

so that England supplies what was formerly obtained from the United States or elsewhere, the growth of British exports will mean a loss to the Canadian revenue. It is greatly to be desired that a real growth of trade may take place rather than a mere diversion to new channels, or in addition to such diversion. One opportunity for such growth has arisen in the sensational discovery of gold-fields of great extent and unusual richness in the extreme northern parts of the Dominion. If the anticipations of wealth to be extracted from these mines be but partly realised, Canadian trade will receive a very important stimulus.

The one doubtful point remaining is the possible unwillingness of Germany and Belgium to make new treaty arrangements. Our exports to those countries are large and important and, though not elastic, as I showed in a recent article in this journal, it would be a grave misfortune if our diplomatists and those of the countries named failed to arrange satisfactory treaties to replace those about to lapse. The announcement of the denunciation of the old treaties is accompanied by the statement that an invitation to enter on negotiations for fresh treaties was also given to the Governments concerned. It is, perhaps, too much to expect the present hindrances to our exports to these two important neighbours and customers to be reduced. We will venture to hope that the cabinets of Brussels and Berlin will not be too greatly influenced by their protectionist views during the negotiations, that the consciousness of interdependence of import and export trade may prevent the placing of new and more serious hindrances in the way of the former, and that the traditional policy of Great Britain will prevail to leave the latter as unimpeded as now.

A. W. FLUX

SOME ECONOMIC ASPECTS OF THE CUBAN INSURRECTION

ON February 24, 1895, the smouldering embers of an old discontent broke into the flame of open insurrection in the Cuban province of Santiago de Cuba: an apparently insignificant local rising became an organised revolt against the Spanish power, and for more than two years the whole island of Cuba has been abandoned to an internecine insurrectionary war.

Though the great island in the Antilles remained loyal when the rest of Spain's possessions revolted and her mainland empire was lost in the early years of this century, the history of Cuba has not been free from popular risings. The mother country failed to learn the lesson of wisdom in administration. The filibustering effort of the Lone Star Society in 1848 had its sympathisers in sections of the Cuban population, and in 1868 a serious revolt broke out against the Spanish Government which lasted nearly ten years. It became a habit with the Cuban to fly to arms if he felt aggrieved with the Government; the tranquillity which followed the settlement of 1878 was apparent rather

than real,¹ and the present insurrection would have broken out long before it did, were it not for the liberal projects of the Sagasta administration at Madrid.

Without pretending that the origin of the revolt was economic, we believe it can be shown that it drew its strength from the economic conditions ruling in the island at the time of the first outburst. Sugar is the staple industry of Cuba and gives employment to nearly two-thirds of the population. Already² in 1891 a storm was lowering on the horizon owing to the competition of the European bounty-fed sugar, and the protective policy of the United States, which gave no certainty of a fixed market for the annual crop. In 1894 great efforts, resulting in the output of one of the largest crops recorded for the island, were answered by a heavy fall in the price of sugar, which through various violent fluctuations tended downwards to the lowest point it has ever touched. Throughout the West Indies the year closed amid the apprehensions or despair of the sugar planters. Cuba, in spite of well-equipped factories, and its general reputation for enlightened cultivation, was no exception to the rule. "The island,"³ wrote the British Consul, "has suffered immensely from the existing depression. Money is scarce and dear, and planters are at their wits' ends to supply themselves with the funds necessary to carry on operations. Nothing is heard but one wail of complaint from end to end of the island, and the opinion appears to be universal that we have not yet seen the worst." As a consequence wages had declined by about 20 per cent. and large numbers of labourers were thrown out of employment;⁴ the black population became demoralised.

Thus when a somewhat insignificant outburst occurred in one of the chief sugar-growing districts, the agitators or revolutionary leaders who had for years been intriguing against Spain, and were always on the lookout for an opening, found an excellent situation prepared for them: they made ready recruits amongst the unemployed, and by their principal method of attack added almost indefinitely to the mass of unemployed from whom they drew their recruits: for they directed their earliest efforts to stopping all cultivation and manufacture of sugar which they did not themselves sanction; and where the planters did not readily give in to their edict, they burnt the canefields and ruined the factories by dynamite. Many thousands of labourers were thrown out of employment, and for these emigration or revolution were practically the only alternatives.

