

## CHAPTER XVII.

### PROTECTION AND PRODUCERS.

The primary purpose of protection is to encourage producers<sup>21</sup>—that is to say, to increase the profits of capital engaged in certain branches of industry.

The protective theory is that the increase a protective duty causes in the price at which an imported commodity can be sold within the country, *protects* the home producer (*i. e.*, the man on whose account commodities are produced for sale) from foreign competition, so as to *encourage* him by larger profits than he could otherwise get to engage in or increase production. All the beneficial effects claimed for protection depend upon its effect in thus encouraging the employing producer, just as all the effects produced by the motion of an engine upon the complicated machinery of a factory are dependent upon its effect in turning the main driving-wheel. The main driving-wheel (so to speak) of the protective theory is that protection increases the profits of the protected producer.

But when, assuming this, the opponents of protection represent the whole class of protected producers as growing rich at the expense of their fellow-citizens, they are contradicted by obvious facts. Business men well know that in our long-protected industries the margin of profit is as small and the chances of failure as great as in any others—if, in fact, those protected industries are not harder to win success in by reason of the more trying fluctuations to which they are subject.

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<sup>21</sup>For want of a better term I have here used the word "producers" in that limited sense in which it is applied to those who control capital and employ labor engaged in production. The industries protected by our tariff are (with perhaps some nominal exceptions) of the kind carried on in this way.

The reason why protection in most cases thus fails to encourage is not difficult to see.

The cost of any protective duty to the people at large is (1), the tax collected upon imported goods, plus the profits upon the tax, plus the expense and profits of smuggling in all its forms; plus the expense of sometimes trying smugglers of the coarser sort, and occasionally sending a poor and friendless one to the penitentiary; plus bribes and moieties received by government officers; and (2), the additional prices that must be paid for the products of the protected home industry.

It is from this second part alone that the protected industry can get its encouragement. But only a part of this part of what the people at large pay is real encouragement. In the first place, it is true of protective duties, as it is true of direct subsidies, that they cannot be had for nothing. Just as the Pacific Mail Steamship Company and the various land- and bond-grant railways had to expend large sums to secure representation at Washington, and had to divide handsomely with the Washington lobby, so the cost of securing Congressional "recognition" for an infant industry, or fighting off threatened reductions in its "encouragement," and looking after every new tariff bill, is a considerable item. But still more important is the absolute loss in carrying on industries so unprofitable in themselves that they can be maintained only by subsidies. And to this loss must be added the waste that seems inseparable from governmental fosterage, for just in proportion as industries are sheltered from competition are they slow to avail themselves of improvements in machinery and methods.<sup>22</sup> Out

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<sup>22</sup>This disposition is, of course, largely augmented by the greater cost of machinery under our protective tariff, which not only increases the capital required to begin, but makes the constant discarding of old machinery and purchase of new, required to keep up with the march of invention, a much more serious matter. Cases have occurred in which British manufacturers, compelled by competition to adopt the latest improvements, have actually sold their discarded machinery to be shipped to the United States and used by protected Americans. It was his coming across a case of this kind that led David A. Wells, when he visited Europe as Special

of the encouragement which the tariff beneficiaries receive in higher prices, much must thus be consumed, so that the net encouragement is only a small fraction of what consumers pay. Taking encouraged producers and taxed consumers together there is an enormous loss. Hence in all cases in which duties are imposed for the benefit of any particular industry the discouragement to industry in general must be greater than the encouragement of the particular industry. So long, however, as the one is spread over a large surface and the other over a small surface, the encouragement is more marked than the discouragement, and the disadvantage imposed on all industry does not much affect the few subsidized industries.

But to introduce a tariff bill into a congress or parliament is like throwing a banana into a cage of monkeys. No sooner is it proposed to protect one industry than all the industries that are capable of protection begin to screech and scramble for it. They are, in fact, forced to do so, for to be left out of the encouraged ring is necessarily to be discouraged. The result is, as we see in the United States, that they all get protected, some more and some less, according to the money they can spend and the political influence they can exert. Now every tax that raises prices for the encouragement of one industry must operate to discourage all other industries into which the products of that industry enter. Thus a duty that raises the price of lumber necessarily discourages the industries which make use of lumber, from those connected with the building of houses and ships to those engaged in the making of matches and wooden toothpicks; a duty that raises the price of iron discourages the innumerable industries into which iron enters; a duty that raises the price of salt discourages the dairyman and the fisherman; a duty that raises the price of sugar discourages the fruit-preserver, the maker of syrups and cordials, and so on.

