

The Real Cost of Tariff

Author(s): Herbert J. Davenport

Source: *Journal of Political Economy*, Sep., 1897, Vol. 5, No. 4 (Sep., 1897), pp. 506-516

Published by: The University of Chicago Press

Stable URL: <https://www.jstor.org/stable/1821015>

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over the number of members enrolled in 1895. The aggregate clearings are thus considerable in amount.

The experience of the Austrian Postsparkassenamt is the better worth noting on account of the approval the institution is meeting in other continental countries, as has recently been shown by the proposition brought up in the Belgian chambers for the establishment of a similar organization in Belgium.<sup>1</sup> The efficiency of the Postsparkassenamt in relieving banks of the smaller depositors, and in meeting the wants of this class more fully, is noteworthy. An even more important part of its work is the employment of large aggregates of capital which might otherwise be wasted, or at least hoarded in small sums; and the extension of the use of credit instruments in place of cash among classes formerly unaccustomed to them.

H. PARKER WILLIS.

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## THE REAL COST OF TARIFF.

### I.

POPULAR opinion conceives of political economy as the science of tariff regulations. Students entering upon the subject commonly look for an involved campaign of check and countercheck upon the theoretical justification of protective duties. The space devoted to the question in scientific treatises and the importance attached to it in school and college courses, together with the fame acquired by a considerable number of economists mostly or solely by association with this question, all concur in support of the popular impression. Political economy, however, is vastly more than this, and much of it of vastly greater importance. Outside the scope of economic discussion the tariff may be of transcendent importance—and indeed is so—but purely as a question of social wealth and of commercial profit and loss, the question must rank as one more case of much smoke and small fire—a large cry for a little wool.

It is believed that a little examination of statistics will suffice to make this clear. First, however, a few general principles, approaching almost to axioms, require statement. The productive activities of men are directed toward consumption. Wealth is ultimately useful only as it is consumed in the satisfaction of human needs and desires.

<sup>1</sup> See for text *Annales de l'Institut des sciences sociales*, pp. 229 *et seq.*

Income in any form, whether from capital, land, or labor, is not important as an abstraction, or as a ratio, or as any sum of dollars or counters, but only as finally translatable into goods and wares for consumption. What men get to eat and wear and consume and use makes up the sum of their economic well-being and the total of their industrial rewards as toilers and producers. Wages, rent, interest and profits must all be finally paid out of product—that is, out of the wealth which society produces. What men get to consume is the reward of their getting.

Consumption is therefore the derivative of production, waits upon it, and is strictly limited by it. Men produce that they may consume. Desires are doubtless the motive force behind production, but never the measure either of production or of consumption. For civilized men there is no danger of satiety. Want and privation are possible enough now—even common; but no one in his own estimate ever has too much. Set over against our accomplishment, our desires are practically limitless. Consumption, therefore, adapts itself to product. Hunger never filled even one bin with grain otherwise than as it served as the spur to higher productive effort. High standards of comfort are the result and not the cause of high productive power. Neither nations nor individuals can get high returns upon capital—interest—or high rewards for effort—wages—unless as the result and correlative of high production.

Bearing in mind that capital is merely reserved product—an indirect application of human effort to productive processes—the aggregate product may be regarded as a dividend, and the number of breadwinners as a divisor; the quotient is average consumption.

The sum of wealth produced in any society is a question of two terms—on the onehand, the character and capacity of the members of the society, on the other hand, the nature and advantages of the environment. Either a poor farmer or a poor farm must explain a scanty crop. Crusoe lived in comfort or in privation in part as a question of Crusoe, in part as a question of his island. Good opportunity and well-directed activity furnish all the elements of prosperity whether for farm or for continent. Political economy is therefore primarily a study of the interrelations of man and environment. Nations are poor or prosperous as the outcome of national capacity applied to the national habitat. Regarding man as actor and environment as opportunity, all product is the reward of effort; directly as labor or indirectly as capi-

tal the aggregate product and the wage quotient as well trace back for explanation to these two primary terms.

