

John A. Hobson

THE
NATIONAL REVIEW.

No. 97.—MARCH, 1891.

CAN ENGLAND KEEP HER TRADE?

TWELVE years ago the manufacturers of Lancashire were agitating for the abolition of the tariff upon cotton goods imported into India. This tariff was abolished in 1880. The same manufacturers are now crying out for a Factory Act to regulate hours of labour, and to impose other restrictions upon native producers in India.

The Bombay and Calcutta mills, we are told, are reproducing all the worst iniquities which disgrace the early history of our English factory system. Nothing is more likely. But the motive which is inducing our Lancashire producers to their urgent request for legislative protection is not a spirit of disinterested philanthropy. It is a well-founded fear of Indian competition. The industrial growth of India during the last fifteen years deserves more than a passing recognition. Her imports in 1888 amounted to more than £65,000,000, nine-tenths of which were English goods. India is, in fact, the largest market which English manufacturers possess, and as Sir R. Temple significantly remarks, "next after that of China, is also the greatest they could possibly obtain in the present condition of the world." They are by far the largest purchasers of our cotton goods, hardware, and machinery, and wrought metal of every kind.

One-third of our shipping trade is with India. A great part of this enormous trade is the growth of the last fifteen years. The import of cotton goods into India rose from £18,760,000 in 1879 to £28,674,000 in 1886. The growth of exports has kept pace with the import trade, amounting in 1888 to £90,000,000. It is to the nature of this export trade, and of the general commercial development of India that our chief attention is due. The great wheat export trade of India is a thing of the last twelve years; the quantity we now take from India is more than five times what we took ten years ago.

To the eyes of the British merchant this is entirely as it should be. India should be, for all eternity, a huge field for the growth of grain and cotton to be exported to England and paid for in manufactured goods. What arrangement can be more simple and delightful!

But how if it be not the eternal destiny of India to provide us with cheap grain and raw material of manufacture? Why should not India manufacture for herself what she wants, and keep her grain to feed her toiling millions? Sir John Strachey, in his recent book on India, tells us "The expansion of trade has been more rapid in India during the last ten years than in any other country of the world. Between 1873 and 1884 the foreign trade of Great Britain was stationary, and even suffered a slight diminution; the trade of France and of Germany increased by about 7 per cent., and that of the United States by 21 per cent., while the increase was 60 per cent. in India."* Of this increase the growth of manufactures has been rapid and persistent. Between 1876 and 1886 the number of mills and factories in India had nearly doubled. It is estimated that the Indian cotton factories now represent a capital of more than £10,000,000. In 1876 there were only fifteen mills at work in the Bombay Presidency; there are now seventy-two, and ten more are said to be in process of construction. An important foreign trade in manufactures has sprung up with China and other Asiatic countries. In 1876 this trade was estimated at £1,000,000; in ten years time it had risen to £4,200,000. It is now an admitted fact that India is supplanting England in the Asiatic market. In spite of the repeal of import duties on manufactured cotton goods, the native manufactures have doubled within the last eight years. The exports of cotton goods from the United Kingdom to China and Hongkong showed a slight falling off in 1887, as compared with 1880, while Indian exports during the same interval had multiplied threefold. But the most significant figures are those recently published by the Board of Trade. In May 1890 no less than 12½ per cent. of Indian exports consisted of partly or wholly manufactured goods, while the same return shows an absolute decline in the imports of manufactured goods from Great Britain as compared with the previous year. A comparison of imports and exports of yarns and textile fabrics between 1889 and 1890 shows a slight diminution in imports from England and a slight growth in exports from India, which clearly indicates a turn in the balance of trade. The same tables establish the fact that while the total imports into India are almost stationary, the total exports show an expansion of 12 per cent.† Further evidence of the growth of native cotton

* *India*, by Sir J. Strachey, K.C.B.

† *The Board of Trade Journal*, September 1890, p. 382.

manufacture is afforded by the diminished export of raw cotton to England, which shrank from £5,884,985 in 1884 to £3,063,002 in 1888.

From these facts, and many others, it is evident that India is learning to manufacture for herself, and is already able to compete successfully with England in neighbouring Asiatic markets.

Now, the first question which suggests itself is this, How has India been enabled so lately to develop this industrial energy ?

