

## CHAPTER VI

### A CONSIDERATION OF SOME SPECIAL ARGUMENTS FOR PROTECTION

#### § 1

#### *The Argument that Protection is Desirable Because it Keeps Money in the Protected Country*

ONE of the cruder popular arguments for protection is that it keeps the people of the protectionist country from spending their money in foreign countries, and so gets and keeps more money in circulation at home. It is, of course, true, as we have seen,<sup>1</sup> that the effect of a protective tariff is to decrease imports, while still, for a short time, not bringing about a corresponding decrease of exports, and that there is, in consequence, somewhat more money in a protectionist country than otherwise there would be. But it is also true that the net inflow of money or of gold is not perpetual, that it soon reaches a limit. It is further to be emphasized that money or gold is not the thing for the securing of which trade is really carried on. No one, other than a miser, wants money, except that he may pay it out again for other goods.

The argument in favor of getting money into the country and keeping it there, occasionally takes the form of a comparison between a business man and a nation. It is asserted that a business man is reckoned prosperous

<sup>1</sup> Chapter IV (of Part II), § 1.

in proportion as he takes in more money than he pays out, in proportion as he sells more goods than he buys; that a nation's prosperity is similarly to be secured by selling for money more than it buys with money; and that, therefore, a limitation on purchases from abroad is desirable.

The validity of such a comparison is sometimes questioned by free traders. It is said that, since a nation is not the same as a single individual, what conduces to the prosperity of the latter may not further the prosperity of the former. But free traders have, as such, no occasion to question the validity of the comparison, since the comparison does not show what protectionists intend it to show. The fact is that a successful business man does not take in more money than he pays out. On the contrary, he is always anxious to expend his money (or his bank deposit) for goods. If he does not spend it for enjoyments, he will wish to expend it by making investments. He will buy automobiles, yachts, residences, theatre tickets; or he will purchase factories, office buildings, railroad shares, machinery. It is by the one type of purchases that he endeavors to enjoy his prosperity, and by the other kind of purchases that he hopes to add to his prosperity. A wealthy man is not necessarily one who has a large amount of money in his pockets or one who has a large checking account. More usually his assets of that sort are small compared with his property in railroads, mills, stores, farms, etc. With a nation, which is a collection of individuals, the aim should be similar. A nation enjoys its prosperity, in proportion as it secures many services and many goods for immediate consumption. It increases its prosperity in proportion as it secures, from abroad if it can get more

by purchasing abroad, large capital equipment for aid in further production. For a nation as for an individual, money is not the thing most to be desired, but the wealth which money buys. A country which has a large amount of money and high prices, benefits from that fact only if it can use this money to buy goods where prices are lower. There is no gain, but only loss, in preventing purchase abroad in order to get and keep money within a protectionist nation.

## § 2

### *The Wages Argument for Protection*

The argument for protection, which has, perhaps, been most persistently urged in political campaigns within the United States during the last half century or more, is the wages argument. We have already discussed at some length the effect of protection on wages,<sup>1</sup> and need not expand greatly upon the subject, here.

The general tendency of protection is to divert industry out of its most profitable into less profitable channels; and it is hardly likely that, by so doing, protection will make wages higher. We may rather expect that it will make wages lower. In fact, as we have seen,<sup>2</sup> a protective tariff cannot directly<sup>3</sup> raise any wages without raising, in the same degree, the prices of protected goods. And further, as we have also seen,<sup>4</sup> to the extent that protection operates to turn men into less productive lines, those whose wages are nominally raised will not

<sup>1</sup> See Ch. V (of Part II).

<sup>2</sup> Chapter IV (of Part II), § 2.

<sup>3</sup> The improbability of a tariff's raising wages indirectly has been sufficiently discussed in Ch. V (of Part II), § 5.

<sup>4</sup> Chapter IV (of Part II), § 2.

gain (if they do gain) as much as others lose. Even if they secure, in the protected industry, wages as much higher than they could otherwise get *in that line* as their employers get higher prices for the protected goods, they will not be getting wages correspondingly higher than they could have secured in the natural and relatively more productive industries of their country. The presumption is, that not only *average* real wages, but even the real wages of those employed in protected industries, will be lowered by protection. For competition, so far as it is free, tends to equalize conditions; and no one trade of wage earners can therefore hope to gain, for any long period, by means of protection, even at the greater expense of wage earners in other trades. Rather will all probably share, ultimately, in the national loss. Though wages measured in money may be slightly higher under protection because of an inflow of gold, wages measured in the necessaries, comforts, and luxuries of life, are practically certain to be lower.

