

CHAPTER XXI

The Tariff

AN ATTEMPT AT FAIR DISCUSSION OF A CONTROVERSIAL QUESTION, BUT IT IS DIFFICULT TO JUSTIFY RESTRICTING LEGITIMATE TRADE OR INFLATING PRICES, FOR THE BENEFIT OF FAVORED GROUPS.

I am a manufacturer, and was a petitioner for the act to encourage and protect the manufacturers of this state. I was very happy when the act was obtained, and I immediately added to the price of my manufacturers as it would bear . . . By this addition I hoped to grow richer. But, as every manufacturer whose wares are under protection has done the same, I began to doubt whether, considering the whole year's experience of my family, with all these separate additions which I pay to other manufacturers, I am at all the gainer. And I confess I cannot but wish that, except the protection duty on my own manufacture, all duties of the kind were taken off and abolished.

—BENJAMIN FRANKLIN

THE RIGHT to property carries with it the right to buy and sell in an open market; and, since justice knows no geographical boundaries, this freedom should extend to all the world. A legacy of narrow thinking perpetuates the fiction of "favorable" and "unfavorable" balances of trade according to the direction of the flow of money. It is the thinking of a miser, who hoards his money rather than part with his gold; but normal men realize that money is worth only what it will buy and willingly exchange the symbol for the reality. We are ever ready to spend for goods which serve our needs, or for factories, railroads, buildings, tools, and other things which constitute capital—investing as we say—to assure a future income, and we cannot invest without spending.

A good deal of the thinking on which a protective tariff is based traces back to a school of thought, called mercantilism, which for many years determined much of British policy. With the growth of manufacturing and the increase of commerce, the idea gained acceptance that a country grows rich only by accumulating the precious metals; and this gave rise to the unfortunate expressions of "favorable" and "unfavorable" balances of trade. The British policy was aimed at increasing exports and decreasing imports, so that the flow of gold should always be toward them. Nothing could have been more stupid, for we often

profit quite as much by buying as by selling. From this mistaken notion arose agitation for "protection."

The question of a protective tariff versus free trade is ever-recurring in our national life, and has long been the object of controversy and of party squabbles. Constantly argued and never settled, it is a perpetual football of party politics, to be kicked around incessantly. Yet it is one of the few controversial questions on which there is something approaching agreement in well-informed circles.

There is nothing complicated about the tariff. In foreign lands many commodities can be produced more cheaply than here. The foreigner can undersell us, that is simple; but now comes the difference in opinion. Shall we permit free and unobstructed importation of goods to be sold in our markets? The free trader says yes: we would all be better off, if we buy our goods in the cheapest market in the world. The protectionist says no: exclude foreign goods, protect our home markets for ourselves, and keep our money at home. Protect the industries and the jobs from under-cutting by "pauper labor," working for a pittance in other lands. They argue that admittance of cheap foreign goods to our markets will force our workers to accept lower wages in order to hold their jobs and keep their employment.

The open and declared object of a protective tariff is to inflate prices in two ways: it may exclude from our markets goods offered at prices lower than our domestic producers can meet; or it may, by adding the amount of the duty to the original price of a foreign product, inflate that price so it is at least as high as the normal American price. Either way it is distinctly inflationary, increasing sales prices of "protected" commodities without adding one cent of real value. An imported coat may keep you warmer than one woven and made here; but if it does, it is not because you paid a duty on it. Indeed a tariff may so increase the price that you must be content with a cheaper and poorer garment, or a tariff may so swell the price of all coats that many will be forced to go without any coat.

To a superficial thinker each side has a pretty clear case, and that may be why the tariff question has never been settled. But let's get down to first principles. There is no question that different countries have different resources, endowments and qualities, and that some can produce some commodities far more cheaply than can others. It is also true that nearly every country has some special advantage. Does it not follow then that the world generally will be better off if each country pursue the line

of industry for which it is peculiarly fitted, and then, by free exchange among the nations, their needs will be met in the most efficient and cheapest market, and all will prosper?

Trade, as the word indicates, is always exchange and means both buying and selling. If we would sell we must also buy; and when we imagine that we sell without buying, it means only that we exchange our wares, not for the ordinary commodities of commerce, but for one particular commodity, gold or its equivalent. We buy gold with the shoes we sell just as truly as our customer buys shoes with gold, and does it follow that we shall profit more by exchanging shoes for gold than gold for shoes? Surely not, if we are unshod. Restricting exchange brings no profit, for it prevents us from getting what we need in exchange for that of which we have a superfluity. When we insist on trading goods only for gold, the time comes, as it has in recent years, when our customers can no longer pay in that metal and trade must cease. Our tariff has frequently brought about sharp curtailment of our export trade and driven men out of employment in well-paid crafts. It has forced women and children into sweated "protected" trades, at starvation pay, for it has killed the export market for commodities which we were producing far more profitably. Can such policy be defended?