The answer is not far to seek. The whole of this commercial development is the direct product of English capital and English enterprise. We have laid more than sixteen thousand miles of railway, and nearly thirty thousand miles of telegraph ; we have rendered navigable large pieces of the Ganges, Brahmaputra, and a dozen other rivers, laid metal roads, and assisted in the making of twenty thousand miles of canals ; we have opened supplies of coal and iron in different parts of the country ; railway plant and rolling-stock still form the most rapidly increasing form of imported manufacture. We have not merely sent over our machinery and taught natives how to use it, but we have stimulated the native manufacture of machinery to such an extent that, as we now see, the import of English machinery seems likely to be checked. In a word, it is capital owned and directed by an English Government and English private companies which is laying the solid foundations of the manufacturing future of India.

Since we already see that Bombay and Calcutta factories, manufacturing piece-goods on English models with English machinery, are able to oust us from Asiatic trade, it is not unreasonable to ask whether they may not in time be able to drive us from other markets, and eventually to take our place as the first manufacturing nation of the world. In a word, may we not be raising up a rival who will better our instruction and take our place ? The fanatical Free-trader, jealous for his fetish, no doubt sniffs economic heresy in the very use of the term "rival" to express an industrial competitor. We can, he thinks, have nothing to fear but everything to gain from the commercial success of other nations. Well, this is an amiable and pleasant doctrine to hold, but let us look at it for a moment in the light of recent English history.

If we look at the internal history of England during the last century and a half, we shall see a widespread and strongly marked disturbance and re-settlement of industry attesting the operation of the forces grouped together under the name of the industrial revolution. At the close of the seventeenth century the largest cities, after London, were Bristol, Norwich, York, and Exeter, and the most thickly-populated counties after Middlesex and Surrey were Gloucestershire, Somerset, and Wilts, the manufacturing district

of the West, Northamptonshire and Worcestershire, the seat of the Midland manufacturers, and the agricultural counties of Hertfordshire and Bucks. The great commercial cities of to-day, Liverpool, Manchester, Birmingham, Leeds, and Sheffield were all of them towns with a population of a few thousands each.

So far as the balance of trade between the different districts of England is concerned, the industrial development of the last century and a half has wrought a complete revolution. The five most populous counties outside the Metropolitan area are Lancashire, Durham, Stafford, Warwick, and the West Riding. In 1700 none of these ranked amongst the first ten. It is needless to ask what the cause of this mighty change has been. Superior economy in the arts of production, due principally to an easier access to supplies of coal and iron, have brought these localities to the fore. It is free competition among the different districts of England that has led to a growing concentration of trade on those spots possessed of the greatest natural economic advantages.

Now, if the spirit of effective free competition works such potent changes within the narrow limits of our little island, depleting some districts of their industry and population in order to enrich and render populous other districts, what prodigious changes may we not expect when the same forces are operating with equal effectiveness over the wider range of the British empire, or even of the whole commercial world? May we not expect the same rapid rise and fall of the commercial importance of countries which we have seen in the counties of England. Is it absurd to suppose that England herself may sink, like Norfolk or Huntington before the power of some vast new Lancashire? Is it so grossly improbable that India might become the Lancashire of the British Empire, or even perhaps with China become the workshop of the world? The problem is essentially a new one, for the conditions of effective world-wide competition are only beginning to be realised. The new creation of steam-driven machinery, the material embodiment of the industrial revolution, has scarcely touched the huge countries of the East, and even in the West its full working has not been felt outside the narrow limits of a few leading nations.

Race, language, inherited prejudices, ignorance, timidity, inadequate communication, have furnished a formidable barrier to the free operation of commercial competition outside the limit of the nation which is being but gradually broken down.

In order to master the true meaning of the movement, we must look not at the international exchange of products, commonly known as foreign trade, but rather at the international transfer of capital and labour. It was the movement of capital and labour in

search of the most advantageous field of investment which caused the new settlement of English commerce. It is to this movement that we must directly confine our attention, if we would understand the wider disturbance which the new spirit of industry is likely to create in order to effect a new world-wide settlement.