Doubtless the genuine reformers, of whom two well-defined parties existed in Cuba, were to some extent drawn into sympathy with the revolutionary party, rather because they had so little to hope from the success of the Spanish Government than because they really approved

¹ See Señor Ynsua, in *La Administracion*, vol. iv., No. 31, p. 32.

² *Ibid.*, iv., No. 33, p. 300.

³ Diplomatic and Consular Reports, No. 1524, Spain, 1895, p. 5.

⁴ *Ibid.*, p. 26.

either the methods or the objects of the insurgents. Their countenance was of a negative character. The Spanish Government suffered rather from the loss of their support than from any active help which they accorded Maceo and his troops.

But even as far as the true reform parties were concerned in the rising it had something of an economic motive, and commercial grievances are so closely connected with the continuance of the insurrection that it is worth while to re-state a summary of them which is given in the British Consul's report for 1894.¹ They are all traceable to a single law. The so-called "Law of Commercial Relations" or code regulating the navigation between Spain and the Antilles was unjust, unequal, and irritating, it checked legitimate foreign trade, raised freights, and encouraged a corrupt customs administration. The primary necessity was the removal of the antiquated commercial policy of the mother country.

The Cuban tariff is settled by the Cortes in Spain: it carries three grades or "columns" of import duties; the lowest rate of duty is chargeable only on Spanish products, and operates as a very substantial protection to the manufactures of the mother country, in return for which the Cuban has no special privilege in the markets of Spain; the higher rates of duty are for bargaining purposes in commercial dealings with foreigners: those who treat Spain least favourably or those whom the Spanish Government may for any reason wish to penalise are subjected to the highest rate of duty. Thus in August, 1894, directly the United States reimposed the duty on sugar, the Spanish Cortes issued a decree imposing the highest rate of import duties on all goods arriving from the States. As a large proportion of the imports from the United States is composed of flour and other necessaries of life, the result of this decree was to increase materially the cost of living at a time when a serious commercial crisis had been reached. No wonder the reform party was tempted to dally with any movement which gave hope of deliverance from such a system of finance.

The measures required in place of the obnoxious "*Ley de Relaciones*" were thus enumerated by the Cuban Industrial and Agricultural League of Merchants:—

(1). That Spanish products on importation into Cuba should pay the same tariff of import duties as foreign merchandise, less 40 per cent.

(2). That Cuban products on importation into Spain should pay a moderate instead of a prohibitive duty; and that "free sale" of tobacco should be allowed after customs duties have been paid.

(3). That the customs tariff be reformed both in respect of its "table of values" and its classification.

(4). That raw materials should not pay more than 10 per cent. *ad valorem* on importation, and that machinery for the manufacture of sugar or for railways should pay 6 per cent. on cost price on importation.

¹ Diplomatic and Consular Reports, No. 1524, Spain, 1895, pp. 7 and 8.

The other demands of the League were for safeguards of purity and impartiality in the administration of the customs law.

A few random instances give a better idea of the need of such reforms. A single spur wheel valued at \$800 paid \$1,090 in customs duty; a locomotive which cost £2,000 paid £1,000 as import duty. A clerical error in a manifest, which was pointed out by the captain of the vessel on arrival in port, was visited with a heavy fine, notoriously for the benefit of some customs official.¹

The Spanish Government had in fact through long years been fomenting ill-feeling and discontent in the one way which touches men most nearly:—by an interference which made their ordinary business difficult and docked their legitimate profits. When insurrection broke out there were a good many who, without exactly joining in it, felt they might very probably gain rather than lose by it; and a sulky abstention from either side was in this case as helpful to the insurgents as active co-operation. The home Government has too late recognised this. Their project of reform, promulgated in the *Gazette* of February 8 last, would, if wisely and honestly administered, go far to remove the most serious grievances. But neither was it so sweeping and complete as to ensure its reception by acclamation amongst all those who, like the "Autonomista" party, really desired substantial reform, nor did the insurrectionary leaders really care for mere financial or political reform; their views had gone beyond that. The general scope of the proposed reforms was as follows:—

There should be a Council of Administration in Cuba of thirty-five members, of whom twenty-one should be elected by the tax-payers.