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Commissioner of Revenue, to begin to question the usefulness of our tariff in promoting American industry.

Thus it is evident that every additional industry protected lessens the encouragement of those already protected. And since the net encouragement that tariff beneficiaries can receive as a whole is very much less than the aggregate addition to prices required to secure it, it is evident that the point at which protection will cease to give any advantage to the protected must be much short of that at which every one is protected. To illustrate: Say that the total number of industries is one hundred, of which one-half are capable of protection. Let us say that of what the protection costs, one-fourth is realized by the protected industries. Then (presuming equality), as soon as twenty-five industries obtain protection, the protection can be of no benefit even to them, while, of course, involving a heavy discouragement to all the rest.

I use this illustration merely to show that there is a point at which protection must cease to benefit even the industries it strives to encourage, not that I think it possible to give numerical exactness to such matters.

But that there is such a point is certain, and that in the United States it has been reached and passed is also certain. That is to say, not only is our protective tariff a dead-weight upon industry generally, but it is a dead-weight upon the very industries it is intended to stimulate.

If there are producers who permanently profit by protective duties, it is only because they are in some other way protected from domestic competition, and hence the profit which comes to them by reason of the duties does not come to them as producers but as monopolists. That is to say, *the only cases in which protection can more than temporarily benefit any class of producers are cases in which it cannot stimulate industry.* For that neither duties nor subsidies can give any permanent advantage in any business open to home competition results from the tendency of profits to a common level. The risk to which protected industries are exposed from changes in the tariff may at times keep profits in them somewhat above the

ordinary rate; but this represents not advantage, but the necessity for increased insurance, and though it may constitute a tax upon consumers does not operate to extend the industry. This element of insurance eliminated, profits in protected industries can be kept above those of unprotected industries only by some sort of monopoly which shields them from home competition as the tariff does from foreign competition. The first effect of a protective duty is to increase profits in the protected industry. But unless that industry be in some way protected from the influx of competitors which such increased profits must attract, this influx must soon bring these profits to the general level. A monopoly, more or less complete, which may thus enable certain producers to retain for themselves the increased profits which it is the first effect of a protective duty to give, may arise from the possession of advantages of different kinds.

It may arise, in the first place, from the possession of some peculiar natural advantage. For instance, the only chrome-mines yet discovered in the United States, belonging to a single family, that family have been much encouraged by the higher prices which the protective duty on chrome has enabled them to charge home consumers. In the same way, until the discovery of new and rich copper deposits in Arizona and Montana the owners of the Lake Superior copper-mines were enabled to make enormous dividends by the protective duty on copper, which, so long as home competition was impossible, shut out the only competition that could reduce their profits, and enabled them to get three or four cents more per pound for the copper they sold in the United States than for the copper they shipped to Europe.

Or a similar monopoly may be obtained by the possession of exclusive privileges given by the patent laws. For instance, the combination based on patents for making steel have, since home competition with them was thus shut out, been enabled, by the enormous duty on imported steel, to add most

encouragingly to their dividends, and the owners of the patented process used in making paper from wood have been similarly encouraged by the duty on wood-pulp.

Or again, a similar monopoly may be secured by the concentration of a business requiring large capital and special knowledge, or by the combination of producers in a "ring" or "pool" so as to limit home production and crush home competition. For instance, the protective duty on quinine, until its abolition in 1879, resulted to the sole benefit of three houses, while a combination of quarry-owners—the Producers' Marble Company—have succeeded in preventing any home competition in the production of marble, and are thus enabled to retain to themselves the higher profits which the protective duty on foreign marble makes possible, and largely to concentrate in their own hands the business of working up marble.

But the higher profits thus obtained in no way encourage the extension of such industries. On the contrary, they result from the very conditions natural or artificial which prevent the extension of these industries. They are, in fact, not the profits of capital engaged in industry, but the profits of ownership of natural opportunities, of patent rights, or of organization or combination, and they increase the value of ownership in these opportunities, rights and monopolistic combinations, not the returns of capital engaged in production. Though they may go to individuals or companies who are producers, they do not go to them *as* producers; though they may increase the income of persons who are capitalists, they do not go to them by virtue of their employment of capital, but by virtue of their ownership of special privileges.

