTENTS

xi

CHAP.	PAGE
4. PROTECTION BY CONCERTED POPULAR ACTION.	
The genesis of protection by concerted action. The boycott of foreign goods. Protection by appeal to the national consciousness	193
III. PROTECTION AFFECTING COMMODITIES, BY POSITIVE MEASURES.	
1. BOUNTIES ON EXPORTS.	
Governmental export bounties. Sugar bounties. Bounties on distilled liquors. The <i>titres d'acquits à caution</i> in France. Import certificates in the German grain trade. Private export bounties	200
2. FREIGHT-RATE CONCESSIONS.	
Special rates on exports	229
3. MEASURES FOR THE ENCOURAGEMENT OF SHIPPING.	
The genesis of artificial support of the merchant marine. Ship subsidies. Shipping bounties	231
4. OTHER POSITIVE MEASURES FOR COMMODITY PROTECTION.	
Subsidies for the promotion of exportation. Encouragement of exportation by political and capitalistic influence	250
IV. PROTECTION AFFECTING CAPITAL, BY NEGATIVE MEASURES	
1. OBSTACLES PLACED IN THE WAY OF FOREIGN ENTERPRISERS.	
Utilization of the antipathy to foreigners. The nationalization of foreign capital	254
2. THE DISCOURAGEMENT OF CAPITAL EXPORTATION.	
Discouragement by influencing public opinion. Manipulation of the technical means of transferring capital	259
3. DISCOURAGEMENT OF THE DENATIONALIZATION OF CAPITAL.	
Self protection against denationalization. Governmental protection against denationalization. Nationalization as a defence against foreign control	262
V. PROTECTION AFFECTING CAPITAL, BY POSITIVE MEASURES	
1. THE ENCOURAGEMENT OF THE IMMIGRATION OF CAPITAL.	
Inducements extended to persons living on an income to take up their residence in a country. The encouragement of the immigration of business enterprisers	270
2. THE ENCOURAGEMENT OF CAPITAL EMIGRATION.	
Encouragement of the emigration of business enterprisers. Encouragement of the emigration of capital	272

CHAP.	PAGE
VI. PROTECTION AFFECTING LABOUR, BY NEGATIVE MEASURES.	
1. THE DISCOURAGEMENT OF EMIGRATION.	
The principle of the freedom of emigration. Restrictions for safeguarding public interests. Restrictions for the protection of the emigrant	274
2. THE DISCOURAGEMENT OF IMMIGRATION.	
The principle of the freedom of immigration. Protection against immigration by sanitary and public-safety regulation. Protection against the competition of foreign labour. International regulation	281
VII. PROTECTION AFFECTING LABOUR, BY POSITIVE MEASURES.	
1. THE ENCOURAGEMENT OF EMIGRATION.	
Colonization abroad on non-economic grounds. Emigration for relieving pressure on the home labour-market. The repatriation of immigrants	293
2. THE ENCOURAGEMENT OF IMMIGRATION.	
Inducements contained in immigration laws. Propaganda of private enterprises	294

PART THREE

THE EFFECTS OF ECONOMIC PROTECTIONISM

I. THE EFFECTS OF COMMODITY PROTECTION.	
1. EFFECTS OF THE NEGATIVE MEASURES.	
The effect of protective duties on prices. The effect of protective duties on production costs. The effect of export duties. The effect of freight-rate protection. The effect of administrative protection and of protection by concerted popular action	303
2. EFFECTS OF THE POSITIVE MEASURES.	
The effect of export bounties. The effect of measures for the encouragement of shipping	318
II. THE EFFECTS OF CAPITAL PROTECTION.	
1. EFFECTS OF THE NEGATIVE MEASURES.	
The effect of discouraging the importation of capital. The effect of the discouragement of capital exportation	330
2. EFFECTS OF THE POSITIVE MEASURES.	
The effect of the encouragement of capital importation. The effect of the encouragement of capital exportation	332