Keeping these conclusions in view, an analysis of economic conditions in any part of the world becomes a relatively simple matter. Examination must be made of national characteristics in skill, strength, and intelligence, or of environment in climate, fertility, mineral wealth, and the like. If wages are low in India it is either that the East Indian is unintelligent, or lazy, or in some way an ineffective producer, or that India is an ungracious land of flood and sand and drouth. There must be little to eat where little is grown. An overpopulated land is agriculturally an inadequate land. A nation which cannot or will not accept the labor-saving devices of modern mechanics and the wealth-producing miracles of modern chemistry, must suffer from want and must accept privation as its standard of living. If the Chinese receive low average wages, this is to be interpreted as low productiveness of their labor. The explanation must be sought in the qualities of Chinamen as producers, or in their numbers in view of the acres of opportunity at their disposal. So England will have better wages than France as long as English workingmen retain their advantages in vigor and progressiveness, and can apply these to the best iron and coal fields of the Old World. France will prosper as against Germany while the French preserve their relative ability and their artistic superiority, or while France retains, as against the North Sea climate and mountains and sand plains of Germany, the hill slopes for its vineyards, the fertile soil of its lowlands, and the many-sided variety of its almost ideal climate.

To ask what effect a system of protective tariffs may have upon the aggregate productiveness of labor is almost to answer the question in the asking. Laws are not commonly effective to modify temperature, winds, or rainfall, or greatly to change the fertility of the soil. As statutes can add no cubit's breadth to the land, they can make no important addition to man in stature or strength or intelligence. The factors in production remain exactly what they were before. The only effect for good or ill results from the compulsory readjustment of the uses which men make of their environment and from the possible change of direction brought about in the application of their labor. Does protection compel men to work at greater or at less advantage? In what measure and in what direction is their productive activity modified? How many men work where they would otherwise not

work? Does this affect the national dividend in the direction of loss or in the direction of gain? So far as the tariff question is one of aggregate product this covers the entire controversy, unless it can be established that under some one system a smaller proportion of non-employment of labor is probable than under competing systems. But evidence is entirely lacking that protected countries like France, Germany, and the United States differ materially in this regard from free-trade countries like Belgium or England. No great advantage can be claimed in this respect for either side; in truth periods of industrial depression occur from causes mostly or entirely unconnected with systems of trade restrictions.

It is substantially by this test of maximum product that free traders are disposed to condemn the protective system. It is asserted, and it is true, that all trade restrictions amount to an interference with production; effort is compelled to direct itself into lines of relatively low effectiveness; a waste of national energies results. That wages are high in America is shown to be the necessary correlative of high per-capita productiveness. Whenever any employer is unable to pay the ruling rate of wages out of the market value of his product it is thereby demonstrated that his industry makes wasteful application of the productive energies employed in it. To preserve it, by directing into it or retaining in it the labor which could be elsewhere more productively employed, must take place at the expense of the social product and at a necessary diminution of essential wages. The economic interests of society require that all productive energies be applied at their maximum of effectiveness.

What the tariff costs in waste of productive power can then be determined only by an examination of statistics. Data along this line, sufficiently definite and sufficiently exhaustive to justify accurate conclusions, are difficult to obtain. Something, however, may be accomplished with material easily at hand.

## II.

The protected industries of chief importance are the manufactures of wool, cotton, silk and iron. Intimately associated with the textile manufactures are the industries of felt and dyeing. Fuel mining must be considered in connection with iron. If protection, as applied to these industries, can be shown to be of inconsiderable effect upon the

aggregate production of wealth, investigation into other lines of production may be assumed to be unnecessary.

*Wool.*—According to the census of 1890 there were engaged in the manufacture of woolens—including felts and carpets—219,132 employees, with a market product of the value of 306 million dollars. We imported during that year 40 million dollars in value of cloths and dress goods, while our domestic production of these latter aggregated 128 million dollars. Bearing in mind that the coarser grades of woolen cloth can be produced here as cheaply as abroad, if at the same time the necessary foreign wools are admitted free of duty, and bearing in mind on the other hand that our carpets and some other minor products would in part be made abroad under free trade, we shall probably be safe in estimating the effect of free trade as amounting to the destruction of the entire domestic cloth and dress-goods production—128 million dollars. That is to say, free trade would involve a change of employment for  $\frac{1}{3}\frac{2}{3}\frac{8}{8}$  of our 219,000 woolen operatives, or 100,000 laborers.