Of the monopolies which thus get the benefit of profits erroneously supposed to go to producers, the most important are those arising from the private ownership of land. That what goes to the landowner in no wise benefits the producer we may readily see.

The two primary factors of production, without which nothing whatever can be produced, are land and labor. To these essential factors is added, when production passes beyond primitive forms, a third factor, capital—which consists of the product of land and labor (wealth) used for the purpose of facilitating the production of more wealth. Thus to production as it goes on in civilized societies the three factors are land, labor and capital, and since land is in modern civilization made a subject of private ownership, the proceeds of production are divided between the landowner, the labor-owner, and the capital-owner.

But between these factors of production there exists an essential difference. Land is the purely passive factor; labor and capital are the active factors—the factors by whose application and according to whose application wealth is brought forth. Therefore, it is only that part of the produce which goes to labor and capital that constitutes the reward of producers and stimulates production. The landowner is in no sense a producer—he adds nothing whatever to the sum of productive forces, and that portion of the proceeds of production which he receives for the use of natural opportunities no more rewards and stimulates production than does that portion of their crops which superstitious savages might burn up before an idol in thank-offering for the sunlight that had ripened them. There can be no labor until there is a man; there can be no capital until man has worked and saved; but land was here before man came. To the production of commodities the laborer furnishes human exertion; the capitalist furnishes the results of human exertion embodied in forms that may be used to aid further exertion; but the landowner furnishes—what? The superficies of the earth? the latent powers of the soil? the ores beneath it? the rain? the sunshine? gravitation? the chemical affinities? *What* does the landowner furnish that involves any contribution *from him* to the exertion required in production? The answer must be,

nothing! And hence it is that what goes to the landowner out of the results of production is not the reward of producers and does not stimulate production, but is merely a toll which producers are compelled to pay to one whom our laws permit to treat as his own what Nature furnishes.

Now, keeping these principles in mind, let us turn to the effects of protection. Let us suppose that England were to do as the English agriculturist landlords are very anxious to have her do—go back to the protective policy and impose a high duty on grain. This would much increase the price of grain in England, and its first effect would be, while seriously injuring other industries, to give much larger profits to English farmers. This increase of profits would cause a rush into the business of farming, and the increased competition for the use of agricultural land would raise agricultural rents, so that the result would be, when industry had readjusted itself, that though the people of England would have to pay more for grain, the profits of grain-producing would not be larger than profits in any other occupation. The only class that would derive any benefit from the increased price that the people of England would have to pay for their food would be the agricultural landowners, who are not producers at all.

Protection cannot add to the value of the land of a country as a whole, any more than it can stimulate industry as a whole; on the contrary, its tendency is to check the general increase of land values by checking the production of wealth; but by stimulating a particular form of industry it may increase the value of a particular kind of land. And it is instructive to observe this, for it largely explains the motive in urging protection, and where its benefits go.

For instance, the duty on lumber has not been asked for and lobbied for by the producers of lumber—that is to say, the men engaged in cutting down and sawing up trees, and who derive their profits solely from that source—nor has it added to their profits. The parties who have really lobbied and logrolled for



the imposition and maintenance of the lumber duty are the owners of timberlands, and its effect has been to increase the price of "stumpage," the royalty which the producer of lumber must pay to the owner of timber land for the privilege of cutting down trees. A certain class of forestallers have made a business of getting possession of timber lands by all the various "land-grabbing" devices as soon as the progress of population promised to make them available. Constituting a compact and therefore powerful interest (three parties in Detroit, for instance, are said to own 99/100 of the timber lands in the great timber State of Michigan), they have been able to secure a duty on lumber, which, nominally imposed for the encouragement of the lumber producer, has really encouraged only the timberland forestaller, who, instead of being a producer at all, is merely a blackmailer of production.<sup>23</sup>

So it is with many other duties. The effect of the sugar duty, for instance, is to increase the value of sugar lands in Louisiana, and our treaty with the Hawaiian Islands, by which Hawaiian sugar is admitted free of this duty, being equivalent (since the production of Hawaiian sugar is not sufficient to supply the United States) to the payment of a heavy bounty to Hawaiian sugar-growers, has enormously increased the value of sugar lands in the Hawaiian Islands. So with the duty on copper and copper ore, which for a long time enabled American copper companies to keep up the price of copper in the United States while they were shipping copper to Europe and selling it there at a considerably lower price.<sup>24</sup> The benefit

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<sup>23</sup>When, after the great fire in Chicago, a bill was introduced in Congress permitting the importation free of duty of materials intended for use in the rebuilding of that city, the Michigan timberland barons went to Washington in a special car and induced the committee to omit lumber from the bill.