CONTENTS

xiii

CHAP.	PAGE
III. THE EFFECTS OF LABOUR PROTECTION.	
1. EFFECTS OF THE NEGATIVE MEASURES.	
The effect of the restriction of emigration. The effect of the restriction of immigration	333
2. EFFECTS OF THE POSITIVE MEASURES.	
The effect of the encouragement of emigration. The effect of encouraging immigration	337
IV. THE EFFECTS OF ECONOMIC PROTECTIONISM IN GENERAL.	
Increase in the productive power of the national economy. Growth of world-economic activity. Increase and equalization of the mutual dependence of nations. Intensification of conflicts of interest. Strengthening of international community of interest. Conclusion	339
INDEX	353

INDEX

- Abyssinia, 58.
 Admiralty subventions, 234 ff.
 Afghanistan, 61.
 Agricultural protection, 154 ff.
 Alcohol, fiscal treatment of, 212 ff.
 Algeciras Conference, 54, 58, 189.
 Algeria, 24, 42, 57.
 'All British' movement, 197.
 Alliance Israélite, 113, 294.
 Anatolian railways, 261 f.
 Anti-foreign movements, 234 ff.
 Argentina, foreign investments in, 84; immigration, 109 f.; encouragement of immigration, 295 f.
 Augagneur, Victor, 79.
 Augier et Marvaux, 144.
 Ausgleich, Austro-Hungarian, 178 f., 183, 189 f.
 Australia, 14, 21, 80, 146 f., 149; Bounties Act, 126, 207; immigration and emigration, 112.
 Austria-Hungary, 25, 88; emigration, 104, 106; French and German investments in, 80; tourist traffic, 115 f.
 Balkan war, 56.
 Banks, overseas, 273.
 Bannerjee, 196.
 Bastable, C. F., 128.
 Beer, Adolf, 201.
 Belgium, 31; foreign investments of, 79; seasonal emigration, 104.
 Bills of exchange, 65, 85 ff.
 Bismarck, 165, 261.
 Bluntschli, 16.
 Bollack, Léon, 195.
 Bose, L., 29.
 Bosnia and Herzegovina, 56.
 Bounties, 202 ff., 318 ff.; on exports, 200 ff.; private, 220; shipping, 237 ff., 326 ff.; sugar, 203 ff.
 Boxer indemnity, 81.
 Boycott, international, 193 ff.
 Brazil, 94; credit relations with England and the United States, 98; immigration and emigration, 109 ff.; encouragement of immigration, 297 f.; protective duties, 310 f.
 Brentano, L., 12, 324.
 British Empire, 21, 41 f.
 British Empire League, 197.
 British Imperial Customs Union, 139.
 Brussels Conferences, 59, 210 ff.
 Brussels Sugar Convention, 210 ff.
 Bücher, Karl, 18.
 Bukowina, 25.
 Bulgaria, 56.
 Bureau of American Republics, 80.
 Cairnes, 144.
 California, gold discovery, 105; oriental immigration, 112, 291, 334.
 Canada, 21, 44; foreign investments in, 83; immigration, 110 f., 285 ff., 296; rate of interest in, 91.
 Capital, 77 ff., 88 ff.; as affected by taxation, 94; as entailing colonial expansion, 95; exportation of, 77 ff., 97 ff., 100, 259 ff., 272 ff., 331; importation of, 65, 271 f.; investments of, in China, 81 ff.; nationalization of, 256 ff.; transmission of, in international trade, 85 ff.
 Capitulations, Turkish, 53 ff.
 Carey, 10, 143.
 Cauwès, 145.
 Certificates of importation, 206 f., 216 ff.
 Chamberlain, Joseph, 139, 149.
 Chile, opposition to foreign capital, 255 f.
 China, 81 f.; boycott of American goods, 194 f., 337; commercial treaties, 59 f.; investments in, 81 ff.; nationalization movement in, 91 f., 254 f., 259, 330.
 Chinese emigration, 112, 290 f., 294, 333 f., 335.
 Clearing house, exportation, 226.
 Cobden, 138 f.
 Colbert, 26, 137, 200 f.
 Colonial conference, British, 44.
 Colonial policy, 43.
 Colonial self-government, 41 f.