*Cotton.*—It is well known that our cotton industries have been for some time practically independent of protection, and have indeed been in a considerable measure exporters. In cases of this sort it is evident that free traders can have no great objection to protective restrictions. Where the mills would run without the duty there is no waste of energy in their existence with the duty. Only in the measure that mills would close under free competition is there waste in their existence as the result of tariff. To show that an industry does not require protection is to cancel the importance of the whole discussion as to that industry. In fine and fancy grades of cotton we are, however, at a disadvantage, as is indicated by 29 million dollars of imports, mostly of knit goods, laces and edgings. Our product in these fine and fancy lines is valued at 12.5 million dollars, or  $6\frac{1}{3}$  per cent. of our total cotton manufacture. It is fair to assume that the operatives employed in these finer fabrics would be discharged. The total of operatives in the cotton industry is 221,585. Approximately six and one-third per cent. would under free trade seek new employments, or 14,000 laborers.

*Silk.*—Silk operatives number 50,913. Let us assume the entire destruction of this industry—50,913 laborers.

*Dyeing and finishing.*—In the dyeing and finishing trades there are 20,267 employees. This industry would be expected to suffer in the measure that suffering was imposed upon wool, cotton, and silk,

one-third of the employees in which are held in their present occupation by the tariff. Assume, however, that one-half the dyers and finishers would be discharged—10,134 laborers.

*Iron and fuel.*—The industries of iron, steel, and fuel are more difficult of treatment, and our estimates necessarily afford a broader margin of question. There are, however, sufficient facts to guide us. In 1890 out of 53½ millions of imports only 4½ millions were in the form of ore, pigs or scrap. With iron products freight is extremely important. Only the furnaces and foundries near the seaboard can make great use of foreign ore or foreign fuel. For the interior mines freights alone afford an effective protection. In 1889 our entire product of ore was 14.5 million tons. Of this

Michigan produced	-	-	-	40.34	per cent.
Alabama	“	-	-	10.82	“
Pennsylvania	“	-	-	10.75	“
New York	“	-	-	8.59	“

If now we assume that all mining industries but those of Michigan, Minnesota, Wisconsin, and Alabama would close with the removal of the tariff, our estimate will probably be conservative for present purposes. The number of employees in iron mining is 38,227. We compute that 45 per cent. of these would be discharged—18,000 laborers. Applying the same percentages to the operatives in smelting (34,500) we have 15,500. We must also compute that one-half the expense of smelting and one-fifth the expense of mining are questions of fuel. We shall here allow for a change in the employment of 15,000 fuel miners. This is necessarily a rough estimate erring considerably toward overstatement. According to the last census the iron and steel industries employed in the aggregate 175,506 wage-earners. Our estimates have already allowed for 35,000 of these in smelting. Now, to cover all possible errors, with a liberal margin, let it be assumed that of the remaining laborers 100,000 are dependent for their present manner of employment upon protection—100,000 laborers.

We compute, then, the total number of cases of artificial diversion of labor energy in the selected industries at:

Wool,	-	-	-	-	-	-	-	-	-	100,000
Cotton,	-	-	-	-	-	-	-	-	-	14,000
Silk,	-	-	-	-	-	-	-	-	-	50,913
Dyeing and finishing,	-	-	-	-	-	-	-	-	-	10,134
Iron mining,	-	-	-	-	-	-	-	-	-	18,000

Smelting, - - - - -	15,500
Fuel mining, - - - - -	15,000
Iron and steel industries and general allowance, -	100,000
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	323,547

We have now to determine what proportion of the productive power of these 324,000 producers goes to waste by reason of their employment in industries of relatively low productive capacity. Here, again, we are reduced to the necessity of resorting to an estimate. But it is to be recalled that a few cents per day of difference in wages is sufficient to tip the scales of profit and loss for the employer, or to determine the choice of employment for the wage-earner. If we compute the loss of labor product for these employees at 25 per cent. of their productive capacity, were their energies rationally directed, we shall again err on the side of liberality. Twenty-five per cent. protective duty is commonly regarded as more than adequate to cover differences in labor-cost between domestic and foreign producers. The net result of our computation is therefore that in the leading protected industries the labor energy of 81,000 producers is frittered away in our attempt to attain prosperity by legislation.