The emphasis, in the wages argument for protection, is sometimes placed on the alleged danger of allowing American workingmen to be subject to the competition of cheap foreign labor, the competition of the so-called "pauper labor" of Europe. The truth is that the "competition" of cheap foreign labor cannot do otherwise than benefit the country as a whole. Such labor, e.g. labor engaged in the production of woolen cloth, can only injure American workingmen employed in that industry, by benefiting Americans in all other lines through lower prices of woolen cloth. And the Americans engaged in manufacturing woolen cloth would share in this benefit when they had turned their efforts into

other lines in which their relative efficiency was greater. If it is really so dangerous to American wage workers' prosperity to have goods from abroad sold in the United States at a low price, and the more dangerous the lower the price, then, obviously, it must be the most dangerous of all if the goods are given to us for nothing.<sup>1</sup> What ruin to our industries, what poverty and suffering must be caused, by our getting quantities of goods from abroad without having to produce any goods to send in return! For if we thus secure goods from other countries for nothing, we are able to devote all our energies to increasing still further our stock of wealth and our flow of income services.

Frequently an inductive wages argument is attempted, based on a comparison between the United States and England. Attention is called to the fact that wages in England are lower than wages in the United States, and it is implied, if not asserted, that the difference is due to the British policy of free trade as contrasted with an historic American policy (now, however, possibly in process of abandonment) of protection. Yet every one who is familiar with and able to distinguish between the legitimate and the illegitimate processes of reasoning, knows that such a comparison has little or no value unless other things are equal, or unless the effects of the other things which are not equal are known, and can be subtracted from the total result.<sup>2</sup> As a matter of fact, other things are not, in this comparison between England and the United States, at all equal. England is much

<sup>1</sup> An effective turn to the argument given by Henry George in his very readable *Protection and Free Trade*, New York (Henry George), 1891, pp. 121-125.

<sup>2</sup> See Mill, *System of Logic*, Book III, Ch. VIII, § 5 on the method of residues.

more crowded than the United States, and its resources, in comparison to population, are less. With thirty-three millions of people struggling to make a living in a country about the size of the state of Illinois (which has a population of something like two millions), England can hardly be expected to be a country of as high wages as the United States. Because of the law of diminishing returns, wages in England must be comparatively low in order that the demand for labor shall equal the supply. It is true that the people of England are not confined to, and are not mainly occupied in, agriculture. England is primarily a manufacturing and commercial nation. But the point is, that England has to engage in industries employing many persons per unit space, in order to support, comfortably, so large a population in so small an area. Hence, England has to engage in *commerce* and *manufacturing*, even if competition with other crowded countries and parts of countries, reduces the profits and wages which can be earned to a comparatively low level, and even though far distant markets must be sought and raw materials imported, at considerable expense, from abroad. In a country like the United States, however, there is always the alternative of going into agriculture, or mining, or manufacturing for which resources are available near at hand, and hence wages tend to remain at a higher level. Wages in the United States have been high, not because of a protective tariff which has tended to lower them, but because of the favorable relation of population to natural resources. Wages in the United States are in danger of being lowered, not by free trade, which would tend to raise them, but by immigration from the crowded and low-wage countries, by immigration which increases the supply

of labor, lowers the margin of cultivation toward foreign levels, and makes necessary low wages to equalize supply of and demand for wage earners' services.<sup>1</sup>

### § 3

#### *The Make-Work Argument for Protection*

Closely associated with the wages argument is the argument that protection makes employment. It is said that the tariff, by shutting out various foreign goods, gives encouragement to American capital and labor to engage in producing such goods. If protection does this, it is only because protection makes the production of such goods more profitable. For even without the defence of the tariff, home producers in any industry could have the entire home market and could, therefore, sell all the goods which that market would take — as well as some goods abroad — if they would make low enough prices, if employers and employees together would be willing to carry on the business without aid, and take what it could earn. The tariff simply enables them to do a business no larger, at higher prices, and therefore at the expense of persons in other industries. If employment is increased in one industry, it is only because that industry is made more profitable than it otherwise would be and because men will choose the employment

<sup>1</sup> If immigrant wage earners always went into the lowest grade labor, and if they and their descendants remained in this labor only, their competition might not lower wages in other work. If it increased the demand for other work more than, by pushing former low grade labor into such work, it increased the supply, wages in this other work might rise. Conceivably, most native labor would find employment in this high grade work (Hadley, *Economics*, New York — Putnam —, 1906, pp. 420-421). But in a few generations, the descendants of immigrants are competing for the higher positions as well as the lower, and, indeed, it would be more difficult to realize democratic ideals if they were not. The net result is likely to be a reduction of wages for most kinds of labor.

that pays best. Employment is made less profitable in other industries than it would else be, since those employed in these industries must bear the tariff burden. Will not the protective tariff, therefore, decrease employment in these other industries as much as it increases employment in the favored industry or industries?