- Colonies, 40 ff., 49 f.; illusions concerning, 69, 73 f.
- Commercial emissaries, 251 f.
- Commercial treaty, 3 f., 8; Austria-Hungary and Bulgaria, 174; colonial, 45; England and France, (1786), 137; Germany and Austria-Hungary, 172; Germany and Russia, 173; Middle European, 33.
- Competition, 75.
- Concessions, in China, 81 f.; opposition to, 254.
- Congo, 24.
- Congo Conference, 53, 58.
- Congo treaty, 58 f.
- Consumption tax, 43.
- Contenson, G. de, 30.
- Contract labour, 289.
- Corporations, protection against denationalization, 264.
- Cotton duties, 156 f.
- Countervailing duties, 209 f.
- Cuba, 42.
- Customs districts, European, 35; non-European, 36 f.
- Customs duties, treaty limitations on, 54 ff.
- Customs sphere, 19.
- Customs union, 7, 26, 29 ff.; British imperial, 139; Scandinavian, 33.
- Denmark, immigration, 105.
- Diepenhorst, 222, 225.
- Dietzel, 15.
- Dingley tariff law, 92, 185, 232, 289.
- Diplomacy, in aid of exportation, 253.
- Division of labour, international, 4, 8, 341 f.
- Dix, A., 195.
- Drawbacks, 203 ff.
- Dumping, 66, 148 f., 220 ff., 323 f.
- Duties, comparative, 155 ff.; countervailing, 209 f.; effect on prices, 303 ff.; preferential, 21, 44; protective, 135 ff.
- East India Company, 137 f.
- Economic stages, 15.
- Economics, pure and applied, 10.
- Economy, national and world, 3 ff., 11 f., 16 ff.
- Egypt, 43, 57, 94, 102, 117; tourist traffic in, 102.
- Emigration, 102 ff.; discouragement of, 274 ff.; effect on exportation, 120; laws affecting, 274 ff.; loss from, 118 ff.; solicitation of, 113 f., 276 ff.
- Emigration bounties, 294 f.
- England, foreign investments, 79; restrictions on immigration, 282 ff.
- Exchanges, as a means for controlling capital exportation, 261 ff., 331 ff.
- Export bounties, 200 ff., 220, 318 ff.
- Export duties, 189, 158 ff., 315 ff.
- Exportation of capital, 97 ff., 100, 259 ff.
- Exports, effect on prices, 70; stimulated by diplomatic pressure, 253; by emigration, 120; by granting of loans, 98, 273; by special freight rates, 229 ff.
- Exports and imports, 13, 34 ff., 83 f., 67 ff., 344 ff.
- Exterritoriality, 52, 60 f.
- Faucher, Léon, 30.
- Fichte, 8 f.
- Finland, 23.
- Fontana-Russo, 128, 143, 148 ff., 306, 313.
- France, foreign investments of, 79, 89 f.; opposition to foreign capital, 256; Russian investments, 95; shipping subsidies, 235 ff.; taxation of capital, 95; tourist traffic, 102, 117.
- Franco-Russian alliance, 100.
- Frankfurt, treaty of, 52.
- Frederick the Great, 201.
- Free trade, 34, 138, 140 f.
- Freight rates, as a stimulus to exportation, 229 ff.
- French dominions, 24 ff.
- Fuchs, Carl Johannes, 139.
- Galicia, 25, 105.
- German Temple, 113, 294.
- Germany, emigration, 106 ff.; foreign investments, 79; shipping subsidies, 236.
- Gompers, Samuel, 336.
- Great Britain, emigration, 108; shipping subventions, 233 ff.
- Grunzel, Josef, 80, 118, 135, 188, 190, 207, 233, 266, 272, 340.
- Hague Conference, 196.
- Harms, Bernhard, 9, 16 f.
- Hawaii, 25.
- Head-tax, 289.
- Hildebrand, Gerhard, 12.

