

# **FREE TRADE AND ENGLISH COMMERCE**

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Free Trade and English Commerce by Augustus Mongredien

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**AUGUSTUS MONGREDIEN**

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BY  
AUGUSTUS MONGREDIEN.

*4th ed.*



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# FREE TRADE AND ENGLISH COMMERCE.

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## CHAPTER I.

### INTRODUCTORY.

It is intended in the following pages to take a short review of the present position of the free trade question in respect to the world at large, and especially in respect to the commerce of England. Such an inquiry might be useful, and perhaps interesting, at any time, but now, when commerce is abnormally depressed, and when it is a moot point how far that depression is connected with our free-trade policy, it becomes an important and urgent one.

It is proposed, in the first part, to show the bearings of free trade on the commerce and industry of nations generally; and in the second to examine into the real causes of the present condition of English commerce, and ascertain to what extent, if any, it may be ascribable to the operation of free trade.

The subject will be treated from a practical and popular point of view, its technical and scientific aspect having had ample justice done to it by Professor Fawcett and others. In matters of this kind, where the practical application of scientific conclusions depends on the action of men laboriously engaged in political or mercantile pursuits, who have little time to devote to the study of abstract questions, it is necessary to place the subject before them in the most direct and concrete form, and to appeal to demonstrable facts and undeniable figures, in order to arrest



their attention and obtain their assent. Still more necessary it is to treat the subject in a popular manner, in order to secure a hearing from the mass of the public, who, not unnaturally, shrink from the study of dry works on Political Economy.

Neither is it necessary to study Political Economy as a science in order to arrive at a definite conclusion as to the principle of free trade. The question narrows itself into a few simple issues, on which plain common sense is quite competent to deliver a verdict.

We propose, in the first part, to show—

1. That balances due by one country to another are paid directly or indirectly in commodities, and not in specie, unless occasionally and to an insignificant extent.

2. That, consequently, for every export of goods that is not sent to pay a previous debt there must be an import of goods to the same amount; and, *vice versa*, for every import of goods that is not received in liquidation of a previous debt there must be an export of goods to the same amount.

3. That all artificial limitation of imports necessarily limits exports to the same extent; that it curtails foreign trade, neutralises the benefits of division of labour, and displaces labour and capital from productive into unproductive channels of employment.

4. That various other inconveniences and disadvantages result from the curtailment of foreign imports and the restriction of commercial intercourse between man and man.

To revert to the first proposition: a slight consideration of the actual course of events as they occur under our own eyes, shows that the precious metals play a very small part indeed in the payment of debts between nation and nation. Hardly any specie changed hands in the payment of the enormous French indemnity to Germany; or in the transmission of the £400,000,000 or so which we lent to foreign countries in the years 1871, 1872, and 1873; or in the settlement of the £230,000,000 which we imported in ex-

cess of exports during the last four years, 1875 to 1878. The ebb and flow of bullion is on a scale far too minute to do much towards the settlement of international accounts. A country rarely possesses much more or much less specie than is needed for the purposes of currency and of the arts ; and never exports specie so as to trench, beyond a trifling extent, on the amount required for circulation. On the other hand, a country never retains much of the specie that is in excess of its circulation requirements. In the first case a comparatively small withdrawal of gold raises the rate of interest, lowers the price of goods, discourages importation and encourages exportation, so that the balance is soon restored. In the second case the redundant specie that remains after the wants for circulation are supplied lowers the rate of interest, raises prices, checks the outflow and attracts the influx of merchandise, and finds its way abroad, where its value is greater. This is constantly being exemplified by the action of the Bank of England. When it is wanted to attract a few millions of gold from abroad, the rate of interest is raised, and it flows in ; when the stock becomes redundant, the rate of interest falls, and the surplus beyond circulation requirements gradually disappears. The amounts which turn the scale are comparatively trivial. So sensitive is the money market, that three or four millions abstracted from or added to the currency are quite enough to depress or to raise the rates of interest sufficiently to produce a counterbalancing effect either way. And yet there are people who fancy that the balances owing to us, or by us from and to foreign nations are paid in specie ! Last year (1878) we imported from abroad £63,000,000 in excess of what we exported. To send abroad that amount in specie, or one-half of it, or even one-quarter of it, would have been simply an impossibility.

Specie tends, like water, to find its level everywhere, the standard being the circulation requirements of each country. When short of that, its value is raised ; when in excess of it, its value falls, and it flows in or flows out of the country in proportion. It is under the operation of this law that

inconvertible paper money drives bullion out of a country. If its circulation requirements be partly supplied by paper money, less specie is wanted, and as a country does not long retain specie in excess of its circulation requirements, the precious metals (of course not the paper) are sent abroad where they are in greater demand and of greater value. If not a part but the whole of the circulation requirements be provided for by inconvertible paper money, then the whole of the specie (except perhaps a little hoarded here and there) will disappear.

If it be admitted that no diminution of, or increase to, the amount of specie required for the circulation of a country can be otherwise than both trifling and temporary, it follows as a necessary consequence, that "balances due by one country to another are paid directly or indirectly in commodities and not in specie, unless occasionally, to an insignificant extent."