Another way to look at this matter of employment is from the viewpoint of the tariff's effect on foreign trade. In a previous chapter<sup>1</sup> it was pointed out that any serious restriction of imports brings, eventually, a corresponding limitation on exports. It follows that to give employment in a new industry started by a protective tariff, is to take away employment in production of goods for export.

Even if the people of foreign countries would give us our imports for nothing, — which they will not, — so that our labor would not need to be employed in producing goods to return to them, still our labor might be sufficiently employed in producing additional goods or in producing goods of a different kind which we could not secure by gift. A high protective tariff would shut out the free goods and compel our labor to be wasted in producing these goods at home; but it would not make employment greater or more steady. Our labor would simply be producing goods which might have been got for nothing, instead of getting such goods free and producing additional goods.

Labor can be employed, and at high wages, when there are fertile lands or good sites to work upon, tools to use, available wealth to pay and support labor during the process of production (if roundabout), and a prospect of a return sufficient to compensate for the outlay. A

<sup>1</sup> Chapter IV (of Part II), § 1.



protective tariff does not increase or improve the lands or the sites; it does not multiply tools or increase wealth, but tends rather towards national poverty; it does not, for industry as a whole, improve the prospects for large returns, but has, rather, the reverse effect.<sup>1</sup> How, then, can a protective tariff increase employment?

#### § 4

##### *The Home Market Argument for Protection*

In political struggle, it is usually fatal to antagonize any very large class. So in order to carry through a protective policy, it has been necessary, in the United States, to convince not only wage workers, but farmers as well, that the policy would benefit them. While many products of the farms, e.g. raw wool, have been protected, yet it has been difficult to show that the great agricultural staples, such as wheat, corn, and cotton, have been appreciably raised in price by the tariff<sup>2</sup> or that the tariff *could* directly raise their prices. The appeal to American farmers has therefore taken the form, in part, of asserting an indirect benefit of protection, through the establishment of a "home market." The "home market argument" points out, to begin with, that a protective tariff increases the number of persons engaged in the protected industries, e.g. manufacturing. Those thus

<sup>1</sup> *The Arguments of Schüller (Schutz Zoll und Freihandel, Vienna — Tempky —, and Leipzig — Freytag —, 1005, pp. 75-84)* to the effect that industry in any country is not rigidly limited by the factors of production, but may vary within wide limits in relation to these factors, proves nothing whatever for protection, unless it is also shown that industry is likely to fall short of its maximum, under free trade, and more nearly to approximate its maximum, under protection. For such a contention (aside from possible transitional effects during adjustment to a changed policy), there seems, to the present writer, no reasonable justification either in theory or in direct experience.

<sup>2</sup> See Ch. V (of Part II), § 5.

led to engage in manufacturing then have to buy the products of the farms, and so the farmers secure a home market for these products.

The answer to such an argument has already been indicated in our discussion of the effects of a protective tariff on exports.<sup>1</sup> If we of the United States refuse to buy goods from abroad, and so develop the production of those goods at home, to just that extent, in the long run, will we be deprived of an opportunity to produce goods profitably for export. The farmers can only gain a home market by losing a foreign market. And the extra prices they have to pay for goods, especially protected goods, because of the tariff, will cause them to suffer a net loss.

Sometimes the argument in favor of the development of a home market takes a slightly different form. Instead of its being asserted that the protected manufacturing industries will not exist or will not be so widely extended without a tariff, emphasis is placed on the contention that they will not be so prosperous. Those engaged in them will earn less. If the manufacturing industries are protected, it is urged, the farmers may, indeed, have to pay more for manufactured goods; but those engaged in manufacturing will then have more money with which to purchase the farmers' products, and so the farmers will get their money back again. The truth is that they will not and do not get it back again unless they give something else of value in return. If a farmer pays more for clothes, because of a protective tariff, than he otherwise would, we may admit that the clothes makers will have more money (other things equal) with which to buy, if they choose to, the farmer's products; but the