- Historical School, 10.
 Holland, 31 ff.
 Home rule, 22.
 Hungary, emigration laws, 103.
 Immigrants, protection of, 296 ff.;
 remittances from, 118 f.
 Immigration, 102 ff.; encourage-
 ment of, 294 ff.; laws regulating,
 284; restriction of, 281 ff., 333 ff.;
 stimulated by steamship com-
 panies, 299.
 Importation certificates, 206 f.,
 216 ff.
 Imports and exports, 13, 67 ff.,
 844 ff.; colonial, 45 f.
 India, 21 f., 41 ff., 102, 139, 147,
 190.
 Indian Currency Report, 271.
 Instituto Cotoniero Italiano, 227 f.
 International trade, theory of,
 128 ff.; as affected by protection,
 342.
 Internationalism, economic, 4, 15.
 Investments, foreign, in Argentina,
 84; in China, 81; in Japan, 83;
 in Mexico, 83 f.
 Investments, international, 85 ff.,
 95.
 Ireland, 22, 106, 198 f.
 Iron, duties, 157 f.
 Italy, 25; cotton drawbacks, 205 f.;
 emigration law, 103; emigration
 from, 104, 107; shipping sub-
 sidies, 235 ff.; tourist traffic, 102,
 117.
 Japan, 60; boycott of American
 goods, 195; foreign indebtedness,
 83; emigration from, 112, 291,
 337, 349.
 Jews, expulsion from Spain, 337.
 Kartell, 208 f., 220 ff., 227 f., 266 ff.,
 314, 323.
 Knies, 10.
 Kobatsch, R., 15, 141, 144.
 Korea, 60 f.
 Kowalewsky, 23.
 Kropotkin, 12.
 Labour, migration of, 66 ff.; pro-
 tection of, 147.
 Land monopoly, 93.
 Land settlement policies, Argentina,
 298; Brazil, 298; Canada, 298 f.
 Land values, raised by protection,
 313 f.
 Latin America, immigration, 109;
 relations with Spain, 94.
 Lavison, de, 125 f., 144, 303, 322.
 Leroy-Beaulieu, 30, 79.
 Lévasscur, 137.
 Levy, Hermann, 225, 229.
 Lewandowski, Maurice, 84.
 Lexis, W., 201.
 Liberalism, 15.
 Liberia, 59.
 List, Friedrich, 11, 14, 142.
 Loans, as an aid to exportation, 98.
 Lotz, Walther, 182.
 Luxuries, 64.
 MacCulloch, 137.
 McKinley tariff law, 92.
 Malthus, 200.
 Manufacture in bond, 204 ff.
 Maria Theresa, 201.
 Martinez, Albert, 84.
 Marx, Karl, 15.
 Matlekowits, von, 181.
 Méline, J., 12.
 Mercantilism, 7, 15, 136 f., 159 f.,
 192.
 Merchant marine, encouragement
 of, 231 ff.
 Methuen treaty, 137.
 Mexico, foreign investments in, 83 f.;
 nationalization of railways, 258 f.;
 restriction of immigration, 284 f.
 Migration, international, 100 ff.;
 seasonal, 103 ff.
 Mill, J. S., 128, 142.
 Molinari, 30.
 Money in international trade, 65,
 85.
 Mongolia, 60.
 Monopolies, 93.
 Morgenroth, 225.
 Morocco, 58, 95, 189.
 Most-favoured-nation treaties, 54,
 171 f.
 Müller, A. G., 9.
 Munitions of war, trade in, 97, 99,
 253, 262.
 Nagri, Fr., 104.
 Nation, 6.
 National economy, 10, 351.
 Nationalism, 5, 14 f.
 Nationalization of capital, 256 ff.
 Navigation Act, 232.
 New Zealand, 44.