Capital always tends to attach itself to the cheapest labour to be found within its field of investment. Until quite recent times, this field of investment was in almost all cases practically confined to the country in which the capitalist lived. Except in rare instances, capital was not to be trusted outside the limit of effective personal supervision. The gradual breaking down of international barriers to trade, and the rapid facilitation of means of communication causes a constant expansion of the field of investment, both for capital and labour. The attraction of effective capital and cheap labour for one another is mutual. Thus a mutual gravitation takes place, capital goes out to cheap labour, cheap labour comes in to effective capital. At first capital is heavier and less mobile: the earlier effects of growing international communication is to draw cheap labour to the vicinity of capital; slave-stealing and slave-breeding, free importation of cheap foreign labour, are the natural results of the early operation of free competition outside the nation. But this movement will not and cannot last.

The following forces act as growing checks on the movement of cheap labour to the vicinity of capital:

1. The tendency of democratic government in commercial countries is, against it. First, the importation of slave-labour is prohibited. Next, growing restrictions are placed upon the importation of cheap foreign labour, which have their logical culmination in an alien law pressed upon a democratic government by the large class of enfranchized workers whose interests are directly affected by the competition of the immigrants. The United States and Australia are already far advanced in this policy of restriction, for the problem has come upon them with a dramatic force which forbade that it should be shirked. A few ship-loads of Chinamen emptied into the port of London, would compel the English Government to a speedy policy of similar restriction. It will become more and more difficult for cheap foreign labour to move towards capital.

2. While the international movement of labour, in spite of growing facility of migration becomes more restricted, the movement of capital continually becomes more free. Each year sees it more fluid and more cosmopolitan. Growing knowledge of the world, the spread of secure and responsible government, the power of adequate supervision conferred by the railway, the steam-

ship, the newspaper, and the telegraph, the speculative boldness of modern business, all conduce to this mobility of capital.

Every year sees a larger and larger proportion of new English capital seeking investment in foreign lands, gravitating in ever larger quantities towards the lands of cheap labour. Although no exact statistics on the subject are available, it seems likely that about £150,000,000, some 12 per cent. of the total annual income of this country, is already derived from foreign investments.

Even if no legislative restriction were placed upon the flow of cheap labour, it seems inevitable in the long run that the early current of cheap labour should dry up, and that a reverse current should set in, capital flowing to the lands of cheap labour.

The reason of this is obvious. The cheapness of labour consists in the difference between the nett produce of that labour and the cost of subsisting that labour in accordance with the standard of living in vogue among the labourers. Chinese and Indian coolies cannot live and work so cheaply in America, Australia, or England, as in their own countries. Thus, other things being equal, it will pay capital best to employ labour in that country where it can be subsisted most cheaply. At first, other things are not equal; capital is timid and will not move, hence labour is, for a time, drawn into countries where it is subsisted less cheaply than at home. The growing venturesomeness of capital is sufficient of itself to overcome this tendency. English and American capital must in the long run find their employment in countries where life can be most cheaply supported. Indian and Chinese labour will be found, in fact, to be cheaper when occupied in India and China than elsewhere.

In a word, capital must gravitate towards the localities where life is most easily sustained. It is now, perhaps, time to deal with the objection which takes the form of the question: Is Indian labour really cheapest? Will the nett advantage of employing Eastern labour be really great enough to draw capital from employment in England? Though Indian wages may be 3d. and English wages 3s. per diem, it is conceivable that English labour, assisted by the local advantages of more effective organization and readier supply of capital, should be more than twelve times as productive as the other. This may be so, and may continue to be so. We cannot dogmatize. If English labour does continue to be twelve times as effective as Indian labour, we have nothing to fear. But curiosity will still prompt us to put the question: Are we justified in supposing that the full superiority of English labour will be maintained?

Examining the subject in cool blood, must we not rather look forward to a time when the difference in effectiveness of English

and Indian labour will be so much diminished that our English labourer will no longer be equal to twelve Hindoos, but only to two. For we must never forget that the relative effectiveness of labour at present is much more due to the advantages in organization, and communication, and easy supply of machinery and steam-power than to the actual difference in quality of labour-power in the English and Indian labourer. That the Englishman, both in physical strength, acquired skill, intelligence, and *morale*, is superior to the Hindoo no one will question; but that this superiority is rightly measured by the difference in wages between 3d. and 3s. is not for one moment to be maintained. This being so, all our efforts to civilize India, to teach her the arts of industry, to develop her factory system by the application of English capital and enterprise, to economize the industrial forces of the country by improved communications, and lastly to open up the vast hidden supplies of coal and iron she possesses, will end by making Indian labour much more effective than it has been in the past.

