

John Stuart Mill on Infant Industries

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We print the following from a pamphlet of the Cobden Club of England:

In John Stuart Mill's "Political Economy," the passage that countenances temporary protection of certain industries in young countries is thus given (Book V., Chap. X., Sect. 1):

"The only case in which, on mere principles of political economy, protecting duties can be defensible is when they are imposed temporarily (specially in a young and rising nation), in hopes of neutralizing a foreign industry, in itself perfectly suitable to the circumstances of the country. The superiority of one country over another in a branch of production often arises only from having begun it sooner. There may be no inherent advantage on one part, or disadvantage on the other, but only a present superiority of acquired skill and experience. The country which has this skill and experience yet to acquire may in other respects be better adapted to the production than those which were earlier in the field; and, besides, it is a just remark of Mr. Rae, that nothing has a greater tendency to promote improvements in any branch of production than a trial under a new set of conditions. But it cannot be expected that individuals should, at their own risk, or rather to their certain loss, introduce a new manufacture and bear the burden of carrying it on until the producers have been educated up to the level of those with whom the processes are traditional. A Protecting duty, continued for a reasonable time, might sometimes be the least convenient mode in which the nation can tax itself in support of such an experiment. But it is essential that the Protection should be confined to cases in which there is good ground of assurance that the industry which it fosters will, after a time, be able to dispense with it; nor should the domestic producers ever be allowed to expect that it will be continued to them beyond the time necessary for a fair trial of what they are capable of accomplishing."

"The Letters of John Stuart Mill," edited by Hugh Elliot (Longmans, 1910. 2 vols.), give the history of his change of mind. At first (letter to H. Soden, of Melbourne, May 2nd, 1865, II.27) he is simply annoyed that the narrow limits of his concession have not been understood, and (letter to Milnes Edge, of Chicago, February 26th, 1886, II.57) that its authority has been invoked in the case of the United States, a country not "new" at all. But in his letter to

G. K. Holden, of New South Wales, he despairs of seeing his reservations and conditions regarded, and says, roundly, that in Australia he would not resist any form of Protection whatsoever (July 5th, 1868, II.116). Finally, in a letter to A. Michie, of Victoria (December 7th, 1868, ib. p. 149), while admitting there may be a chosen few that desire only his limited Protection with all his limits, he sees a far more general inclination to adopt "the general theory of Protection on the old ignorant grounds," supported by the old fallacies and appeals to the "stupidest authorities." It seems to him that private interests would combine, as in the United States, to make a temporary expedient into a permanent institution. Therefore, he is now inclined to recommend instead of a temporary duty, an annual grant from the public treasury—in fact, a bonus or bounty. He repeats this conclusion in a letter "to a Minister of New Zealand" (December 11th 1868, ib. 154), and to A. M. Francis, of Brisbane (May 8th, 1869, ib. 200).

The Broadside prints the following excerpts from some of the letters above referred to:

To Henry Soden, of Melbourne.

"Avignon, May 2, 1865.

"I never for a moment thought of recommending or countenancing, in a new colony more than anywhere else, a general Protective policy, or a system of duties on imported commodities, such as that which has recently passed the representative assembly of your colony. What I had in view was this: If there is some particular branch of industry not hitherto carried on in the country, but which individuals or associations, possessed of the necessary capital, are ready and desirous to naturalize; and if these persons can satisfy the legislature that, after their work-people are fully trained and the difficulties of the first introduction surmounted, they shall probably be able to produce the article as cheap, or cheaper, than the price at which it can be imported, but that they cannot do so without the temporary aid either of a subsidy from the Government or of a Protecting duty, then it may sometimes be a good calculation for the future interests of the country to make a temporary sacrifice by granting a moderate Protecting duty for a certain limited number of years—say ten, or, at the very most, twenty, during the latter part of which the duty

should be on a gradually diminishing scale, and at the end of which it should expire. You see how far this doctrine is from supporting the fabric of Protectionist doctrines, in behalf of which its aid has been invoked."

To F. Milnes Edge, London representative of the Chicago Tribune.

"Blackheath Park, February 26th, 1866

"I have to acknowledge a letter from you, dated February 15th, asking me to explain a passage of my 'Principles of Political Economy,' in which I express the opinion that a Protecting duty, for a limited space of time, may be defensible in a new country as a means of naturalizing a branch of industry in itself suited to the country, but which would be unable to establish itself there without some form of temporary assistance from the State. This passage, you say, has been made use of by American Protectionists as the testimony of an English writer on political economy to the inapplicability to America of the general principle of Free Trade. The passage has been used for a similar purpose in the Australian colonies, erroneously, in my opinion, but certainly with more plausibility than can be the case in the United States, for Australia is really a new country, whose capabilities for carrying on manufactures cannot yet be said to have been tested; but the manufacturing parts of the United States—New England and Pennsylvania—are no longer new countries; they have carried on manufactures on a large scale, and their operations have had full time to acquire the manufacturing skill in which those of England had preceded them; there has been ample experience to prove that the inability of their manufactures to compete in the American market with those of Great Britain does not arise merely from the more recent date of their establishment, but from the fact that American labour and capital can in the present circumstances of America be employed with greater return and greater advantage to the national wealth in the production of other articles. I have never for a moment recommended or countenanced any Protecting duty except for the purpose of enabling the protected branch of industry in a very moderate time to become independent of Protection. That moderate time in the United States has been exceeded, and if the cotton or iron of America still need Protection against those of the other hemisphere, it is in my eyes a

complete proof that they ought not to have it, and that the longer it is continued the greater the injustice and the waste of national revenues will be."

To Archibald Michie, of Victoria.

"Avington, December 7, 1868.