- Neymarck, 78, 95.
 Northern League, 33.
 Norway, Interdominion Law, 33 ;
 tourist traffic, 117.
 Oldenberg, R., 12.
 Open door, 22, 24, 40, 42, 51 ff., 263.
 Opium War, 53, 59.
 Oriental emigration, 112, 200 f.
 Paine tariff war, 232.
 Palestine, agricultural colonies, 113,
 294.
 Pan-American relations, 95 ; pro-
 posed customs union, 30.
 Patents, 131, 184 ff.
 Peace, proposal to employ boycott
 to enforce, 195.
 Pensions, Indian, 101 ff.
 Persia, 61.
 Petroleum Kartell, Austria-Hun-
 gary, 228 f.
 Philippines, 25.
 Philippovich, 18, 105, 152.
 Physiocrats, 8.
 Pohle, H., 25.
 Pohlman-Hohenaspe, 120.
 Political alliances, effect on inter-
 national investments, 95.
 Porto Rico, 25.
 Postal subventions, 234 ff.
 Potash question, German, 162, 266 ff.
 Prato, Giuseppe, 282, 335.
 Preferential duties, 21, 44, 139.
 Prices, as affected by duties, 303 ff.
 Prohibition of imports, 136 ff.
 Protection, as a means of attracting
 capital, 92 ; effect on growth of
 international trade, 342 f. ; effect
 on land values, 313 f. ; for labour,
 146 f. ; through discriminating
 railway rates, 163 ff.
 Protectionism, 6 ff., 125 ff.
 Public contracts, as a means of
 protection, 187 ff.
 Railway discriminations as a means
 of protection, 163 ff.
 Rau, Karl Heinrich, 10.
 Reciprocity, 170 f.
 Retaliation, 348 f.
 Rhenish-Westphalian Coal Syndi-
 cate, 223, 225 f., 324.
 Ricardo, 93, 200.
 Riviera, tourist traffic, 117.
 Roncador, Bruno, 313.
 Roscher, 10.
 Roumania, independence of, 56 ;
 opposition to foreign capital,
 255 ; rate of interest in, 91.
 Russia, alcohol monopoly, 213 ;
 cotton drawbacks, 206 ; emigra-
 tion, 107 ; French investments
 in, 80.
 Russian Empire, 23 f.
 Samoa Conference, 53, 61.
 Sartorius, A., 80, 93, 260.
 Savings, remitted by emigrants, 118 f.
 Say, J. B., 143.
 Scandinavia, tourist traffic, 102.
 Schachner, Robert, 147.
 Schilder, Sigmund, 20, 29, 71, 100.
 Schmoller, 15.
 Schüller, Richard, 76, 131, 150.
 Schwab, M., 30.
 Securities, in international trade,
 87 ff.
 Seidler and Freud, 172, 231.
 Sella, Emanuel, 120.
 Serbia, relations with Austria-
 Hungary, 98, 183 f., 194.
 Shipping, earnings in international
 trade, 67.
 Shipping bounties, 237 ff., 326 ff.
 Shipping subsidies, 233, 326 ff.
 Shipping trust, 263.
 Siam, 61.
 Siberia, 23.
 Smith, Adam, 10, 142, 200, 221, 320.
 Smuggling, 304, 335.
 Socialism, 192.
 Soden, von, 10.
 Sombart, Werner, 13, 15.
 South Africa, 30 ; emigration and
 immigration, 111 f. ; coolie labour
 question, 294.
 South African Union, 44.
 Spain, colonies, 41 f. ; emigration,
 107 ; export duty on ore, 161 ;
 shipping subsidies, 236 ; relations
 with Latin America, 94.
 Spain, emigration law, 103, 275 f.
 Speyer, Sir Edgar, 79.
 Spheres of interest, 41.
 Srbik, von, 274, 284.
 Standard Oil Company, 268.
 State, sphere of, 19.
 Statistics, export and import, 67 ff.,
 342 f.
 Steamship companies, as stimula-
 ting emigration, 113 ff., 299.
 Steerage rates, 114.
 Stein, Lorenz von, 146.
 Strathcona, 193.