<sup>24</sup>A striking illustration of the way American industry has been encouraged by a duty which enabled the stockholders in a couple of copper-mines to pay dividends of over a hundred per cent. is afforded by the following case: Some years ago a Dutch ship arrived at Boston having in her hold a quantity of copper with which her master proposed to have her resheathed in Boston. But learning that in this "land of liberty"

of these duties went to companies engaged in producing copper, but it went to them not as producers of copper but as owners of copper-mines. If, as is largely the case in coal- and iron-mining, the work had been carried on by operators who paid a royalty to the mine-owners, the enormous dividends would have gone to the mine-owners and not to the operators.

Horace Greeley used to think that he conclusively disproved the assertion that the duties on iron were enriching a few at the expense of the many, when he declared that our laws gave to no one any special privilege of making iron, and asked why, if the tariff gave such enormous profits to iron producers as the free traders said it did, these free traders did not go to work and make iron. So far as concerned those producers who derived no special advantage from patent rights or combinations, Mr. Greeley was right enough—the fact that there was no special rush to get into the business proving that iron producers as producers were making on the average no more than ordinary profits. And could iron be made from air, this fact would have shown what Mr. Greeley seems to have imagined it did, though it would not have shown that the nation was not losing greatly by the duty. But iron cannot be made from air; it can only be made from iron ore. And though Nature, especially in the United States, has provided abundant supplies of iron ore, she has not distributed them equally, but has stored them in large deposits in particular places. If inclined to take Horace Greeley's advice to go and make iron, should I think its price too high, I must obtain access to one of these deposits, and that a deposit sufficiently near to other materials and to centers of population. I may find plenty of

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he would not be permitted to take the copper from the inside of his ship and employ American mechanics to nail it on the outside, without paying a duty of forty-five per cent. on the new copper put on, as well as a duty of four cents per pound on the old copper taken off, he found it cheaper to sail in ballast to Halifax, get his ship re-coppered by Canadian workmen, and then come back to Boston for his return cargo.

such deposits which no one is using, but where can I find such a deposit that is free to be used by me?

The laws of my country do not forbid me from making iron, but they do allow individuals to forbid me from making use of the natural material from which alone iron can be made—they do allow individuals to take possession of these deposits of ore which Nature has provided for the making of iron, and to treat and hold them as though they were their own private property, placed there by themselves and not by God. Consequently these deposits of iron ore are appropriated as soon as there is any prospect that any one will want to use them, and when I find one that will suit my purpose I find that it is in the possession of some owner who will not let me use it until I pay him down in a purchase price, or agree to pay him in a royalty of so much per ton, nearly, if not quite, all I can make above the ordinary return to capital in producing iron. Thus, while the duty which raises the price of iron may not benefit producers, it does benefit the dogs in the manger whom our laws permit to claim as their own the stores which eons before man appeared were accumulated by Nature for the use of the millions who would one day be called into being—enabling the monopolists of our iron land to levy heavy taxes on their fellow-citizens long before they could otherwise have done so.<sup>25</sup> So with the duty on coal. It adds nothing to the profits of

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<sup>25</sup>The royalty paid by iron-miners for the privilege of taking the ore out of the earth in many cases equals and in some cases exceeds the cost of mining it. The royalties of the Pratt Iron and Coal Company of Alabama are said to run as high as \$10,000 per acre. In the *Chicago Inter-Ocean*, a staunch protectionist paper, of October 11, 1885, I find a description of the Colby Iron-Mine at Bessemer, Mich. This mine, it is said, is owned by parties who got it for \$1.25 per acre. They lease the privilege of taking out ore on a royalty of 40 cents per ton to the Colbys, who sub-lease it to Morse & Co. for 52 ½ cents per ton royalty, who have a contract with Captain Sellwood to put the ore on the cars for 87 ½ cents per ton. Sellwood sub-lets this contract for 12 ½ cents per ton, and the sub-contractors are said to make a profit of 2 ½ cents per ton, as the work is done by a steam-shovel. Deducting transportation, etc., the ore brings \$2.80 per ton, as mined, of which only 12 ½ cents goes to the firm who do (sic) the actual work of production. The output is 1200 tons per day,

the coal operator who buys the right to take coal out of the earth, but it does enable a ring of coal-land- and railway-owners to levy in many places an additional blackmail upon the use of Nature's bounty.