Practically all the world's monetary gold was accumulated here and buried in Kentucky, and we would be in better position today had much of it been expended to keep international trade alive and had we accepted in its place rubber, tin, manganese, or a hundred things so urgently needed. For a nation to seek self-sufficiency and isolate itself from the benefit of trade with all the world is as egregious folly as for a professional man to neglect a lucrative practice to cobble his own shoes and make his own clothing in the hope of "keeping his money at home." Let each individual and each nation follow those occupations for which there is peculiar fitness and which yield the largest returns; and, under free exchange, all will profit by the advantages and capabilities of others.

Economists are agreed that the world would be better off under free trade, but some say that one nation cannot act alone and that, as long as others impose tariffs, we must protect ourselves. But protect ourselves from what? From buying more cheaply than we can produce, from expansion of highly profitable industries and from friendly ties with other lands, immeasurably strengthened by reciprocal and mutually profitable trade?

But if we were alone to open our gates, we would throw many

out of work, for we "cannot compete with pauper labor," they say. The first objective, "getting out of work," is something that we all aim at, for we always seek to accomplish our purpose with a minimum of labor, and the second statement is simply not true. We can but we won't compete with pauper labor, as long as we can do better than follow their low-paid callings. Of course, the laborer digs a ditch cheaper than the well-paid executive, but the banker could compete with the scavenger, and probably do a better job if fool enough to do so when he might use his brains, time and effort for a better purpose.

There is an impression that costs are fixed by wage-levels and that cheap labor undersells the well-paid, but such a statement is a reversal of the case. The product of labor is its natural wage and the machinist earns more than the Mexican peon because cars are worth more than baskets. The skilled farmer grows more potatoes than his neighbor: his wages are higher because intelligence and effort result in greater production; and, when a better paid worker continues to compete with a poorly paid, it is only because of bad judgment or because he is forced by a tariff, or some special consideration, to work at tasks below his ability.

Follow the argument of the protectionist to its logical conclusion. Suppose the other nations of the earth, out of the goodness of their hearts, were freely to provide our every need, dumping everything on our doorstep without price. Freed from the laborious grind of providing for mere existence, we could turn our efforts to meet our growing desires, and surely the next best thing to getting something for nothing is to buy it at less than normal cost.

That the curbing of imports restricts exports is a lesson of experience. The Hawley-Smoot Tariff of 1930 raised import duties materially; and then, not content with the drag placed on the return of prosperity by the Republicans, the Democrats must add to our troubles by devaluing the dollar. This had the effect of a further increase in prices.

In some four years our total foreign trade was cut to a third of what it had been; and, since exports and imports must be in approximate balance, both were equally affected. Left alone, diminished sales to us would have automatically been reflected in inability to buy from us, but other nations did not wait for their own impoverishment to bring this about, but retaliated at once by raising their tariffs against us. Switzerland almost quadrupled the duty on typewriters, and Italy so increased the tariff

on our cars that American agencies folded up over night, and what had been a large and profitable market was closed. Such action was paralleled by more than forty countries, which raised their tariffs in retaliation. As a consequence, exports shrank by more than two-thirds, and the automobile trade, our largest and most profitable single industry, with exports which had reached almost half a billion dollars in a single year, shrank by more than eighty-five percent. Total exports to Canada and France shrank to a quarter of what they had been, and the British Empire, our best customer and long a bulwark of free trade, was forced into a protectionist policy, which, with trade preferentials within the Empire, did us real harm.

Can we profit by such follies, crippling our profitable industries, to subsidize shaky occupations which must be "protected," often exploiting the labor of women and children? We hear it said that exports are a minor consideration in a country like ours with so vast a domestic market, but no inconsiderable number of our workers are directly concerned with foreign trade. In some periods from a quarter to a half of the output of many products, such as automobiles, typewriters, sewing machines, farm implements and general machinery, have been produced for export.

Broadly speaking, there is a sharp difference between our exports and our imports. The former are generally manufactured goods while the latter often consist of raw materials upon which our manufacturing is absolutely dependent. Restricting foreign trade, therefore, has two baneful effects: it increases the overhead, which must be borne by domestic consumers, and it increases the cost of essential materials, such as the rubber on which our cars must roll.

