THE AMERICAN SYSTEM, OR THE EFFECTS OF HIGH DUTIES ON IMPORTS DESIGNED FOR THE ENCOURAGEMENT OF DOMESTIC INDUSTRY

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AMERICAN SYSTEM,

OR THE

EFFECTS OF HIGH DUTIES ON IMPORTS

DESIGNED FOR THE

ENCOURAGEMENT OF DOMESTIC INDUSTRY;

WITH

REMARKS ON THE LATE

ANNUAL TREASURY REPORT.

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THE AMERICAN SYSTEM.

The great source of a nation's wealth, is the industry of its population. The policy which secures to industry the highest rewards, tends most directly to promote the national prosperity. This truth is so obvious, that it has led to the impression, that the free importation of foreign goods, of a kind which might be made at home, diminishes the wealth of the country, by depriving the domestic artisan of the money paid for the goods imported.

The first object of these remarks will be to show that this impression is erroneous, and that the doctrine so confidently maintained, that a system of high duties, designed to diminish or prohibit the importation of foreign commodities, and to secure the consumption of those of domestic manufacture, tends to encourage, promote, or reward, domestic industry in general, or to encourage one branch of industry to any greater degree than it discourages others, is founded in false principles, and rests upon an imperfect view of the operations of trade.

The rewards of industry are not necessarily in proportion to the amount of money in which they are paid, but they are in proportion to the amount of articles of utility or luxury which that industry produces. If the quantity of money in the country were so reduced, and the difficulty of procuring it so increased, that one dollar would purchase as much of every description of saleable property, and of all kinds of labour and service, as two dollars will at present, and if all debts, stocks, rents etc. were reduced in the same proportion, all other property remaining the same as it now is, it could not be said that the country at large, or any individual in it, was poorer for this reduction. Money does not constitute the wealth of a country. It is merely the instrument by which property is transferred from one person to another, and that which we hold in possession, when we part with property, as the means by which we may regain other property of equal value. Or if money is to be considered as property, its value is determined solely by the amount of other property which it will command. It will therefore be obvious, that it is necessary to consider the effect of protecting duties, upon the *value* of money in the country, as well as upon its *amount*.

We are led into an error by regarding money as the great and exclusive object of acquisition. It is sought in all commercial operations, because it is the instrument of purchasing every thing else that is saleable; but the ultimate object is to acquire the power of procuring at pleasure, the greatest amount of articles of utility. If money is imported, in the natural course of a free trade, it enriches the country, because on being thrown into the circulation, it will remain there if demanded for that use, or it will go abroad, at the option of its possessor, for the purchase of whatever else may be esteemed of greater use. In such case, whether it remains here or is re-exported, there will be no very sensible change in its relative value, compared with other commodities. But if it is forced hither, by the imposition of high duties on imported goods, so that its equivalent in other property cannot be introduced into the country, but by the sacrifice of a material portion of its value, or if it is retained here, by the same restrictions on the importation of whatever might be purchased by it abroad, it is manifest that it is deprived of a portion of its exportable value, and that the tendency will be for it to remain here, and to increase, in a certain degree, the amount of the circulating medium of the country. This increase however soon finds its limit, and it is purchased at the cost of a proportionate diminution of its value, so that it cannot be regarded as an increase of the national wealth. As a measure of the value of property in transactions between individuals, money is necessarily regarded as the only criterion. But it is obvious that this standard is imperfect, and that parties occasionally lose or gain, by its fluctuations. This is a contingency, of which in ordinary contracts they take the hazard. But in making an estimate of the wealth of a nation, as affected by any particular system of policy, we shall come to a very uncertain result, if we assume that the currency is always at the same standard. It may happen that a great apparent change, in the amount of the national wealth has been solely effected by a change in the standard by which it is increased. If it were true that the price of the articles of property possessed by a nation formed a just criterion of its wealth, it would follow that in years of the greatest scarcity, when the prices of produce are highest, there would be the greatest increase of national wealth. Whereas it is obvious that in years of the greatest production, when in consequence of the abundant supply prices are low, there must be the greatest augmentation of property.

