CHAPTER II

★

"THE UNITED STATES HAS A DUTY TO ITSELF"

AS WOODROW WILSON put it in 1920: "The United States has a duty to itself as well as to the world, and it can discharge this duty by widening, not contracting, its world markets."[1] Correctly fearing the erection of new and higher trade barriers, he declared that "that would stand in the way of the normal readjustment of business conditions throughout the world, which is as vital to the welfare of this country as to that of all the nations." Those words were unheeded at the time. They apply with greater force than ever to the situation of the United States today. Whatever the outcome of the efforts to establish the International Trade Organization and an agreement for joint reductions or suspension of all tariffs for five years or longer, the Government must devote itself to this economic problem no matter how great the pressure in other directions, bearing clearly in mind that, despite Mr. Wilson's warning, our tariffs were raised to unprecedented heights in 1922 and 1930, and the country drifted into the great depression of 1929 and World War II.

Again this Government has issued this warning to the world. If it, too, is unheeded, then the United States has a duty to itself to go ahead with straightforward reductions of its present tariff rates. It is seeking to lead the world toward economic sanity and tariff moderation. Well, the way to lead is to lead, to prove to all nations its readiness

[1]Message to the House of Representatives, March 3, 1921. *Congressional Record*, vol. 60, pp. 4498–99.

to set a convincing example that it means what it says, that it is ready to assume the responsibility of leadership. To this there will naturally be immediate protest. Upset the country when it is in the throes of reconstruction by demanding the passage of a complete tariff reduction measure? What, lower our tariff defenses and let in goods from every bankrupt State? And there will be the usual question, how is it possible for a nation to move far toward free trade if all the others are headed in the opposite direction? The answer is that for the sake of our own welfare and prosperity it is absolutely necessary to invite imports into the country, as is being done in Canada and England, and elsewhere. If Congress does not respond, if the business world does not insist upon this relief, then the onus of what will happen to us will rest upon their shoulders.

As for lowering our tariff defenses and letting in the goods from States whether bankrupt or otherwise, the response to this question is given in full in the following pages. When it comes to the inquiry as to how one country can move toward free trade and profit if the others are heading in the opposite direction, the reply is that free trade has never been world-wide; that "if Free Trade must be universal, it has, of course, never existed . . . ."[2]; that gains from freedom of trade never depend wholly upon other nations following suit. For decades free trade England faced a largely protectionist world and enjoyed the greatest prosperity it has known. It was when it changed over gradually to protection that we began to hear much about its depressed areas, its many unemployed, its underpaid and underfed workmen, its slum cities, its constant expenditures of great sums in doles.[3]

[2]Herbert W. Paul, *Stray Leaves* (London: John Lane, 1906), p. 20.

[3]That some of these conditions existed in free trade England is, of course, true. It has always had slums and depressed cities.

Today the real menace to the United States is not from any foreign competition. The danger is freedom from the competition of foreign-made goods and the present inability of the war-wrecked countries to reconstruct their industries and to use their products to buy from us. It is true that immediately after the war, especially in 1946, there was a booming export trade greater than the United States had enjoyed in twenty-five years, so that there was actually some belief in Washington that the Government might be temporarily compelled to limit exports in order to prevent the stripping of the United States of consumer goods urgently needed by the American public. This in nowise, however, affects the validity of the arguments herein advanced for the building up of our imports. The reasons for this good fortune were first, that this country was the only one able to supply even part of the postwar demands; second, that it was favored by most bountiful crops; third, that our world-wide exports so far outstripped all records during the war; and fourth, the elimination for the present of Germany and Japan as commercial rivals.

Obviously, this is a transitory condition bound to end in the relatively immediate future. It is, for example, hardly surprising in view of the hundreds of millions of dollars voted by Congress to the Philippines to repair their devastated land and ruined towns and cities, that the sum total of their imports from America for 1946, $316,000,000, should be 3.7 times the size of their 1937 imports from us. The rise of our raw cotton exports by 175 per cent for 1946 is again but the natural result of the world's thirst for cotton, so largely unslaked during the war years.

Just as soon as these extraordinary conditions are ended, and the trade of the world returns to a more normal basis, foreign countries will find it hard indeed to fill the wants of their people by purchasing from us or from other countries

if we refuse to import on a larger scale than ever before. In other words, we shall be in great need of the very imports the protectionists decry as certain to lower our standards of living. Whatever temporary exceptions there may be to the general rule, foreign trade, it must be said once more, is not traffic in a one-way street. It must be two-way if it is not to dwindle to small proportions or to cease altogether. The world emergency does not alter this fact; on the contrary, it brings it into the clearest light. It is this that explains the eagerness of our officials to couple with any Washington loan to a foreign government the requirement that at least a considerable portion of the sums advanced shall be used by the borrowers to purchase American goods. It was the unofficial British readiness to use a large part of the $3,750,000,000 loan in this way that provided one of the most important arguments for Congress's acceptance of this transaction.[4] Thus we are using our own Treasury funds to build up our export trade in the hope that sooner or later the borrowers will be able to repay us by sending us materials or agricultural products, or natural wealth, created and shipped at their own expense by their own labor from their mines, fields or factories.