What will be the consequence of this growing effectiveness of Indian labour? Let us assume that, by education and improved economy of organization, Indian labour can be raised to half the effectiveness of English labour, what effect will the progress have on English industry? If English wages remained at 3s. while Indian wages stood at 3d., every rise in effectiveness of Indian labour would exercise a more powerful attraction upon English capital, which would flow with ever-growing facility to the land of most profitable investment. This movement of capital would signify a diminishing demand for English labour, and an increasing demand for Indian labour. Therefore Indian wages would begin to rise and English wages to fall. As Indian labour became more and more effective, and English capital increased in mobility, this double process would go on with ever quickening pace. Assuming an absolute fluidity in capital, it would not cease until an exact equation of productive power, relative to wages, was reached; that is to say, assuming that no improvements could make Indian labour more than half as effective as English labour, the rise of Indian wages and the fall of English wages would proceed until the former rose from 3d. per diem to, say, 9d., while the latter fell from 3s. to 1s. 6d. If English labour were in fact equally fluid with English capital, it would follow every movement of the latter. Assuming the perfect indifference and adaptability of the "economic" man as he appeared in the text-books of Ricardo and his followers, every migration of English capital to a land of cheaper labour and higher profits would draw after it a corresponding migration of English labourers. Just as the economy of centralized production in Lancashire, Staffordshire,

and in the large cities of England, has drained the population of neighbouring agricultural districts, so the economy of production on Indian soil would draw the labouring population from England. If labour must in the long run follow capital, and if capital naturally seeks investment in localities where life is most easily sustained, then these lands of cheapest sustenance must, in the long run, be the centres of thickest population, and form the workshop of the world. The ideal of free trade in capital and labour would map out the habitable world according to nett effectiveness of labour, and would localize capital and labour in exact proportion to the grades of effectiveness in the various localities. Thus the capacity for the production of material forms of wealth would ride roughshod over all the higher purposes of life, distributing mankind not according to the requirements of moral and intellectual advance, or even of aggregate physical well-being, but according to that method of division which was conducive to the largest nett aggregate of wealth.

This ideal, like most ideals, may never be reached, for it assumes a perfect fluidity of both capital and labour. So far as capital is concerned, we can see no limits to the increased fluidity. But labour is in the long run much less mobile. Local attachments are so strong that a very substantial gain is required to induce emigration even to localities where the conditions of life are not widely different from those of the native land. But local attachment would not be the chief barrier in such a case as we are contemplating. The deepest difference in the flexibility of capital and labour lies in the definite character of the latter. Capital is protean, it can assume any shape, and live in any climate; labour, embodied in human shapes, is subject to limitations of climate, health, food, &c., which render its adaptation to a new local environment very slow. Though the wages in India rose to double the English standard, the migration of English labourers would be very slow. It would probably be easier to learn to live on lower wages at home than to adapt life to an Indian or Chinese environment. Thus the rapid development of Asia would, at any rate for a long time, enable Asiatic labour to gain at the expense of European labour.

But slow, though none the less sure, would be migration of labour along the line of least resistance, following the movements of capital, to the lands of cheapest subsistence. For though the fluidity of capital grows much more rapidly than the fluidity of labour, it must be recognized that the decay of customary, political, and commercial restraints, the growth of knowledge and of facility of communication, which belong to the spirit of modern times, increase the adaptability of labour.

The "economic" man who, as capitalist, places his capital wherever it finds cheapest labour, as labourer, seeks the spot where the supply of capital is largest and that of labour smallest, is not a mere foolish myth, as modern writers sometimes tell us; he is the business man of the future, the ideal which modern industrial conditions are seeking more and more to realise.

With these conditions we have got to reckon. It is a vital question for England. If we leave both capital and labour free to enter and leave England as they choose, we must be content to look forward to a not distant future when this capital will find its most profitable investment outside England, leaving English labour to starve, and, driven by starvation, to follow reluctantly in the track of migrating capital. If by this time the unity of the British Empire has become so vigorous a reality to us that we view the shift of trade and population from England to India or Egypt with the same indifference with which we have seen the rise of Lancashire and the decline of Huntingdonshire, we may await with philosophic complacency this working out of economic forces.

