

*Free Trade in Being.* By RUSSELL REA, M.P. (London : Macmillan & Co. 1908. Pp. 237.)

THIS is a collection of articles, letters, and lectures written or delivered at various times during the last five years on the subject of Free Trade and Protection. Two of the constituent pieces, together making up more than half the volume, have been already noticed in the *ECONOMIC JOURNAL*: *Insular Free Trade* in the number of September 1908, and in March 1909, *A Review of British Trade*, included in the report of the International Free Trade Congress. Among the remaining contributions, the Cobden Club lecture on *Shipping and Free Trade* (1905) deserves special notice. Mr. Russell Rea has here shown that—

“The mercantile navy of Great Britain alone, excluding the Colonies, shows a considerable preponderance over that of the rest of the world, if not in total tonnage, yet in value and in effective carrying power.”

One mark of preponderant efficiency is the greater proportion of steamers—“almost in the proportion of three of steam to two of sail [for an aggregate of the principal countries in the world] against four of steam to one of sail in this country.” That is, according to the statistics of 1902, the latest available at the date of the lecture. Since then, as appears from later statistics (referred to in an appended note), we have gained upon the world in respect of total tonnage, but lost—in that we advanced less—in respect of the proportion between steam and sail tonnage. In further proof of efficiency it is stated that of high grade steamers, defined by a speed of more than twelve knots per hour, the United Kingdom possessed (in 1902) more than four and a quarter million of tons, while the principal countries of the world together possessed little more than two and a quarter million of tons. We have the advantage, too, in the youthful age and up-to-date character of our ships.

It is cogently argued by Mr. Russell Rea that our preponderance at sea is connected with our Free Trade policy. At the time when we took the “Free Trade path to the right,” America was advancing rapidly to the first position; and now her foreign shipping trade has declined almost to extinction. Mr. Russell Rea has arranged the principal countries of the world in two lists: (1) according to the severity of their Protective Tariff (as estimated in the Fiscal Blue Book); (2) in the inverse order of steam shipping tonnage per inhabitant. It is remarkable that

as the import tariff of a nation goes up, so does its register of shipping go down.

Such being our "superb supremacy," our "lonely pre-eminence," at sea, what are we to think of allegations purporting to prove that there is "rot at the foundations" of British shipping? Mr. Russell Rea's answer to this question is more than a contribution to the polemics of the hour; it is a study in the logic of statistics. Consider, for example, Mr. Chamberlain's assertion that—

"The tonnage of foreign shipping which entered and cleared from our ports during the years 1890 to 1900 had increased not only at a greater rate, but actually to a greater extent than the British tonnage. Between 1890 and 1900 the foreign tonnage using our ports had increased from 20 millions of tons to 35 millions, while the British tonnage had only increased from 54 millions to 62 millions" (p. 89).

It is not denied that the assertion was true at the time when it was made; though, as it happens, it has since then ceased to be true. But the fact, even when it existed, was capable of being in large part explained away.

"A considerable portion of the foreign increase in our ports is due to two items: first, the calls of the great German Atlantic steamers at Southampton, Plymouth, and Dover, at which ports they remain half an hour to embark or land a few passengers, and in no way touch the export and import trade of the country; and, second, to the existence of a small number of new Channel passenger steamers owned by the Continental railway companies, which enter our ports daily all the year round, and are counted scores of times in the course of the year" (p. 90).

Allowing for these items, we still find that the foreign tonnage using our ports increased disproportionately. But it is explained that—

"These foreign ships were being employed in the more local trades; that the inferior ships were, in fact, engaged in the inferior trades, and that the great long-distance ocean trades were chiefly in British hands" (p. 91).

There is still a residuum of fact which has not been explained away. It is explicable by the virtual discrimination in favour of foreign ships which is made by our light dues and Board of Trade regulations—a protection of the foreigner which the Free Trader is not concerned to defend.

Another contribution of special interest is the correspondence with Professor Pigou on the question, "Is it Possible to Tax the

Foreigner?" On this question Dr. Marshall's recently published memorandum has left little to say that is of much importance. But there is a peculiar interest in observing how a practical man of great sagacity deals with the refinements of academic theory.

Mr. Russell Rea accepts Professor Pigou's formula for the rise of price consequent on a differential tax on foreign wheat imported into the United Kingdom. But he does not accept the values assigned by Professor Pigou to the constants in this formula, in particular the *elasticities of supply* for foreign and for colonial wheat. Mr. Russell Rea will not accept the assumption that the extensibility, as Mill would say, of the colonial supply may be equated to the contractibility, if I may use the word, of the foreign supply.

As I understand, this presumption is of the kind which I have elsewhere described as *a priori* unverified probability; based not on specific experiment, but on general experience and common sense.<sup>1</sup> It is the kind of basis which underlies the presumption common in physics that a "function," or relation between interdependent variable quantities, may be treated in the absence of evidence to the contrary, as for the most part *continuous*; a presumption which is often legitimate in Economics. To take an example from the subject before us, on the strength of this kind of probability, I am disposed to question the suggestion that—

"A rise in the price of wheat would increase rather than decrease the consumption in this country. . . . The poor . . . would certainly . . . save on their small comforts—meat, eggs, butter, etc.—and actually use more of the dearer bread" (p. 126).