"Industries artificially fortified, even though it be professedly for a time only, raise up private interests which combine, as they have in the United States, but too effectually to convert what was intended as a temporary expedient into a permanent institution (though the thick end of the wedge seldom follows the thin end at so short an interval as three years). These considerations have greatly shaken the opinion I expressed in my book; and though I still think that the introduction of a foreign industry is often worth a sacrifice, and that a temporary Protecting duty, if it was to remain temporary, would probably be the best shape in which that sacrifice can be made, I am inclined to believe that it is safer to make it by an annual grant from the public treasury, which is not nearly so likely to be continued indefinitely, to prop up an industry which has not so thriven as to be able to dispense with it.

To a Minister of New Zealand.

"December 11, 1868.

"I am now much shaken in the opinion, which has so often been quoted for purposes which it did not warrant, and I am disposed to think that when it is advisable, as it may sometimes be, to subsidize a new industry in its commencement, this had better be done by a direct annual grant, which is far less likely to be continued after the conditions which alone justified it have ceased to exist."

CITATIONS FROM MILL.

(Key Numbers ##4, 7 & 10.)

The following quotations from John Stuart Mill on Political Economy are those referred to in the Brief for Free Trade, published in the last number of the Broadside. They are reprinted here in fulfillment of our promise in the last Broadside to place eventually within popular reach all of the materials necessary for a complete argument for Free Trade:

#4. The kind of tax which comes under the general denomination of a discriminating duty, transgresses the rule that taxes should take as little as possible from the taxpayer beyond what they bring into the treasury of the State. A discriminating duty makes the consumer pay two distinct taxes, only one of which is paid to the government, and that frequently the less

onerous of the two. If a tax were laid on sugar produced from the cane, leaving the sugar from beet-root untaxed, then in so far as cane sugar continued to be used, the tax on it would be paid to the treasury, and might be as unobjectionable as most other taxes; but if cane sugar, having previously been cheaper than beet-root sugar, was now dearer, and beet-root sugar was to any considerable amount substituted for it, and fields laid out and manufactories established in consequence, the government would gain no revenue from the beet-root sugar, while the consumers of it would pay a real tax. They would pay for beet-root sugar more than they had previously paid for cane sugar, and the difference would go to indemnify producers for a portion of the labor of the country actually thrown away, in producing by the labor of (say) 300 men, what could be obtained by the other process with the labor of 200.

One of the commonest cases of discriminating duties is that of a tax on the importation of a commodity capable of being produced at home, unaccompanied by an equivalent tax on the home production. A commodity is never permanently imported unless it can be obtained from abroad at a smaller cost of labor and capital on the whole than is necessary for producing it. If, therefore, by a duty on the importation, it is rendered cheaper to produce the article than to import it, an extra quantity of labor and capital is expended, without any extra result. The labor is useless and the capital is spent in paying people for laboriously doing nothing. All custom duties which operate as an encouragement to the home production of the taxed article are thus an eminently wasteful mode of raising a revenue.

This character belongs in a peculiar degree to custom duties on the produce of land, unless countervailed by excise duties on the home production. Such taxes bring less into the public treasury, compared with what they take from the consumers, than any other imposts to which civilized nations are usually subject. If the wheat produced in a country is 20,000,000 quarters, and the consumption 21,000,000, 1,000,000 being annually imported, and if on this 1,000,000 a duty is laid which raises the price ten shillings per quarter, the price which is raised is not that of the 1,000,000 only, but of the whole 21,000,000. Taking the most favorable, but extremely improbable supposition, that the importation is not at all checked, nor the home production enlarged, the State gains a revenue of only £500,000, while the consumers are taxed £10,500,000, the £10,000,000 being a contribution to the home growers, who are forced by

competition to resign it all to the landlords. The consumers thus pay to the owners of the land an additional tax, equal to twenty times that which he pays to the State. Let us now suppose that the tax really checks importation. Suppose importation stopped altogether in ordinary years, it being found that the 1,000,000 quarters can be obtained, by a more elaborate cultivation, or by breaking up inferior land, at a less advance than ten shillings upon the previous price—say, for instance, five shillings a quarter. The revenue now obtains nothing, except from the extraordinary imports which may happen to take place in a season of scarcity. But the consumers pay every year a tax of five shillings on the whole 21,000,000 quarters, amounting to £5,250,000. Of this the odd £250,000 goes to compensate the growers of the last 1,000,000 quarters for the labor and capital wasted under the compulsion of the law. The remaining £5,000,000 goes to enrich the landlords as before.

#7. Taxes on necessities must have one of two effects: Either they lower the condition of the laboring classes, or they exact from the owners of capital, in addition to the amount due to the State on their own necessities, the amount due on those consumed by the laborers. In the last case the tax on necessities, like a tax on wages, is equivalent to a peculiar tax on profits; which is, like all other partial taxation, unjust, and is specially prejudicial to the increase of the national wealth.

#10. In countries in which the system of Protection is declining, but not yet wholly given up, such as the United States, a doctrine has come into notice which is a sort of compromise between free trade and restriction, namely, that protection for protection's sake is improper, but that there is nothing objectionable in having as much protection as may incidentally result from a tariff framed solely for revenue. Even in England, regret is sometimes expressed that a "moderate fixed duty" was not preserved on corn, on account of the revenue it would yield. Independently, however, of the general impolicy of taxes on the necessities of life, this doctrine overlooks the fact that revenue is received only on the quantity imported, but that the tax is paid on the entire quantity consumed. To make the public pay much that the treasury may receive a little, is not an eligible mode of obtaining a revenue. In the case of manufactured articles the doctrine involves a palpable inconsistency. The object of the duty as a means of revenue is inconsistent with its affording, even incidentally, any protection. It can only operate as protection in so far as it prevents importation; and to whatever degree it prevents importation, it affords no revenue.