This council should have absolute control over local taxation, and should decide the distribution of Imperial taxation:—this latter clause seems to mean that Spain should levy the amount of the contribution required from Cuba, and the new council should find the money in whatever way they think best.

The "fiscal" duties should be the same both for national and foreign products, and should not exceed 15 per cent. ad valorem.

Differential taxes should not exceed 20 per cent. ad valorem, except in special cases, when they might be as high as 35 per cent.; the Cortes to have the power by special law to make them 40 per cent.

Briefly put, the project of reform amounts to a concession of more moderate taxation and of considerable local control as to the methods of internal taxation. It was promulgated nearly six months ago, and has had no visible effect on the insurrection, as might be expected by any one who had studied the real character of the rising as indicated above.

It was triumphantly stated by some of Spain's friends that these reforms would put Cuba in the position of Canada. How little the Spanish politician can know of the Canadian Dominion, which at this moment is rather laying down fiscal policies for the mother country

¹ *Times* Special Articles, July 10, 1895, February 9, 1897.

than accepting suggestions as to customs administration from the United Kingdom!

On the economic grievances of the Cuban and their remedy there is not much more to be said, unless it be that the proffered remedy must probably be much more thoroughgoing before it has a determinate effect on the course of the insurrection. A tariff and commercial system adjusted to aid the industries of the island, and full power to regulate the tariff for the benefit of the colony and not for that of the mother country, are the two essential elements in the early pacification of the island.¹

Meanwhile the economic result of two years of paralysis and war has been disastrous. "Cuba," quoted the *Times* correspondent,² "has received her death-blow." This is probably an exaggeration. The remarkable fertility of the island has triumphed over previous disasters, and if peace is restored within a reasonable time there is little doubt that it will do the same again. The following figures, however, are more suggestive than many words.

	1893-94. Tons	1894-95. Tons	1895-96. Tons
Export of sugar	1,023,719	832,431	235,628
Total production	1,054,214	1,004,264	225,221

That is to say, within a single year more than three-fourths of the staple crop of the island had disappeared. It is curious to contrast with these figures those of the export of cigars, which are as follows,

	1894.	1895.	1896.
Export of cigars	132,065,000	156,513,000	185,914,000

which appears at first sight to show a steady increase in industry: this is explained by a decree of May, 1896, which forbade the export of the leaf to be made into cigars abroad, and drove dealers to buy only the actual manufacture of Havana. It is necessary to go behind the mere export of cigars, and on further investigating the facts it turns out that in the provinces of Pinar Del Rio and Havana a production of 280,000 bales of tobacco in 1895 dropped to 85,000 in 1896. Indeed the British Consul³ reports that the difficulties of carrying on the industry under present conditions were so great that during the current year the smaller factories would have to close their doors.

The total value of the exports of Cuba, which had in 1891 been about £20,000,000 and had fallen in 1894 (chiefly owing to the low price of sugar) to £14,000,000, fell sharply in 1896 (simply because of the insurrection) to £3,000,000 at the most—a reduction of nearly 80 per cent., corresponding remarkably to the percentage of reduction in the sugar crop.

It is little better than a truism that years of fighting are prejudicial to trade: this will be seen by a glance at the trade returns of any

¹ Compare *La Administracion*, vol. iv., No. 34, p. 426.

² *Times*, Special Article, May 16, 1896.

³ Diplomatic and Consular Reports, No. 1880, Spain, 1897, p. 10.

country which has been at war within the last half-century, of England in 1856, the United States in 1862, or France in 1870. The evil results show themselves more particularly in the exports; for supplies and war material may swell the imports and be paid for by incurring debt. And this has been the case with Cuba, of whose internal condition we will endeavour to form an accurate conception from a consideration of details reported in the Press and elsewhere.

The economic collapse is marked both by its rapidity and its completeness. "The protracted and devastating insurrection," writes Consul Gollan, "is fast reducing the once prosperous and important Island of Cuba to a desert." The conditions prevailing throughout Cuba at the outbreak were peculiarly adapted to produce such a result. The main industry of the island had come to the verge of a fiery trial, even apart from the attacks of desperadoes. The destruction of capital meant immediate collapse. The insurgents made it their first object to destroy the most important class of capital in Cuba: from the outset they relied for success on the power to stop the planters from making sugar. Within a year¹ they had resorted to the use of burning and dynamite in the case of fifty plantations, and the total destruction of private property was computed at £1,000,000 sterling. The results of such barbarism showed themselves everywhere and in every department of life.