- Subsidies, shipping, 233 ff., 326 ff.
 Suez Canal, 258.
 Sugar bounties, 203 ff., 323.
 Sugar Conferences, Brussels, 210 ff.
 Sugar duties, 189.
 Sugar question, 145 ff.
 Swadeshi movement, 21 f., 106.
 Sweden, export duty on ore, 161 ;
 Interdominion Law, 33.
 Switzerland, 32 ; tourist traffic, 102,
 115 f.
 Taft, William, 194.
 Tariff, French, 92 ; German, 32 ;
 Russian, 91.
 Tariff war, Austria-Hungary and
 Roumania, 182 f., 349 ; France
 and Italy, 349.
 Taxation, effect on capital move-
 ments, 94 f.
 Tilleuls, des, 201.
 Tourist traffic, 102, 115 ff., 270.
 Trade, foreign and domestic, 71 ff. ;
 measure of, 67 ff. ; statistics of,
 342 f.
 Trade-marks, 139, 184 ff.
 Treaty, commercial, 3 f., 8 ; be-
 tween Austria and Bulgaria, 174 ;
 in behalf of colonies, 45 ; between
 Germany and Austria-Hungary,
 172 ; between Germany and
 Russia, 173 ; Middle European, 33.
 Treaty of Berlin (1878), 56.
 Treaty of Frankfurt, 52.
 Trescher, 222.
 Tripoli, 57.
 Trusts, 93, 225 ff., 263, 268 ff.
 Turkey, restrictions on customs
 duties, 55 ff. ; boycott of Austria-
 Hungary, 193 f. ; of Greece, 194 ;
 of Italy, 194.
 Turks, emigration from Macedonia,
 113.
 Underwood tariff law, 149, 185, 232.
 United States, foreign investments
 of, 80 ; immigration, 108 f.,
 284 ff. ; interest on government
 bonds, 90 ; possessions, 25.
 Values, international, 66.
 Veterinary regulations, 139, 180 ff.,
 349.
 Wagner, H. A., 12.
 Wheat, duties on, 155.
 Wilson bill, 209.
 World economy, 3 ff., 381.
 Zollverein, 29, 31 f.

GENERAL APPENDIX

PUBLICATIONS OF THE DIVISION OF ECONOMICS AND HISTORY

THE Conference which met at Berne in 1911, under the auspices of the Division of Economics and History of the Carnegie Endowment for International Peace, appointed three Commissions to draft the questions and problems to be dealt with by competent authorities in all countries. The first Commission was entrusted with *The Economic and Historical Causes and Effects of War*; the second with *Armaments in Time of Peace*; the third with *The Unifying Influences in International Life*. Subsequently the suggestions of the three Commissions were considered and approved by the entire Conference.

The questions are to be discussed scientifically, and as far as possible without prejudice either for or against war; and their discussion may have such important consequences that the questions are presented below *in extenso*.

Report of the First Commission

THE ECONOMIC AND HISTORICAL CAUSES AND EFFECTS OF WAR

The Conference recommends the following researches :

1. Historical presentation of the causes of war in modern times, tracing especially the influence exercised by the striving for greater political power, by the growth of the national idea, by the political aspirations of races and by economic interests.

2. Conflicts of economic interests in the present age :

(a) The influence of the growth of population and of the industrial development upon the expansion of States.

(b) The protectionist policy; its origin and basis; its method of application and its influence upon the relations between countries; bounties (open and disguised, public and private); most-favoured-nation treatment; the attitude towards foreign goods and foreign capital; the boycott; discouragement of foreign immigration.

GENERAL APPENDIX

(c) International loans ; the policy of guarantees ; the relations of the creditor to the debtor States ; the use of loans for gaining influence over other States.