There is no denying that the removal of trade barriers would upset some industries, but society can never remain static and progress always means readjustment. Our vast changing society always necessitates modification of industrial life. What happened to bowls and pitchers when plumbing became general? What has become of the manufacturers of gas-lighting equipment? And what became of the harness-makers with the advent of the automobile? What future is there for the makers of razor strops? All life is a process of change, and we must see to it that this constant flux brings happiness and not despair. Women and children slaving long hours in cotton mills might be out of jobs, but husbands and fathers would earn enough in well-paid call-

ings, such as the automobile trade, to support their families; and exploitation of childhood would be ended.

Contrary to common opinion, there is no reason why one country cannot act alone in breaking down the barriers of trade and in stabilizing honest money; and the United States could and should take the initiative. Today especially, when we are called upon to help all the world, it is far wiser to build up their strength, and far more economical to us to encourage their industry by buying from them instead of giving them literally billions and billions of dollars. Free trade on our part would blaze a path which sooner or later other nations would follow.

Today we practically refuse a gift of much which we want. Instead of giving away countless millions and getting nothing in exchange, we could receive in payment products which we need. Instead of giving money away, something of value would be sent us in return, and would practically cost us nothing. It is certainly *Alice-in-Wonderland* reasoning that to "protect our markets" we must accept nothing in return.

Even our foreign friends are puzzled by our backhand reasoning. We have urged Denmark to rehabilitate her industry and increase her production of her very excellent cheese, which is in good demand here. Now she has done it and, to her surprise, although we are lavish enough in giving her money, we refuse to buy her cheese. To the Danes, this policy just does not make sense—nor does it to the writer. The Danes are an industrious and self-respecting people, who prefer to stand on their own feet rather than accept charity; and why, when we give them a few hundred thousand dollars, we refuse to accept their cheese they can't see.

As this was written the daily press carried an article telling of pressure on the government to make certain purchases of very costly heavy machinery in the domestic market, rejecting bids by English producers far below our cost figures here. What was the result? We increased costs and taxes at home: by refusing to buy in English markets we increase the call for foreign aid given to that country, and the cost of giving must be partially borne by the very manufacturers who hope to profit by selling in a closed market. But the worst feature of it all is that by refusing to buy from the English, we forced them to sell to Russia, building up Russia's industrial and military strength by refusing to trade on fair and equal terms with our English allies. Does it make sense to give millions—yes, billions—to foreign governments and then refuse them the opportunity to do business with us which could

be profitable to us and which would be of tremendous strategic military advantage to us, drawing on materials which will otherwise be sold to unfriendly powers? Would we not do well, instead of giving aid to other countries, to buy from them commodities which we need, and particularly which Russia needs, endeavoring to absorb the output which will otherwise go to potential enemies?

The folly of "protection," from another angle, was seen in crossing the border from Mexico in the days of the last war. We were very short of sugar and of tires, and every precaution was taken to restrict consumption and the use of cars. In Mexico they had a surplus of sugar and plenty of rubber. An American tourist returning tried to bring in fifty pounds of sugar for his own use, and he had his tires retreaded just before leaving Mexico City. At the border he was told he could not bring in any sugar and that a tariff would be imposed on his tire job unless he had driven over a thousand miles since the job was done—and he had driven about eight hundred. The only way to escape a heavy duty was to drive back to Monterey and then return to the border with the thousand miles clocked on the speedometer. And then, when back in the land of the free, he was denied sugar and forced to restrict his driving to save rubber! Could anything be more idiotic?

A word should be said about the tie-up between international trade and a stable currency. As it is today, with most of the monetary gold shipped over here, we have an excess of gold. That means an excess of money and higher prices, because the more money we have, the more of it we will give for commodities we need. Practically the only way that those in Asia or Europe can buy from us is by paying us in goods, for they cannot send us gold; and, with our prices inflated, we can afford to pay them good prices for the things we need. Then, ultimately, as we pile up a stock of the things we need urgently—and there are many commodities which we need for national safety—the balance of the ownership of gold may be corrected by our export of gold to pay for increasing imports. Then all the world will be better off and we shall no longer be called upon to support most of the nations of the earth.

The tariff, like most of our taxes, is directly inflationary: it is so designed, to give our manufacturers a monopoly. Every day various interests are appealing to Washington for "protection," and the effect of this "protection" is to give to special interests a subsidy through the higher prices they can get, and the benefits

to these favored groups are paid by the consumer. Today, with prices high, labor scarce, and with almost limitless "defense" demands on industry, manufacturers who need a privileged "protection" should seek to get into strong industries and stand on their own feet.