<sup>1</sup> Chapter IV (of Part II), ¶ 1.

farmer does not get back this extra money for nothing; he must give extra products for it. To assume that the farmer does not have to give extra products to get back the additional money paid for the higher priced clothes, is to assume that the protected industry is not encouraged by the higher prices the farmer pays for its goods; for this is to assume that the higher prices so paid by the farmer for the protected goods, are balanced by higher prices which those in the protected industry must pay for the farmer's products. This would mean no change in the relative positions of farmer and manufacturers because of protection, save a merely nominal change. The idea which protectionists who use this "get it back again" argument endeavor to convey is that, somehow, producers of protected goods get larger real incomes because of the tariff; while, at the same time, those whose purchases of goods at higher prices make these larger incomes possible, lose nothing by the system.

The absurdity of such an argument is perhaps best shown by an illustration. Suppose that, in a small town, there are a number of robberies, as a result of which each of the merchants of the town finds himself minus several hundreds of dollars. Finally, the thief is apprehended. But upon being accused of his crimes, he asserts in his own defence that he has really done no harm. Though he admits having robbed the various merchants of money, yet he points out that he has lived in the town and has used all of this money to buy their goods and that thus they have "got it back again." The obvious fact is, of course, that the merchants have only got their money back by giving up for it other goods of supposedly equal value.<sup>1</sup>

<sup>1</sup> Cf. Sumner, *Protectionism*, New York (Holt), 1885, p. 125.

Protection may, as we have seen,<sup>1</sup> benefit one section of a country at the expense of other sections; and the gains to the section benefited will perhaps be distributed among all classes. If the West and the South are taxed to develop manufacturing in Rhode Island, the Rhode Island truck farmers and dairymen may share in the local gains by virtue of having a home market provided for them at the expense of others. But to say this is very different from saying that they would gain if the local market were provided entirely at their own expense.

### § 5

*The Argument for Protection to Agriculture in the Older Countries against a Future when Cheap Foods and Raw Material may not be Obtainable from the Newer Countries*

An argument not generally familiar to Americans, has been used in favor of protection to the agriculture of the more crowded European countries, in particular the agriculture of Germany.<sup>2</sup> There is, it is claimed, too great a reliance of the older and more densely settled countries upon the new countries for food supplies and raw materials. Eventually the new countries will be more thickly settled, will, like the old, devote themselves in larger part to manufacturing, and will have smaller surpluses of food, etc., for export. Therefore, the old and thickly settled countries, which will probably have grown still more in population during the period of importing food and raw materials from abroad, will get

<sup>1</sup> Chapter V (of Part II), § 6.

<sup>2</sup> See Adolph Wagner, *Agrar- und Industriestaat*, Jena (Gustav Fischer), 1901, p. 73. A good statement of the argument is given in Tausenig, *Principles of Economics*, New York (Macmillan), 1911, Vol. I, pp. 534-535.

their food supplies and raw material with increasing difficulty. The suggested remedy is that the thickly settled countries should levy, each, a protective tariff on such imports, force its people to get along, in the main, with what can be produced in their own country, resist thus the tendency to specialize in manufacture, and so prevent the growth of a population which is dependent upon foreign surpluses for its food and necessary materials.

If the fear is that the new countries, when they come to develop manufactures, will almost without exception shut out, by protective tariffs, goods manufactured in the older countries, and so eventually compel the latter to be self-sufficient, there is reason in the suggestion that these older countries remain self-sufficient from the beginning. By so doing, they will avoid the intense suffering which must result from a return to a sparseness of population capable of securing sufficient food, etc., at home.

But if the world can be expected to attain a liberal attitude towards trade, if a tendency towards low tariffs can be hoped for (and this is perhaps more likely to be the case as the stage of infant industry is left behind), then the argument for protection of agriculture has very little force. For no matter how extensively the now sparsely settled countries eventually go into manufacturing, they will not go into it, if not artificially encouraged, unless it yields, on the average, as satisfactory returns as agriculture.<sup>1</sup> That manufacturing populations in the older countries will have to meet the competition of manufacturing groups in the newer, is true. But assuming free trade (and if trade is not free, then in

<sup>1</sup> On the margin of production.

proportion as restrictions are slight), this merely means that the manufacturing populations of the older countries, cannot charge higher prices and therefore cannot get higher wages and profits per unit product, than the manufacturing groups in the newer countries. It does not mean that the condition of the old countries must become appreciably worse than that of the new. So long as many persons in the new countries care to engage in manufacturing (and that they will do so is all that is feared), it must be that manufacturing is about as profitable as agriculture. If it were much less so, assuming free trade or any near approximation to free trade, the newer countries would withdraw from manufacturing and the older countries could carry it on without competition. If manufacturing in the new countries is as profitable as agriculture, and if trade is free, manufacturing in the older countries (assuming equal efficiency) must also be, except for the greater costs of transportation, as profitable as agriculture in the new, because as profitable, save for transportation costs, as manufactures in the new.