(d) Rivalry among States with respect to capitalist investments in foreign countries :

1. The endeavour to obtain a privileged position in banking enterprises, in the opening and development of mines, in the letting of public contracts, in the execution of public works, in the building of railways (Siberian, Manchurian, Persian Bagdad Railway, Adriatic Railway, &c.) ; in short, the organization of larger capitalistic enterprises in foreign countries.

2. The hindering of foreign countries by convention from executing productive enterprises on their own soil, e.g. from building railways in their own countries.

3. The anti-militarist movement, considered in its religious and political manifestations. (Only opposition to all military organization is here to be considered.)

4. The position of organized labour and the socialists in the various States on the questions of war and armaments.

5. Is it possible to determine a special interest of individual classes making for or against war, for or against standing armies ?

6. The influence of women and woman suffrage upon war and armaments.

7. The extension of obligatory military service in the different States, in times both of war and of peace.

(a) The conditions of military service ; the system of enlistment and of general obligatory service, the actual position of aliens.

(b) The ratio of the persons obliged to render military service to the entire population.

(c) The influence of the present system of military obligation and the organization of armies upon warfare and upon its duration.

8. The economic effects of the right of capture and its influence upon the development of navies.

9. War loans provided by neutral countries ; their extent and influence on recent warfare.

10. The effects of war :

(a) Financial cost of war, The methods of meeting it : Taxation ; International Loans ; External Loans.

(b) Losses and gains from the point of view of public and private economic interests ; checks to production and the destruction of productive forces ; reduction of opportunities for business enter-

GENERAL APPENDIX

prises ; interruption of foreign trade and of the imports of food ; the destruction of property ; shrinkage of values of property, including securities ; financial burden caused by new taxes, debts, and war indemnities ; effects upon private credit and upon savings banks ; advantages to those industries which furnish military materials ; advantages and disadvantages to neutral countries.

(c) The effects of war upon the supply of the world with food and raw materials, with special reference to those States which are in large degree dependent upon other countries for such supplies, e. g. Great Britain and Germany ; by diversion of capital from those countries which produce food and raw materials (especially the stoppage of railway building and of new investments in agriculture and other industries).

(d) The condition of the victorious State : manner of levy and use of contributions and war indemnities ; influence upon industry and social life.

(e) The manner in which the energy of nations is stimulated or depressed by war.

11. Loss of human life in war and as a result of war : influence upon population (birth-rate, relation between the sexes, ratio of the various ages, sanitary conditions).

12. The influence of war and of the possibility of war upon the protective policy, upon banking conditions (especially upon banks of issue), and upon monetary systems.

13. The influence of annexation upon the economic life of the annexing States, and upon the State whose territory has been annexed.

14. The annexation of half-civilized or uncivilized peoples, considered especially from the point of view of the economic interests, which act as motive powers ; the methods through which private enterprises take root in such regions and through which they bring influence to bear upon their own governments ; the effects of such annexations upon the development of trade with the annexing State and with other countries, as well as upon the economic and social life of the natives.

15. The progressive exemption of commercial and industrial activities from losses and interferences through war.

16. Influence of the open-door policy upon war and peace.

GENERAL APPENDIX

Report of the Second Commission

ARMAMENTS IN TIME OF PEACE. MILITARY AND NAVAL ESTABLISHMENTS. THE THEORY, PRACTICE, AND HISTORY OF MODERN ARMAMENTS.

1. Definition. Armaments might be described as 'the preparations made by a State either for defence or for attack'. These would include the provision of food, financial preparations, and also semi-military railways, canals, docks, &c.

2. Causes of armaments. Motives for increasing or commencing them, distinguishing the great from the small powers.

3. Rivalry and competition in armaments. Motives and consequences of rivalry, with the possibilities of limitation.

4. Modern history of armaments, with special fullness from 1872. To be noted as important landmarks :

(a) The introduction of conscription into Germany, France, Austria, Italy, Japan, &c.

(b) Modern inventions affecting war.

(c) The question of privateering and private property at sea.