How does this affect the national production of wealth — the social dividend? Bread-winners are to the entire population as one to three. The 1890 census gives as the total of persons employed in gainful occupations 22,756,000. Taking it as true that out of 22,750,000 bread-winners the labor of 81,000 is wasted, and rendering this into terms of percentages, we find that protection in the textile iron and fuel industries works a diminution of the national dividend of .35 per cent., a little over one-third of 1 per cent. Assuming our per capita consumption to be represented by \$2 of purchasing power, free trade could then be expected to carry it to \$2.00 $\frac{2}{3}$ .

We have already made a broad allowance for error. Suppose now we multiply by four to cover industries not examined; let it stand as our conclusion that free trade would mean an increase in average consuming power of three cents per day.

For a purpose quite other than the above Mr. Edward Atkinson published in 1888 (in the *Forum* for December of that year) tables of figures deduced by him from the census reports of 1880. We may test our conclusions in the light of the figures presented by Mr. Atkinson. In 1880 the producing force of the nation numbered 17,392,000, as



against 22,756,000 in 1890. Mr. Atkinson distributed the bread-winners of 1880 into separate trades, a work which the Census Bureau of that year had not performed.

How occupied	Computed total number	
1. In mental work	696,000	{ Clergymen, 64,968; lawyers, 64,137; physicians and surgeons, 85,671; teachers and literary, 227,710; journalists, 12,308; scientists and engineers, 8,126; musicians, 30,477; officers of corporations, banks, railroads, insurance, etc., 202,423.
2. Mental and manual	1,044,000	{ Merchants and traders, 481,450; hotel keepers, 32,543; clerks, salesmen, commercial travelers, brokers, and all others engaged in the purchase and sale of goods, 521,898.
3. Automatic machinery	1,740,000	{ Collective factory work: textiles, printing, and bleaching, 500,000; metals and machinery, 300,000; clothing, 450,000; boots, shoes, and hats, 210,000; all others, 280,000.
4. Mechanical: hand and machine tools	1,861,800	{ Mechanical, not collective: carpenters and other workers in wood, 500,000; blacksmiths, 172,726; painters, 128,556; masons, 102,473; all others, 958,045.
5. Manual	2,279,400	{ Service: express, railroad, telegraph employees (not laborers), 300,000; domestic servants, 1,075,655; laundry, 122,000; waiters, 200,000; draymen, hackmen, etc., 180,000; all others, 391,345.
6. Horse and hand tools	4,350,000	{ Farmers, herdsmen, stock breeders, and the like.
7. Chiefly manual	5,420,899	{ Laborers on farms, 3,323,876; laborers not specified, probably in part on farms, 1,857,023; miners, 240,000.
	17,392,899	

Evidently it is under division 3 that the effects of tariff must be mainly felt. Under 7, 240,000 miners must be considered. The total is two million laborers possibly affected under the widest estimate by the tariff. The increase of laboring population in the country from

1880 to 1890 was approximately 30 per cent. Applying this ratio of increase we have 2.6 million laborers to be considered under the census of 1890. Assuming now that by free trade every one of the industries employing these laborers would be ruined—that not a pound of iron or a thimbleful of coal would be mined for any purpose; that not a yard of cotton, or wool, or silk would be woven, or knit, or finished, or bleached; not a hat, or boot, or shoe fashioned; no locomotives, machines, or tools turned out for any trade; that the appliances for the paper mills, the saw mills, the agricultural machine shops, the packing houses, the flouring mills, would all be produced abroad, and that all these industries themselves would be carried on only abroad—and assuming at the same time that the employment of each of these protected laborers in America must be regarded as a waste of one-fourth of his productive energy—this labor loss must count upon free-trade reasonings as a loss of the productive power of 650,000 laborers out of a total of 22,756,000, a percentage of 2.85—so that for every dollar of command over commodities already under protection, we could expect under free trade \$1.028, or from the assumed average per capita consumption of \$2 a rise to \$2.057. Truly, no matter how deliberately or grossly exaggerated, the tariff issue remains from this point of view ridiculously unimportant.

It is equally so from the point of view of distribution. It is clearly not true that the protected industries are free from competition, that their profits rule permanently higher than those of other industries, or that the capital invested in them earns higher interest. Only to the extent that competition is restricted to the domestic field, and thereby the problem of combination made less difficult, can protection be said to make for peculiar favors or for an unequal field. So much for the case in its purely economic aspects.