Were there need to justify this procedure of our government in its effort to build up our exports, it would be sufficient to say that nothing must be left undone to get the world out of its present dangerous chaos and back to an orderly condition with the wheels of trade revolving normally and swiftly. Under the old American tariff order this country deliberately tried to limit its exports by reducing its imports through the establishment of the highest tariffs eyer known, while seeking at the same time to increase its exports by smarter salesmanship. After we be-

[4]Because of the extreme need for foodstuffs and other necessities, England has been unable to buy as much machinery and other equipment here as planned.

came a creditor nation we tried to obtain interest on the sums owing to us by many governments, as well as reduction of the loans themselves, and at the same time sought to prevent as much as possible the sale of foreign goods here. As Mr. L. R. Edminster of the United States Tariff Commission has succinctly put it: "For several years it was possible, by resort to new lending [abroad] to keep the inherent absurdity of this conglomeration of conflicting policies below the surface."[5] Then there came the inevitable result. The country that refused to heed Woodrow Wilson's advice paid the price, which included the loss of vast sums loaned overseas by the Government and by individuals.

Never was there a better hour for the United States Government to strike against the protection evil because there is a revolt in America against the tariff system, unequalled since the Civil War, among the workers, the financiers and the capitalists as a whole, induced in large measure by the world situation, but also by a rising understanding of the vital importance to us of our export trade and therefore of large imports. The enlightened are aware that we cannot at this juncture of our history afford to say: "We have greater industries and are more nearly self-sufficient than ever before. Let us therefore withdraw into our economic shell and let the world go hang." They realize that we cannot turn away from the rest of the world and accept the doctrines of autarchy when the totalitarian menace is greater than ever and certain to get worse if the normal processes of life and a decent prosperity are not speedily re-established—if only in order to make the scourged peoples forget the years of horror through which they have passed. When the Government, and the President, without direct authority from Congress, find it absolutely necessary to break with our economic history and beg for a new tariff deal, then even the politicians

[5]Papers and Proceedings, *American Economic Association*, January, 1943.

must be beginning to realize that we have had within the body politic a cancer in need of the sharpest of the surgeon's knives.

Today the United States should think of the duty it owes to itself, not only by considering what protection has meant to it in the past, the political and economic corruption, the trend toward trusts and monopolies, the wasteful maintenance of businesses that cannot stand alone, the creation of class favoritism and of huge fortunes and indefensible personal privileges, but also by concentrating on its existing situation. We have come out of the war, as everyone knows, with an enormously increased industrial plant capable of a vast output. For the moment there exists a tremendous home demand for it. But the minute the initial necessities of the people for such goods as clothing, household utensils, refrigerators, radios, automobiles and farm machinery are fulfilled, if it is then not possible to market our huge surplus abroad we shall face grave unemployment and social unrest, the abandonment of many costly factories, the loss of much invested capital with huge burdens upon the Treasury for the support of the unemployed and another shifting about of considerable portions of the population. Is it not plain that any grave depression would put our democratic institutions to their severest test in this totalitarian age? Certainly the tremendous prosperity the country has enjoyed because of its enormous wartime income—derived from the production under government direction of billions and billions of dollars' worth of instruments of destruction which have completely disappeared, or will soon[6]—will make more than ever dangerous a reversion to unemployment, to the WPA, to the erection of public buildings not absolutely needed, es-

[6]For one example among innumerable ones, the Government in August, 1946, reported the sale for scrapping of 21,000 planes for $6,582,156, which cost originally $3,900,000,000!

pecially if the present bitter housing shortage is then intensified by the inability of capital to continue any large building program.

It is not yielding to sensationalism or being unduly alarmed by the Communist menace to stress the gravity of the domestic situation as evidenced by the lack of leadership and of few clear-cut economic or labor policies in Washington, the drift toward collectivism in our labor movement, the rise of the treasonable belief in some quarters that "only a strong man can get us out of this mess," and that "the days of free competition in America are numbered." The price paid for the war in the destruction of more than five hundred thousand small businesses, and the increased power of the great corporations, trusts and monopolies because of their enlarged resources and equipment and their general superiority to their competitors where there are any, threaten the future development of our industrial machinery and our social advancement along the historic American line. If it is not countered by greater and greater freedom of action whenever that is possible, then the movement toward totalitarianism is certain to be accelerated and stimulated. The enemies of democracy will declare that this Republic cannot govern itself in these days of an ever more intricate and interwoven industrial system, especially in the face of the tremendous rise in the power of labor; that halfway governmental controls of agriculture and industry, the commodity markets, and numerous other forms of private enterprise have failed.