(d) Duration of military service.

(e) The traffic in arms.

5. Military budgets from 1872 (distinguishing ordinary from extraordinary expenditures).

6. The burden of armaments in recent times.

(a) The proportion of military to civil expenditure.

(b) Military expenditure per capita.

(c) Military expenditure from loans in time of peace, i.e. a comparison of expenditure from taxes with expenditure from borrowed money.

(d) Comparative burdens of individual taxpayers in different countries and the extent to which the differences are due to armaments.

(e) Military pensions.

(f) It is desirable to ascertain where possible the ratio between the total income of each nation and the total expenditure on armament at various times.

7. The effects of war preparations upon the economic and social life of a nation :

(a) On the sustenance of the entire population of a country at war.

GENERAL APPENDIX

(b) On railway policy.

(c) On public administration and on social legislation.

8. The economic effects of withdrawing young men from industrial pursuits, into the army and navy :

(a) Compulsory.

(b) Of non-compulsory service (specially in the case of mercenary troops).

(Allowance being made for the industrial value of military education and training.)

9. The influence of changes in the occupations of a people upon the composition and efficiency of armies, and the influence of the changes in the composition of armies on the economic life.

10. Loans for armaments (participation of domestic and foreign capital).

11. The industries of war, i. e. the various manufactures and other industries which are promoted and encouraged by military and naval establishments, distinguishing between :

(a) Government undertakings (arsenals, dockyards, &c.).

(b) Private undertakings, including the history and working of the great armament firms, which sell to foreign customers as well as to their own governments.

12. War materials (munitions of war). Their recent development and their cost. This includes arms, ammunition, armour-plate, warships, guns of all kinds, military airships, &c. So far as possible the effect of recent inventions upon offensive and defensive war should be indicated.

Report of the Third Commission

THE UNIFYING INFLUENCES IN INTERNATIONAL LIFE

1. The Conference is of the opinion that the economic life of individual countries has definitely ceased to be self-contained ; and that, notwithstanding the barriers raised by fiscal duties, it is becoming in ever-increasing measure a part of an economic life in which the whole world participates.

2. It desires that this change be studied with the object of ascertaining to what extent the economic life of individual nations has ceased to be self-contained, and the causes which are bringing about the greater interdependence of nations.

3. Special attention should be paid to the following factors :

(a) How far the growth of population is responsible for the changes that have occurred and are in progress.

GENERAL APPENDIX

(b) The extent to which the insufficiency of the natural resources of individual countries for their own requirements has contributed to it.

(c) Whether the increasing economic unity of the world is the cause or the result of the rising in the standard of living, and how far the increasing welfare of nations has been caused by the growing unity.

(d) In what measure the need of individual countries to obtain materials of production from other lands and to find new markets for their own products is responsible for the growth of international dependence.

4. The Conference desires that investigations be made into :

(a) The volume of the world's production of all the many articles of food, of the various raw materials, and of the principal manufactures.

(b) The productions of individual countries, and the extent to which they are retained for home consumption or are exported.

(c) The consumption of individual countries, and the extent to which the various articles are supplied from home productions or are imported.

5. The Conference wishes to ascertain to what extent the economy of production by large units, instead of by small units, has contributed to the international dependence of nations.

6. The development of this world-embracing economy has taken place in great measure in consequence of the investment of capital by rich countries in less developed lands. Through this there have arisen close relations and a great increase of wealth, not only for the lending and the borrowing countries, but for all nations. The Conference is of the opinion that researches should be made into the extent of the interdependence of the nations in the matter of capital.

7. The Conference desires to institute inquiries into the interdependence of the financial centres of the world.

8. The Conference desires to make the unifying effects of international trade, the building of railways, the progress of shipping, the improvement and extension of all means of communication and the progress of inventions, the subjects of careful investigation.

9. The Conference is in favour of making a comprehensive study of the various international unions and associations, in which the social and economic interests of all classes of society are now either organized or in process of organization, through official or private action.