## § 6

*The Infant Industry Argument for Protection*

The argument which is usually regarded by economists as stating the best case for the protective tariff, is the so-called infant industry argument. The more careful thinkers who advance this argument admit that protection involves a cost, a temporary loss of productive power. They admit that it involves turning industry from a more productive into a less productive line. But they urge that the newly established line may be only temporarily less productive and may be eventually more pro-

ductive and advantageous for the country than the older lines of industry. It is urged that a country may have natural advantages adequate to the successful carrying on of a given industry, but that, at the beginning, the competition from more experienced management and better trained workmen abroad is likely to prevent the growth and development of the industry, and, therefore, to prevent the attainment of the greatest possible efficiency in it. Give such an industry temporary protection, it is said, so that it can get a start, and it may eventually undersell its foreign rivals. Then the protectionist country will perhaps realize a gain which will more than compensate for the temporary loss.<sup>1</sup>

It should be said, to begin with, that this argument for protection applies at all, only in regard to those industries in which success depends largely on acquired skill and not merely on natural advantages. It is hardly an argument, therefore, in favor of protection to much else than new manufactures, and it is not an argument in favor of perpetual protection for these. It is highly probable, however, that in some cases, if the industries to be protected are chosen wisely, and are not protected too long, the desired results can be attained. In the United States, a considerable part of the silk industry, started by protection, seems eventually to have reached a position where it can produce as cheaply as foreign concerns and where, therefore, it does not need protection.<sup>2</sup>

But while such suggestions have a great deal of force, the opposing considerations, especially on the practical

<sup>1</sup> This view was presented in Alexander Hamilton's Report on Manufactures, and later, in Germany, was urged by Friedrich List.

<sup>2</sup> Mason, "The American Silk Industry and the Tariff," *American Economic Association Quarterly*, December, 1910, p. 177.

side, are also not without weight. In the first place, though new industries may indeed be developed in this way, yet they can be thus developed only by drawing the labor force required, from other lines. It follows that the development of skill and the progress of invention in those other lines may be retarded as much as in the new lines they are forwarded. New ideas are less likely to be evolved among a few than among many. And in proportion as there are more persons in the new lines, there are fewer persons in the old lines. Indeed, it is not inconceivable that some of the older industries, industries still capable of further progress, may be made so comparatively unprofitable — especially if their necessary machinery or materials are taxed by the tariff — as to be entirely given up. We have already seen that protection tends to decrease the export trade<sup>1</sup> and that it may, by leading to rise of prices,<sup>2</sup> ruin other industries.<sup>3</sup> Before, then, protection is accorded to an infant or embryonic or projected industry, inquiry should be made as to the following points: first, as to whether that industry can be expected to develop without such aid; second, as to whether, if it will not, such aid will suffice to develop it to a point where it can and will sell its products more cheaply than they can probably be secured elsewhere, and enough more cheaply to compensate, with interest, for the loss incident to starting it; third, as to whether the attempt to encourage it might not involve a risk of discouraging other industries, which would balance any hoped-for gain.

In view of all these considerations, it becomes impor-

<sup>1</sup> Chapter IV (of Part II), § 1.

<sup>2</sup> Or a change in value relations of money systems, which acts similarly.

<sup>3</sup> Chapter IV (of Part II), § 6.



tant to judge the fitness of the governing body to apply such a policy, decide upon its effects, and select the industries to be encouraged.<sup>1</sup> It is a special function of the enterpriser-capitalist to select for his own investment (and the investments of those whom he influences) industries capable of succeeding. If he does not, the principal loss falls upon him and upon others in like situation. The community suffers only indirectly and incidentally. The enterpriser-capitalist is a product of selection. His power to direct industry into profitable channels is due to his possession of capital, or the confidence of other business men and investors, or both. His possession of capital and of this confidence, though sometimes due in part to inheritance from able progenitors or relatives, is frequently due, in no small degree, to past successes. He has the power to direct industry into those lines which he believes will pay best and which, therefore, are presumably the lines most needed by the community, because he has successfully so directed industry in the past. Men whose knowledge of law or politics has made them members of a law-making body are not, as a rule, the product of the same kind of selection. If they were, the fact that their own fortunes are not at stake does not conduce to caution. In case a new industry established by protection never becomes profitable, the loss which its establishment causes falls upon the general public and not upon legislators as such. Similarly, in case an industry is prematurely established or in case its establishment retards other industries, the loss is that of the public.