It would, however, be safer in so educating our sentiments not to confine our sympathies too closely to the limits of the British Empire, for though it has been convenient to illustrate cosmic movements in trade by a stress upon the competition of England with India, it would not do for us to assume that India, supposing her economic advantages sufficed to secure her the industrial supremacy, would be competent to hold it against the natural advantages of China or a developed Africa. In fact, there would be no guarantee that trade and population should not pass from the British Empire, as we know it now, to lands which lie undeveloped in their natural industrial resources. This economic aspect of the world's history is, of course, no new one. The desire for wealth has been the direct guiding spirit in all the larger migratory movements of history. Driven by the hope of better food or larger trade, races have ever been moving in search of those lands, which relatively to the condition of known productive arts, yielded the largest nett advantages. Why, then, should we disturb ourselves? The large historic movements of race and trade have been so slow that they concern the individual little more than the still slower geologic changes which he knows are ever going on. Well, these movements have been slow in the past; but there is every reason to expect that they will be incomparably faster in the future. The inventions of the last century have broken the continuity of all previous history, so far as the latter might throw light on the pace of modern movements. The rise and fall of nations has been slow in the past because the means of effective competition have

been slow. Effective competition depends on rapidity of communication. If we would understand to what degree we may expect modern movements, whether in political, social, or commercial life, to be more rapid than former movements, we must compare the pace at which men, goods, news, and ideas can travel now with the pace at which they could travel a century ago. Bearing this in mind, it is not wholly unreasonable to expect that an industrial movement which is barely perceptible in its larger outlines to-day may, within a single generation of man, have reached a magnitude which will secure for it a leading rôle in history. If India is really possessed of vast industrial resources which are only beginning to be developed, far less than a generation will be required to enable it to drain English capital, with the effect which we have sketched above. If we are content that the seat of industry and of population should be thus transferred, we shall look on and drift with the rapid current of economic events. If we are not content that England should lose her trade, we shall be driven to a policy of Protection. What the nature of this policy will be should not be misunderstood. Protectionists of to-day are concerned with endeavouring to support home industries by keeping out foreign goods. Such a policy will be wholly inoperative to prevent the emigration of capital. On the contrary, applied to an old country like England, such Protection would encourage the alienation of capital. If we should be determined to defeat the tendency of trade to leave England and seek a land of cheaper subsistence, we shall be compelled to seek some means of placing a prohibitive tariff on the migration of English capital.

The practical bearing of our line of argument may be summed up as follows. The Free Trade doctrine that capital and labour left alone tend to find the most productive employment is quite correct. But this consideration provides no guarantee for the continuance of trade in any particular country, as, for example, England. It also teaches us that in order to maintain the standard of wages of labourers, it will not in the long run be sufficient to check the free immigration of cheap labour from outside. If it be deemed essential that trade should be kept in England, it will eventually become necessary to pass not merely an Alien Law which might be operative as an early palliative, but to establish a policy of prohibitive taxation on exported capital, that is to say, on foreign investments.

The greatest of modern explorers is capital; it passes into the remotest corners of the world, tapping the earth at every point for minerals, testing its fertility and varied capacities of growth, gauging the strength, skill, and adaptability of the inhabitants.

In proportion as the relative industrial advantages of different localities are more widely and exactly known, capital will settle down and occupy itself exclusively on those localities where the nett economic advantages are greatest. Unless England possesses special advantages of soil, climate, position, or race which enable her to play the same part in the free competition of the whole world as she has hitherto played in the restricted competition of a few advanced nationalities occupying the best known bits of earth, she has nothing to hope for in the future of commerce. Her success in the past furnishes absolutely no guarantee for the future. It is, in fact, *primâ facie*, improbable that the free world-wide explorations of capital will leave England in her place of vantage.

If it be not India, it will be some other land of rich soil and easy subsistence which will drain our capital and trade. Should we decline to protect our country against the alienation of capital, and, preferring to let trade take its course, move along with it, another century may see England the retreat for the old age of a small aristocracy of millionaires, who will have made their money where labour was cheapest, and return to spend it where life is pleasantest. No productive work will be possible in England, but such labour as is required for personal service will be procurable at a cheap rate, owing to the reluctance of labour to keep pace with the migration of capital. Thus, without any wild stretch of imagination, we may look forward to a revived feudalism, in which the industrial baron will rule with that absolute sway which wealth must exercise over poverty, the more sentimental or less adventurous menials who shall cling to their old country in preference to following into India, China, or Heaven knows where, the march of emancipated capital.

JOHN A. HOBSON.