We have, right here at home in our own land, a striking lesson in the wisdom of free trade; for the United States, despite the folly of the tariff against foreign nations, is the largest free trade area in the world. Through the wise foresight of those who framed our Constitution, all tariffs among our states are prohibited, and throughout the length and breadth of our land we have free trade. Think what it would mean if each state erected a tariff wall against its sister states, and what it would do to a touring motorist to require him to make a custom-house declaration and pay duties every time he crossed a state line. A pretty mess we would make of it, if New York State, to "protect home industries," should attempt to meet its textile needs by growing its own cotton under glass; or if Arizona, to encourage the manufacture of automobiles, should exclude the products of Michigan by a tariff. This is what we seek to do in international trade.

There is another side to it too, well worth bringing out. The protective tariff generally benefits manufacturers at the expense of the rest of the people. It is framed primarily with the idea of developing manufactures; and the result has been that, again and again, it has brought great injury to our agricultural life, because it has shut off exports of farm products and increased the cost of all the farmer buys. A former Secretary of Agriculture is quoted as saying, "The tariff (referring to the Hawley-Smoot tariff) has been the most substantial item in destroying the foreign market for the product of fifty million acres of farm lands." Again and again we have seen instances of this evil effect of a tariff in setting class against class.

Tariffs and comparable trade regulations, established by England, were a primary cause of the American Revolution; and many times these interferences with the natural liberties of men and freedom of his trade have been provocative of war. In our own history it has been much the same. The Webster-Haynes controversy and South Carolina's nullification, back in the eighteen-thirties, originated in tariff disputes. Bloodshed and civil war were averted by only a narrow margin, but seed was sown to ripen thirty years later into a fratricidal war. In that conflict the tariff played no small part; for although slavery was the

vital issue, the argument of States' Rights was born largely of tariff controversy.

Tariffs and international trade have led to many international disputes, and lie back of Russia's penetration of the Far East. How long would our inland states remain content were their foreign trade subject to tolls and restrictions imposed by the seaboard states, or were interstate commerce taxed at each frontier? In the critical formative days of our Republic its very birth was threatened by controversies over trade and tariff, as in 1786 when New Jersey defied the imposition of customs duties set by New York. The stupid and disastrous mercantilist policy to which we have referred was based upon the principle of exploiting colonies, using them simply as trade opportunities and denying them reciprocal advantages.

Too often we confuse the causes of war with incidents which only bring to flame long-smoldering embers. Much is made of the Stamp Act and of the famous Tea Party as causes of the American Revolution, but these were only the culmination of a long series of oppressions, notably the navigation acts and other measures curbing the Colonial trade. *No single step would do as much to insure the peace of the world as free trade, and the time is ripe as never before for the United States to take the initiative.* None of the benefits of "protection," even as dangled before our eyes by the most ardent advocate, are worth their cost in unpaid debts, hopeless inflation, national insolvency, armaments, and blood.

Possibly the reader may say that the question of war and peace is not an economic problem. And yet it is, for today our country is very near insolvency and financial disaster because of the costs of war. Anything which will promote peace is sound economics, as well as sound Christianity.

QUESTIONS

Do all countries profit by producing; and, if possible exporting, goods which they can make to better advantage than can other countries?

Do they profit by buying in foreign markets things which can be made in other lands more cheaply than at home?

Can one country sell indefinitely abroad without buying abroad? If so, in what will the balance be paid?

Does a country prosper more by accumulating gold and silver in payment for what they export than by taking in exchange commodities which they urgently need and cannot produce efficiently?

Does experience show that cutting down imports restricts exports? Is it wise to encourage industries which need a tariff subsidy at the expense of industries which stand on their own feet?

Is the object of a tariff to inflate prices of favored commodities?

Is it just or wise to give some industries special privilege and advantage, to be paid for in higher prices?

Is a tariff virtually a subsidy?

Do tariffs and similar restrictions on trade tend to promote ill feeling between nations? Are they sometimes productive of war?

What would you say of the taxes levied on the American colonies, such as the tariff on tea, and of restrictions on our foreign trade by the navigation acts?

Would we profit today by importing from England heavy munitions, machinery and defense supplies, even though we could make them at home, or do we profit more by forcing England to sell these goods to Russia, and giving England cash grants?

Would it be better if we imported these articles, paying England for them instead of giving them money, or are our steel and machinery industries so depressed that they must have protection?

Do we profit more by giving billions to foreign nations outright than we would in buying goods from them?