Given the present form of our own and other republican

<sup>1</sup> Cf. Bastable, *The Theory of International Trade*, fourth edition, London (Macmillan), 1903, p. 140.

governments, there is a special pressure tending towards unwise selection of lines to be favored. This is the pressure of localities or, at least, of large interests in various localities. For in republican government, legislators usually represent districts, states, or other territorial units. When it is proposed to encourage various industries, when the idea of protection is politically dominant, many and influential interests in each state and district are likely to desire that the industries of that state and district shall get such help at the general expense. The tariff eventually decided upon, the tariff to which legislators from different sections can agree, is not likely to be one which even attempts, scientifically, to apply the theory of infant industry protection. Instead, it is likely to be a hodge-podge of special favors, distributed according to the relative strength of conflicting interests, and bringing general and long-continued injury to the public.

The longer such a system continues and the more extensive its application, the greater are the difficulties in the way of its reform. More and more industries are built up by tariff barriers, and their owners and workmen taught to rely upon these barriers for protection against foreign rivalry. Managerial effort, which might otherwise be devoted to development of the highest efficiency, is instead devoted to the exertion of political pressure. Every effort is made by numerous interested persons to retain and increase the favors secured. Those engaged in the industries assisted are seldom ready to consent to reduction of the tariff after a period of favoritism, however long, but endeavor, usually, to keep the protection indefinitely. Proposals for reduction are met by predictions of dire calamity, and strong opposition to reduction is thus aroused.

To the suggestion that protected industries might decline and die without protection, the answer has been made that "no industry will ever be given up except in order to take up a better one, and if, under free trade, any of our industries should perish, it would only be because the removal of restrictions enabled some other industry to offer so much better rewards that labor and capital would seek the latter."<sup>1</sup> There is doubtless reason in the contention that, since many persons have invested capital in the protected industries and since many others have acquired skill not equally useful in other lines, relying upon a continuance of the past policy of our government, therefore the entire protective system should not be swept away with one blow. Time should be given (as, under the tariff reduction policy of the present administration at Washington, it is being given) for adjustment to new conditions. Nevertheless, the public cannot be held to have pledged itself or to be under any obligation to maintain indefinitely the protective system. Producers must be held to have taken the risk of change, knowing eventual removal of tariff duties to be the public's privilege. Because the people have been willing to pay higher prices for goods during a limited period, it does not follow that they are duty bound to suffer an equivalent annual loss through all future time.

#### § 7

#### *The Argument that a Protective Policy should be Followed in Order to Diversify Industry*

It is also sometimes argued that protection is of use to *diversify* industrial activity within a country. We

<sup>1</sup> Sumner, *Protectionism*, p. 130.

have already seen that, while the protective policy encourages protected industries, it may cause the decline of others. Yet if applied carefully and consistently with the object of diversification in view, it is probable that a high tariff would increase the number of industries carried on.

It does not follow that prosperity would be increased. There is no special advantage in having a larger number of occupations carried on when the average income is reduced by having them. As a matter of fact, a large country like the United States, with a wide range of natural resources and a versatile population, would be certain to have diversified industry within its borders, under either protection or free trade. With its mines of coal, iron, copper, etc., the United States could hardly fail to be not alone an agricultural country, but a manufacturing country as well.

### § 8

#### *The Argument that Protection should be Applied as a Means of Getting and Maintaining a Certain Degree of National Self-sufficiency*

Not all of the arguments for a protective tariff are strictly economic in character. There is, for instance, the argument that protection should be used to insure national self-sufficiency. This argument, in so far as it carries great weight, is of a military significance. It is urged that a country at war with another or others, is likely to have its foreign trade seriously interfered with.<sup>1</sup> If the country in question has relied on foreign

<sup>1</sup> It may, of course, be interfered with to some extent if another country or other countries, with which it habitually trades, are at war. But only a part of its foreign commerce is likely, in that case, to be affected.

trade for the necessaries of life, it will be subject to a considerable strain during the war period, and perhaps will be less able to carry the contest to a successful conclusion. If it has relied upon foreign trade for firearms and ammunition, it may be in no better position. It is asserted, therefore, that a country should adopt the policy of producing all necessaries, including all things required for war purposes, within its own borders, even though to do this brings economic loss.