### III.

The real importance of the tariff question lies elsewhere. If measured in terms of product, the tariff issue is a theoretical distortion—a dwarf set out of perspective and magnified to the proportions of a giant; if taken as a question of distribution, it is the exaggerated bugaboo of envy and discontent and partisan declamation; it is likewise true that as a political question its place and proportions have been misconceived in reverse fashion. The evil of great fortunes has been overstated. Rich men can eat little more than poor men and require not

considerably more to wear and waste. Society and not the millionaire enjoys the use and reaps the profit from the lines of steamships and railroads. The overrich must give away or reinvest their income. It is in the power of wealth and not in the splendor of it or in the inequality of consumption that the danger mostly lies. Rightly gained and rightly even though selfishly used, wealth may be of continuing social service. But in a nation of free popular institutions it is of infinite importance that wealth shall not become an active political power; it is an infinite stupidity to tempt it. To inaugurate a system under which great fortunes are made or preserved by legislative favor, or temporary advantages given, is to set up popular institutions at auction. Republics rest for their safety upon the uncorrupted intelligence and contented loyalty of the masses. With the increased use of money in politics during the last twenty years no man is now naïve enough to trust in the honesty of any political outcome or in the good faith of any legislative action. That politics are indecent is cynically accepted as a matter of course. Suspicion and distrust are an ill omen for the American future. The inner meaning of last year's political campaign must not be missed. One-half the voters of America do not believe our institutions to be sound at heart. The mere fact of their belief is serious enough; it is yet more serious that they are right. The Bryan campaign was in essence an incoherent but tremendously earnest protest against government by wealth in the interests of wealth. The silver insanity was only a symptom. Though stained with envy, class hatred, riot, and all manner of uncleanness, the movement was remedial in its instincts. It will go ill with us if we do not heed its warnings.

Its lesson was this: Whenever the business profits or the invested wealth of any large and wealthy class comes to be allied with politics and legislation, politics and legislation will become a business. Manufacturers purchase new machines or build new plants when these become essential to business profits. When votes or legislatures serve the same purpose, voters and legislators are bought up on like business principles. If civic virtue is at dry rot in America it is largely because under the guise of protective tariff we have set a premium upon our own dishonor. We have made it impossible that politics should be clean; we have furnished the motive to buy us and the money by which we may be bought; we have made corruption a trade.

This is not exaggeration. One beneficiary of protective tariff—the sugar trust—is asserted to profit yearly by legislative favor to the

extent of something like twenty million dollars. An election in which the victorious party wins by half a million majority is exceptional. One hundred thousand votes in critical states will suffice in any election to change the result. If the profits are as they are alleged to be, the sugar trust can afford, if necessary, at the outlay of one-half its profits from four years' protection, to pay eighty dollars each for every one of the half million votes necessary to its triumph. In the critical states votes are worth to it four hundred dollars each. And this is but one of the interests sheltered under the tariff system.

The inside history of the free-trade disaster four years ago in the attempt to reform the tariff will probably never be written. The charge of perfidy and dishonor upon the democratic party was richly enough deserved. But, rightly considered, no more clinching argument for free trade was ever presented than in the failure of a great party, after an unprecedented victory upon a definite issue, to reform the abuses for the destruction of which it was commissioned to office.

HERBERT J. DAVENPORT.

THE UNIVERSITY OF CHICAGO.

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#### FOREIGN CLEARING-HOUSE RETURNS.

IT HAS hitherto been difficult for American students to obtain accurate information concerning the volume and nature of the business transacted by foreign clearing houses. Hence any thorough comparison of the dealings of these organizations with those of American institutions of a similar character has been out of the question. The result has been that credit discussions have been based largely upon the figures for American clearing houses and too often have even been confined to the returns for New York alone, in disregard of the fact that other cities have for some years been gaining in importance as clearing centers at the expense of New York. Even when this last consideration is given due weight, nothing is ordinarily said of the returns for foreign countries, or at most a reference to English clearing houses is made. But as the English clearing houses resemble, perhaps more nearly than any others, our own institutions, less is to be learned from them than from those where (as on the continent) clearings are performed in a different way and upon a different aggregate of credit instruments.

However, the difficulty of obtaining the data requisite for such comparison is now much reduced by the appearance of Professor