The extraordinary drop in the production of sugar between 1895 and 1896 has already been noticed. Very few planters had any longer either means or opportunity to manufacture: soldiers had to be paid for protecting the estates, and roads were so often blocked that cane could not be hauled to the factories. The smaller landowners who depend on the sale of their cane to central factories, either could not get their cane through to the mill or could not find people to pay them when they did. Naturally cultivation on most estates, large and small, was abandoned. Landed proprietors as a rule had ruin staring them in the face. Some profit was still made on rum, because the troops required a large quantity: the price in 1896 rose from \$9 per pipe to \$30 and at one time \$40.

In the tobacco industry, in spite of the increased export of cigars, profits have been small, because raw material fetched a very high price; and there seems to be ground for believing that the general result of working in this trade in 1896 was a loss and not a profit.

The cattle trade passed through a somewhat varied experience. Shortly after the outbreak of the insurrection the price of cattle dropped to a third of what it had been earlier in the year. Later, as the war proceeded, the demand for fresh meat ran the price up to a high figure: and now the fear is rather that cattle will be extinct in Cuba, than that they will be a drug in the market.

The above are Cuba's three chief industries; and as nearly every business depends on the sugar industry, disorganisation has spread

¹ *Times*, Special Article, May 16, 1896.

every branch of trade ; wages could not be paid and credit was often not given, universal bankruptcy threatened the traders and merchants in the island. It is indeed difficult to draw an adequate picture of the stagnation and ruin which are reflected in all the reports. Acres of burnt and desolated plantations, mills and factories standing idle, planters seeking accommodation at usurious rates of interest, merchants not daring to give credit, yet at their wits' end to sell their stocks, ships waiting in Havana harbour with their cargoes unsalable. Beyond some woodcutting of a very arduous character, "and the occupation of grocers and small storekeepers, there is no sign whatever of commercial life. Money cannot be obtained at any rate of interest . . . in fact there are no buyers ; all are sellers, and even pawnbrokers are reluctant to make advances on goods." ¹

All this has been aggravated by the military order of January, 1896, that country people were to concentrate in the towns within a given number of days, followed by a decree that all country stores and shops in unfortified places should be closed. This has amounted to the abandonment of all the small farms in the country and to the depopulation of the smaller towns. Houses are unoccupied, and rentals have disappeared. Even in Havana for a time the same thing seemed likely to occur. Pauperisation of large masses is the inevitable result ; they eke out a precarious existence in the purlieus of Havana. For a time the Government tried to ration them ; lately they have left private charity to cope with the evil as best it may.

Emigration is a natural outlet for part of the difficulty ; in the first three months of 1896, 2,000 families left for Spain. Many more have gone since, and others are still going ; few of these will ever come back. To some extent, therefore, Cuba is already being depopulated.

Internal means of communication are suffering month by month ; the roads are receiving no repair, and the railways are losing parts of their permanent way and rolling stock in rough usage or by wanton damage.

The financial results of such a state of things are a serious problem for any Government. The island started extremely badly equipped for such a crisis. The debt of £80,000,000,² largely piled up by the previous insurrection, is at any time a heavy burthen on its resources. For ten years previous to 1894 there was an accumulated deficit of considerably over £9,000,000, which must now be added to the debt. The first means of getting more revenue was to add an extra duty of five per cent. on all imports and that means, at such a time as the present, an addition to the cost of the necessaries of life. It can hardly be a matter for surprise that recourse should now have been had to the last resort of the desperate financier—the issue of a large amount of paper money. The first attempt, made on 8th June, 1896, was to issue Treasury

¹ Diplomatic and Consular Reports, No. 1880, Spain, 1897, p. 17.

² This is about £50 per head. The debt of the neighbouring British Island of Jamaica is barely £2 10s. per head.

notes, which apparently were inconvertible, but were declared to have a gold value in all transactions. The notes rapidly went to a discount. In November last, a new plan was tried, which hardly seems a practical success. An issue of \$20,000,000 worth of notes was made: a reserve of one-third of that amount was kept in silver at the Banco Español de la Isla de Cuba; a special duty of five per cent. on imports was levied as a collateral security, and the notes could be received in lieu of silver in payment of taxes. The whole plan is clumsy and unscientific. It can only be added to the long list of instances where forced paper currencies have utterly failed. Within a few months the notes were at a discount of twenty per cent. as against silver, and thirty-four per cent. as against gold.¹ The existence of the notes will only facilitate the drain of specie to pay for imports in the shape of necessary supplies.