It must be admitted that this argument, like the argument for protection to infant industries, is not without claims to a respectful hearing. There are, however, some considerations of importance on the other side. In the first place, close trade relations, such as are more likely to follow from a free trade or from a low tariff policy than from protection, do much to promote international good feeling and, therefore, to prevent the occurrence of war. And in the second place, even if war does occur, it may well be that the larger wealth and population made possible by a liberal trade and tariff policy will give greater military strength, through the larger fighting force which can thus be supported, than would any degree of national self-sufficiency.<sup>1</sup>

In this connection we may cite the case of Great Britain. If national self-sufficiency is imperative, there would seem to be nothing which it would be more important to produce in the home country than food. Had Great Britain persisted in a policy of excluding foreign grain and compelled her people to live upon what they could themselves produce, she would have been aiming at this ideal of self-sufficiency. Had Great Britain carried out such a policy, however, her population

<sup>1</sup> Sumner, *Protectionism*, p. 143.

could not have become so great by many millions as it has, nor could her wealth have become so great. She has chosen rather to specialize in production, to import foodstuffs, to attain a numerous population and large wealth. She is not, it is true, self-sufficient in time of war. She must rely for her food upon lands across the seas. But the wealth which a free trade policy has brought her makes possible the maintenance of the most powerful navy in the world, a navy by means of which her commerce is protected. Is England not a stronger nation, a richer nation, and a not less independent and happy nation, than she could have been had the contrary policy been followed?

## § 9

*Free Trade within the United States*

With the exception of political or military arguments, practically every consideration advanced in favor of tariff duties on goods produced in foreign countries, could be urged with no less (and no greater) plausibility in favor of tariff duties levied by one State or section on goods produced in another State or section. Is it suggested that we do not wish to send money out of the country and that to do so makes us poorer? An exactly parallel argument would assert that we should adopt measures to keep money from being sent out of the State or the county. Do stanch protectionists tell us that to let goods come in from abroad at low prices, must lower American wages? If so, then for Ohio or Illinois to let low-priced goods be imported from New York or from Pennsylvania, must tend to make wages in Ohio and Illinois lower than they otherwise would be. If to shut out English goods from the United States makes

additional employment for American wage earners, then to shut out Connecticut goods from Rhode Island must make additional employment for Rhode Island wage earners. It is hardly necessary to pursue the comparison further. Carried to its logical conclusion, the system of protection would prohibit all trade and, therefore, all the gain in wealth which flows from trade.

Fortunately, the Federal Constitution makes tariff barriers between the different states of the United States impossible. If it did not, we should doubtless find some of our states levying protective duties against their neighbor states, as Massachusetts, New York, and Pennsylvania did under the old Confederation of 1781.<sup>1</sup> As it is, trade between the states is, for the most part, regarded with equanimity. The coal of Pennsylvania is exchanged for the shoes, woolen and cotton goods, clocks, etc., of Massachusetts, Connecticut, and other New England States. The wheat, corn, and meat of the Middle West, and the cotton, rice, and sugar of the South, are sold throughout the country, and the special products of other sections are given in payment. When improvements in transportation facilities make low transportation rates possible, we regard the consequent reductions as cause for rejoicing, because of the stimulus thus given to trade. There is no reasonable doubt that free trade within the borders of the United States adds greatly to our national prosperity and adds, also, to the prosperity of each separate state. To widen this free trade area, so far as lies within our power, would still further increase our economic welfare.

<sup>1</sup> Hart, *Essentials in American History*, New York (American Book Co.), 1905, p. 190.

## § 10

*Ethical Considerations Bearing on the Policy of Protection*

Before concluding this discussion of the high tariff system, let us consider briefly the moral issues involved. The maintenance of this system means that wealth is to be gained, in the favored industries, not by serving the public well, not by giving to the public better goods than could otherwise be secured or goods at lower prices than must otherwise be paid, but by depriving the public, through influence on legislation, of such benefits. The maintenance of protection means that political influence calculated to injure the community will often bring larger returns to those who wield it than would business carried on in rivalry with others for the benefit of the community. As a consequence, energies which might be devoted wholly to legitimate business, that is, to seeking profit through efficient service, spend themselves instead in selfish political activity, in the attempt to make impossible any rivalry in service from foreign producers, in the attempt to force higher prices from consumers, and so to realize, at the expense of consumers, higher profits than are earned. If the ideal of industrial morality is that profit shall be in proportion to service, if to seek profit by disservice is immoral, then the selfish attempt of private interests to realize wealth by arbitrarily shutting out foreign competitors through tariff restrictions, like the attempt to shut out domestic competitors through seeking railroad discriminations, violates this ideal and is immoral.