To all of this desertion of American policies and institutions the answer must be a renewed faith in our own country and what our people stand for. We still are among the best educated and most industrious populations on earth and our industry, thrift, skill, invention, and enterprise have again been amazingly demonstrated by our conduct of the war

and the development of innumerable new techniques and scientific and industrial procedures. Only one country really rivals us in the variety and richness of its natural resources, and that is Russia. But, is it not preposterous to assert that we shall have to defend ourselves by tariff barriers against the products of that great people, shackled and impoverished as they are by their own system, confined within their own boundaries except when sent en masse to kill, deprived of a free press, and devoid of all knowledge as to what is really going on in the world, riddled with corruption, and harassed, according to their own leaders, by traitorous practices within government and industry which can only be stopped by almost regularly recurring bloody purges? Must we close our ports in part or as a whole against importations from this foreign nation of slaves? Do Americans really believe that the coming in of goods from Russia, or from all of Europe and Asia, will mean "vacant factories, furnaces standing idle, the shops of manufacturing industry closed, labor begging and starving for want of employment" and all the other evils predicted by the defenders of protection?

If so, there is something very wrong, not with the American people, but with the system under which they live. To assert that with all our talents and our wealth, all our freedom from many of the burdens shouldered by the peoples of what we used to call the "effete nations" of Europe, it is not possible for us to live in happiness and prosperity in this world save behind the highest tariff walls, is to say that no peoples on this globe are capable of a satisfying life or of enlightened progress. For one thing, it will clearly mean that we have not mapped out proper programs. We have been intensely nationalistic in our tariff policies, and now we have become politically intensely internationalistic, although the two cannot be reconciled. For nearly our entire national life we have lived on an isolationist basis, and now we denounce

as isolationists all who do not believe that we should go to war abroad, or look with alarm upon our present plight in which we are contending with Russia and Great Britain for the management of the entire globe. The remedy is, it must be repeated, to maintain every possible economic freedom, even in the face of the ever-present pressure for greater and greater government control of the lives of individuals, their movements and their businesses. Of these liberties none is more important than freedom to trade in the lowest priced markets and to sell in the highest available.

It is not to be understood that the appeal in this volume is for immediate abolition of all tariffs. Every free trader is aware that a system built up over centuries could not be done away with in a day without inviting industrial disorder, much unemployment and serious losses. Readjustments will have to come if there is any long step taken toward radical rate reductions. Inefficient and economically unjustifiable enterprises will perish, or be absorbed by others. Regrettable as this may be, it is the price any unnatural economic growth should pay for its mulcting of the taxpayers for the support it could not win for itself. It is, moreover, anything but unusual in industry and business. Every great economic or industrial change, almost every important invention, causes radical dislocations in business. The coming of electricity practically ended the making of oil lamps. The rise of the steamship drove the sailing ships off the seas. The arrival of the automobile ended the trade of the carriage-makers and the livery stables, of multitudes of harness-makers and blacksmiths; horse-breeding farms all but disappeared. Great sums were lost in all these enterprises yet no one complained. This evolution was recognized as something inevitable if society is to progress, if our standard of life is to rise, if the benefits of the unceasing inventiveness of mankind are to be garnered.

So any marked advance toward abolition of tariffs will exact its price—and may therefore be tempered. So great will be the profit to the whole mass of consumers, however, that the Government could well afford in certain instances to reimburse producers mustered out by its refusal any longer to continue as a silent partner and to guarantee the prices which alone make possible the maintenance of these enterprises. It would surely have paid handsomely if the Government had bought out the American sugar producers, whether of sugar cane or sugar beets, at their own valuations, and thus relieved the nation's housewives of the $200,000,000 a year of which they were mulcted for generations in order that this unnecessary and forced sugar growing under the American flag should continue. However trying such a readjustment might be, the ending of one group's sponging upon the Treasury because of the uneconomic character of its business or agricultural pursuits, would be highly to be acclaimed in a time when great masses of Americans seek to obtain some kind of pensions or support from the Federal till. The abolition of tariffs would mean notable progress back to individual self-reliance and self-respect, to business independence. For this it is hard to think of a price too high. The only requisite is that the process of readjustment be made deliberately and as painlessly as possible when the United States fulfills its duty to itself.