We have remarked that industry is best stimulated, by securing to it the highest rewards. But in what manner can the highest rewards be secured, to the industry of the whole country? It is by securing to every department of labour and skill, not merely the greatest return in money, but so much money as will procure for the labourer, the greatest amount of those articles which are necessary for his subsistence and comfort. If by a particular system of policy a higher compensation is secured to the industry of one portion of the inhabitants, and a corresponding burden is imposed on another portion, by an increased price of the necessary articles of consumption, this policy does not increase the national wealth, because what is gained by one class of individuals, is lost by another. It is now universally admitted, that to fix prices by law, and to require purchasers of any article to give more for it than the price which is determined by the free competition of those who have the article to sell, is bad policy; for the value of the property of the purchaser is diminished, by his being precluded from exchanging it freely, for what he may wish to acquire instead of it, in the same proportion as that of the other is enhanced by the arbitrary legal price; and a positive loss is sustained in the restraint thus put upon trade, while nothing is gained by the attempt to give an artificial value, by the protecting laws. So also it is found to be bad policy to increase the amount of money in a country, by debasing its standard, for although by such a process it is made easier to acquire a given nominal amount, the actual value is not increased; and the effect of the change, is only to defraud those who receive the debased currency as equivalent to the pure, for the benefit of those who have the privilege of paying in that which is depreciated, and of the government which makes the depreciation. Similar effects are also produced, by the various schemes for forcing into circulation an unsound paper currency. The ultimate effects are acknowledged by all men of sense to be injurious to the public. These expedients, nevertheless, serve to produce a nominal increase of prices, both of labour and of commodities, and the nominal value of all property; but such an increase of the nominal price of labour, cannot be considered an increased reward of industry.

If the quantity of money in the country is greatly increased, by the prohibition to import foreign goods, in exchange for domestic produce which is exported, or by heavy duties on imports, the effect on prices, both of labour and of commodities at home, is somewhat analogous to what would be produced by the debasement of the coin, or an excessive issue of a paper currency. The real wealth of the country is not increased in proportion to the nominal value of its property. A given sum of money is rendered less valuable by this policy, because it cannot bè exchanged for commodities, according to its value in other countries, or according to what would be its value at home but for this system of policy. When therefore we talk of protecting domestic industry, by laying burdens on the importation of foreign goods, it should be considered that the higher price thus secured to the domestic labourer or artisan, is not absolutely higher in proportion to the nominal increase of price, because in the hands of this labourer, a given sum of money is less valuable than it would be, if this system of protection did not exist.

When a country, like ours, has great natural resources, and is capable from the vast extent of its productive soil, of affording with a moderate degree of labour, a large amount of valuable produce for exportation, to countries which do not possess similar resources, such a country presents, of all others, the greatest advantages for carrying on a profitable trade; because the bounty of nature co-operating with the industry of its inhabitants, furnishes with a much more plentiful hand the products which may be exchanged, for the fruits of bare labour and ingenuity, than the industry and skill of man alone could afford them, if unaided by these natural advantages. This reason alone would make the price of labour higher in such a country, than in a part of the world where it could not be exerted with the same success. But if the proceeds of the produce so exported, could be freely returned, in the manufactures of a country where labour produces a less amount of useful commodities, and consequently is cheaper, the money paid for labour here, would have a value equal to what it would possess in foreign countries, and the reason which we have mentioned above, for a still further nominal increase of the prices of labour, would not exist. But so long as money is robbed of a portion of its value by the prohibition to import foreign commodities, unless with the payment of burdensome duties—so long as the purchaser in this country is not permitted to go with his money into the great market of the whole world, but is confined to the comparatively small market of this country, where for the reason specified a great portion of the industry of the country is employed in producing those articles for which the natural advantages of the country afford peculiar facilities, and where in consequence labour will command a higher price—it is apparent that all articles, which are the fruit of labour, must be higher—not only articles which but for the duties would be imported, but all others. In other words, money, for all purposes, is of less value in the country, in consequence of the restrictions on importation.

If there be any doubt of this position, we will endeavour to prove it by a familiar illustration. We will suppose an individual to enjoy an annual income of $600, which he wishes to expend in the best manner for the subsistence and comfort of his family, by purchasing articles best suited to his purpose, either imported or of domestic origin. If we suppose in the first place that there is a free importation of foreign goods, he will purchase indifferently those of foreign, or of domestic origin, as either can be furnished of the best quality, or at the lowest price. It is obvious that