The motive and effect of many of our duties are well illustrated by the import duty we levy on borax and boracic acid. We had no duties on borax and boracic acid (which have important uses in many branches of manufacture) until it was discovered that in the State of Nevada Nature had provided a deposit of nearly pure borax for the use of the people of this continent. This free gift of the Almighty having been reduced to private ownership, in accordance with the laws of the United States for such cases made and provided, the enterprising forestallers at once applied to Congress for (and of course secured) the imposition of a duty which would make borax artificially dear and increase the profits of this monopoly of a natural advantage.

While our manufacturers and other producers have been caught readily enough with the delusive promise that protection would increase their profits, and have used their influence to

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which, according to the *Inter-Ocean* correspondent, gives to the owners a net profit of \$480 per day; to the Colbys, \$150 per day; Morse & Co., \$1680; Captain Sellwood, \$900 per day; and the sub-contractors who do the work of mining, \$30 per day, "a total net profit from the mine, over and above what profit there may be in the labor, of \$3240 per day." The account concludes by saying: "As the product will be at least doubled during the coming year, you see there will be some fortunes made out of the Colby mine." To these fortunes our protective duty on foreign ore undoubtedly contributes, but how much does it in this case encourage production?

In Lebanon County, Pennsylvania, is a hill of magnetic iron ore nearly pure, which has merely to be quarried out. It is owned by the Coleman heirs, and has made them so enormously wealthy that these are said by some to be the richest people in the United States. They are producers of iron, smelting their own ore, as well as railway-owners and farmers, owning and cultivating by superintendents great tracts of valuable land. They, doubtless, have been much encouraged by the duty on iron which we have maintained for "the protection of American labor," but this encouragement comes to them as owners of this rich gift of Nature to—Mr. Coleman's heirs. The deposit of iron ore would be worked were there no duty, and was worked, I believe, before any duty on iron was imposed.

institute and maintain protective duties, I am inclined to think that the most efficient interest on the side of protection in the United States has been that of those who have possessed themselves of lands or other natural advantages which they hoped protection would make more valuable. For it has been not merely the owners of coal, iron, timber, sugar, orange, or wine lands, of salt-springs, borax lakes, or copper deposits, who have seen in the shutting out of foreign competition a quicker demand and higher value for their lands, but the same feeling has had its influence upon the holders of city and village real estate, who, realizing that the establishment of factories or the working of mines in their vicinity would give value to their lots, have been disposed to support a policy which had for its avowed object the transfer of such industries from other countries to our own.

To repeat: It is only at first that a protective duty can stimulate an industry. When the forces of production have had time to readjust themselves, profits in the protected industry, unless kept up by obstacles which prevent further extension of the industry, must sink to the ordinary level, and the duty losing its power of further stimulation ceases to yield any advantage to producers unprotected against home competition. This is the situation of the greater part of "protected" American producers. They feel the general injury of the system without really participating in its special benefits.

How, then, it may be asked, is it that even these producers who are not sheltered by any home protection are in general so strongly in favor of a protective tariff? The true reason is to be found in the causes I will hereafter speak of, which predispose the common mind to an acceptance of protective ideas. And, while keen enough as to their individual interests, these producers are as blind to social interests as any other class. They have so long heard and been accustomed to repeat, that free trade would ruin American industry, that it never occurs to them to doubt it; and the effect of duties upon so many other

products being to enhance the cost of their own productions, they see, without apprehending the cause, that were it not for the particular duty that protects them they could be undersold by foreign products, and so they cling to the system. Protection *is* necessary to them in many cases, because of the protection of other industries. But were the whole system abolished there can be no doubt that American industry would spring forward with new vigor.