From the above review it is tolerably clear that even if the insurrection is now rapidly brought to a close (and that is not imminent), Cuba will be crippled for many years to come. It is notoriously an expensive matter to bring a cane-field into a high state of cultivation, and still more so to replace valuable machinery once destroyed. In spite of a remarkable fertility of soil and favourable climate, the recovery of the sugar industry must be slow work. It cannot recover at all except under the wisest legislation and fostering care of the Government. The revival of that energy and enlightenment which enabled the Cuban planter to retain his place, in the face of bounty-fed competition, must be accompanied by the removal of every antiquated restriction. The present time is in any case a very bad one. Even without an insurrection, many Cuban planters would have fared no better than many of their British neighbours. Yet if the painfulness of the recovery is recognised it will possibly be the more complete and permanent. If the sugar industry can be revived, there is no need to despair about others; none will suffer so much, none require so much capital or determination to make them pay.

It remains to glance at the external effects of the Cuban insurrection.

At first sight there is a temporary loss to the world of 800,000 tons of sugar. The Cuba crop is one-eighth of the world's supply, and such a failure might have been expected to have some effect on prices, and on the production of neighbouring islands. But the stocks on hand were large, the competition of fresh supplies from the beet-growing countries of Europe was treading on the heels of the existing supply, the gap in the world's output was filled almost without an effort. The benefit, if any, has accrued entirely to the well-organised industries of Europe, which are stimulated by the bounties to what is generally spoken

¹ The Cuban money of account is still the dollar of old Spain; in actual circulation it is represented by the Mexican dollar. American dollars also circulate but at a premium. The modern Spanish coinage is current. The *agio* on gold which comes in with the latter is intensified by other conditions.

of as over-production. The neighbouring British and French West India Colonies, growers of cane-sugar like Cuba, have scarcely felt any stimulus to increased production. There the wave of adversity continued and is continuing.

It has been suggested¹ that some of the British islands ought to make profits from the growth of tobacco while the supply from Cuba is so short. The prospect is probably delusive. Some of them have already tried hard to find a market for their tobacco and cigars. Jamaica has to a large extent succeeded. But there is no denying that the reputation of the Cuban curing is far above that of its competitors. Any effort to supplant Havana at this time would be purely temporary: when peace is restored it will drop away again, just as in 1864 the effort to grow cotton in the Virgin Islands died away as soon as the civil war in the United States was fairly at an end.

There is a better prospect for a trade in cattle from these islands. Jamaica particularly with its fine herds should for some years find a profitable business both in supplying with meat Cuba fighting and in replenishing the stocks of Cuba at peace.

The destruction of foreign capital invested in the island carries the losses of war time further than the island itself, and may hereafter give political trouble to all parties concerned; but, apart from this, the general lesson to be drawn as regards the effect on the outside world is, that in the modern economic relations of the countries of the world little disturbance to trade is caused by the elimination of a fairly important factor. As the knowledge of each business spreads and the number of competing sources of supply increases year by year, the dropping out of one only gives an opening to others. Very rarely is there a loss of a substantial nature to the world at large.

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THE CONSISTENCY OF ADAM SMITH

MAY I here be permitted to express the lively satisfaction afforded me by some recent English publications that have thrown light on the so-called Adam Smith problem? I was at one time keenly occupied with it, and hold it to be the point to which the intelligent and earnest attention of students ought to be turned now that the Physiocratic problem is approaching solution. Three works, published recently, have contributed new and valuable material for fully understanding the teaching of the great Scottish master, namely, James Bonar's *A Catalogue of the Library of Adam Smith* (1894), John Rae's *Life of Adam Smith* (1895), and Edwin Cannan's *Lectures on Justice, Police, Revenue and Arms*, delivered in the University of Glasgow by Adam Smith, reported by a student in 1763 (1896).

¹ Diplomatic and Consular Reports, No. 1880, Spain, 1897, p. 8.