## § 11

*Summary* -

In this chapter the attempt has been made properly to estimate the value of most of the standard arguments for protection. The argument that protection increases national prosperity by getting and keeping more money in circulation in the protectionist country was shown to be fallacious, since money is not the ultimate or principal end of trade. The popular "wages argument" for protection, so much used in political campaigns, was shown to have little better basis. Money wages tend to be somewhat higher because of the tariff,<sup>1</sup> but real wages are almost necessarily lower. The much feared "competition of cheap foreign labor" is beneficial to our wage earners when it means cheap goods from abroad, and is injurious to our wage earners only when it means immigration of this cheap labor. Those who attempt to show, inductively, *e.g.* by comparison of English and American wages, that protection makes wages higher, fail to take other things, such as relative density of population, into account. The argument that protection increases the opportunities for employment was likewise shown to be untenable. It increases employment in any industry only by making that industry more profitable. But in so doing it makes other industries less profitable. Natural resources and accumulated capital, which make employment at remunerative wages possible, are not increased by protective tariffs.

The third argument considered was the so-called "home market" argument. This is one of the principal

<sup>1</sup> Except, of course, in the case of unrelated currencies. See Ch. V (of Part II), § 3.

arguments by which the farmers' votes are sought for the protective policy. Examination showed that the gaining of a home market by protection involves the losing of a foreign market in whole or in part, and that the higher prices which protection makes farmers pay for goods are not compensated for by the fact, supposing it to be a fact, that those to whom the money is paid have more money with which to buy farm produce.

An argument having, if convincing, more significance at present for Europeans than for Americans, is that in favor of protection to agriculture, as security against a time when the newer countries may be less inclined to buy manufactured goods of and sell food-stuffs, etc., to the older ones. We saw, however, that if future trade is unimpeded or is impeded only by low tariffs, the older countries can always have a market for their manufactures without having to accept returns less by much more than necessary transportation costs, than those of manufacturing industries, and, therefore, agriculture, in the more largely agricultural countries. Unless great restrictions on future trade are feared, this argument for protection to agriculture has little force.

Protection to infant industries has been urged, even by some careful thinkers, as a desirable temporary policy. The principal objections are practical. It is difficult to be certain that the development of other industries is not being hindered as much as that of the favored industry is being helped. It is difficult to be certain that the protected industry will eventually reach a point of development such that the cheapness of its products will repay the public for the admitted temporary loss. It is doubtful if a legislative body is usually competent to select industries for protection, on this principle, and it

is probable that, in practice, political pressure from interested parties in various localities will play much too great a part. There is danger that the temporary protection will be continued much longer than is necessary or desirable, since its beneficiaries seldom want to give it up.

Protection is also urged as a means of diversifying industry, and it probably has somewhat this effect. Yet diversification can be purchased at too great a cost. And a large country, with varied resources, is pretty sure of a considerable diversity of industry, even without protection.

The argument for protection to insure national self-sufficiency is, in the main, a military argument. National self-sufficiency is undoubtedly an advantage in time of war. So is large population and great wealth. Protection tends to increase the degree of self-sufficiency and to limit wealth and (consequently) population. It cannot be definitely asserted, therefore, that protection has often an adequate military justification. The greater wealth and population resulting from a free trade policy may mean the possibility of a larger army and navy and a greater safety from attack.

Most of the arguments for protective tariffs on foreign produced goods (though not, of course, the military argument) might be used with equal plausibility in favor of protection by one part of a country against goods produced in another part. It is generally taken for granted, however, at least in the United States, that free international trade brings benefit to each separate state or other section of the country. If so, free trade with foreign countries would, in the same way, bring gain to the nation as a whole.

The industrial and commercial ideal is that wealth shall be gained by service to the community and not by injuring the community. Tested by this ideal, the effort of interested parties to get protection for their industries is morally wrong. For they are endeavoring to gain business and wealth by prohibiting a foreign competition beneficial to the public, instead of by serving the public better than do their foreign rivals.