Even the milder statement that the elasticity of the demand for wheat *may* be positive, though I know it is countenanced by high authority, appears to me so contrary to *a priori* probability as to require very strong evidence.

"But this is a small point," as Mr. Russell Rea says. I admit that what is called *a priori* probability is not a satisfactory sort of knowledge. It is like the faint rays shed upon our world from the more distant parts of the universe, perceptible and useful only in the absence of the stronger nearer lights. Possibly Cournot is right when he restricts the office of the probabilities in question to the regulation of a bet. Doubtless it is inexpedient to bet unless you know more than such probabilities can teach. But governments, and still more the citizens, by whom they are elected, have often to act without more definite

<sup>1</sup> *ECONOMIC JOURNAL*, Vol. XVII. p. 227, and references there given.

knowledge. Of this kind are the presumptions which Professor Pigou has formulated with respect to the incidence of a differential import tax on foreign wheat. Vague as they are, these presumptions serve to show the plain man what to think of politicians who tell him that import duties will not raise prices. Probability is the guide of life; and the best estimate of probability which the ordinary citizen can obtain, without special opportunities of information, or a lifelong study, shows, in the instance proposed, that the probable advantage in the way of contribution from the foreigner is very small in comparison with the immense disadvantage attending the resort to Protection.

This practical outcome of the formulæ would be warmly accepted by Mr. Russell Rea. My contention against him is not *à l'outrance*; it is only a friendly gymnastic encounter such as may occur between soldiers in the same camp. Mr. Russell Rea attributes to the foreign supply of wheat an elasticity so nearly perfect that the foreigners' contribution to the tax would be "infinitely minute and totally invisible," and would continue to be so as long as any foreign wheat is required. In making this estimate he very properly relies on his own "commercial instinct." Those who have not the advantage of his experience in business can have no better evidence on the matter than the consensus of experts like Mr. Russell Rea. Still, I think, the judgment of a single expert—as it were a single observation, liable to personal equation—is not decisive for the general public. I had as soon accept implicitly the instinctive judgment of a monometallist on the nice question whether the stability of gold prices in the long run of ages was greater than that of silver prices. In the absence of several witnesses or special knowledge of my own, I should do better to treat the two coefficients of fluctuation as for the purposes of the bimetallic controversy, likely to be equal.

Besides, I am not quite sure that Mr. Russell Rea brings his great authority to bear on the exact point at issue, as thus stated by Professor Pigou:—

"My argument has to do with ultimate effects only—that is to say, with the effects that follow after Preference has been in vogue several years and things have settled down" (p. 131).

Has not Mr. Russell Rea *short periods* in mind when he thus bears witness:—

"When the demand for tonnage and the rate of freights decline to a rate excluding all margin of profits, I lay up my least profitable ship at once. My elasticity in this case is instant.

On the other hand, when demand for tonnage is good and freights are high, it costs me both time and money to meet the demand by building a new ship. My elasticity in this case is slow and costly" (p. 125).

With reference to long periods, may we not apply to the increase of supply (in the colonies) as well as to the decrease of supply in foreign countries—consequent upon a differential tax on wheat—what Mr. Russell Rea says with reference to increase:—

"There is no article the supply of which can be modified more easily than corn. Botanically, wheat is an annual" ? (p. 116).

Altogether, I would rather take the chance of erring with Professor Pigou; though I dare say that Mr. Russell Rea may be right.

*Cours d'Économie Politique professé à l'École Nationale des Ponts et Chaussées.* Par C. COLSON. Livre Sixième: Les travaux publics et les transports. (Paris: Alcan. 1907. Pp. 527.)

THE sixth and last volume of M. Colson's Course may properly be made the object of a separate review. It is distinguished from the preceding volumes in that the greater part of their contents has appeared in earlier editions. Besides, it is not only the conclusion, but also the final cause of the whole work: "le but en quelque sort," says the author, "de tout le Cours." It is the crowning height to which the preceding parts lead up by a magnificent gradation. The reader must tread the greater part of this ascent by himself. We can only offer guidance at the first stage. The first volume calls for some notice here so far as it bears upon the volume that is under review.

A reader who, having some previous acquaintance with the economics of transportation but not with M. Colson's earlier volumes, should take up the last one might be surprised at the absence of reference to the literature of the subject. In particular he would desiderate grateful allusion to one of the author's predecessors in office and in studies connected with the *Ponts et Chaussées*, the illustrious Dupuit. This reticence is justified, or at least acknowledged, in the introduction to the whole Course, where the author, referring to the diversity of economic schools, says it has been his object to present the leading common features without entering into the details of quotation and reference. "I have refrained," he says, "almost entirely from bibliographical references, which fill so large a part of modern works; if they