



## OUR TARIFF SHACKLES

WHAT is the extent of the American tariff burden which plays so tremendous a role in our national life and in our international relations? Few Americans can answer that question or even say how many of our laborers are actually employed by companies which profit by the tariff. Nor is there any understanding of how small is the revenue received from customs duties in comparison with that produced by the income taxes. As it is, there are no less than 5,044 imported articles or schedules, of which 830 come in free. According to the 1940 census there were 45,000,000 Americans gainfully employed at that time. Of these, some 25,000,000 were in construction or transportation, or the wholesale and retail trade. There were 8,000,000 farmers. Of the remaining 12,000,000 engaged in manufacturing, mining, forestry, fishing, etc., nearly half were employed in making automobiles, trucks, aircraft, electrical equipment such as refrigerators, or in certain iron and steel plants, none of which need any tariff protection—some of them, like the automobile makers, openly say so. Actually not over 2,000,000 Americans work in industries which come into direct foreign competition and might possibly be helped by the tariffs—2,000,000 out of 45,000,000. If this is correct, and the figures are official, at least 43,000,000 Americans are paying heavily in indirect taxation on many things they must buy for themselves and their families in order to benefit the 2,000,000 employed in industries which may profit by the tariffs. More than 3,000,000 unprotected workers are engaged

in industries which pay better than the average wage scales because they produce for export markets.

What does the Treasury gain from customs revenue? There was a time before the great expansion of the United States in this century, when the customs income was essential to keep the government going. Today, with billions pouring into the government's till from income and other taxes, it has become of minor financial importance. Thus, in 1930 the internal revenue produced \$3,040,145,733, while the customs produced only \$587,000,903. In 1946, the government's income was \$40,672,098,997.88, of which the customs revenue was only \$435,475,072. If President Cleveland and the others who firmly insisted that tariffs should be put on for revenue only, were living now, they would not find that the argument carried much weight with a government that thinks nothing of spending more than eleven billion dollars, 34 per cent of its budget, in one year of peace, upon army and navy alone. Today, there is plainly no financial reason why tariff taxes should be maintained a single hour. Protectionists seeking to explain the alleged necessity of keeping incapable or newly created industries alive are therefore forced back upon such stock arguments as maintaining a higher standard of living for the American worker and preserving us from the opportunity to buy foreign-made goods more cheaply than they can be produced at home.

The trend of the tariffs since 1890 is shown by the following table in percentages:

<i>Tariff Act</i>	<i>Average Free Imports*</i>	<i>Average Dutiable Imports*</i>	<i>Equivalent Ad Valorem on Dutiable</i>
McKinley 1890-1894	52.4 per cent	47.6 per cent	48.4 per cent
Wilson 1894-1897	49.4	50.6	41.3
Dingley 1897-1909	45.2	54.8	46.5

\*On basis of value.

<i>Tariff Act</i>	<i>Average Free Imports*</i>	<i>Average Dutiable Imports*</i>	<i>Equivalent Ad Valorem on Dutiable</i>
Payne-Aldrich 1909- 1913	52.6 per cent	47.4 per cent	40.7 per cent
Underwood 1913- 1922	66.3	33.7	27.0
Fordney-McCumber 1922-1930	63.8	36.2	38.5
Hawley-Smoot 1930- 1934	64.3	35.7	52.5
Hawley-Smoot 1935- 1939	59.8	40.2	40.0

\*On basis of value.

If we analyze our imports of 1940, we find that they were divided as follows: Crude materials 39.79 per cent, crude foodstuffs 11.22 per cent, manufactured stuffs 10.92 per cent, semimanufactured goods 21.99 per cent, and finished manufactures 16.08 per cent. Today sugar is burdened by a duty of 69 per cent (Cuba 39 per cent), apparel wool 33 per cent to 88 per cent, flax yarns 27 per cent, tungsten 60 per cent, manganese 43 per cent, tomatoes 69 per cent, cigar wrappers 98 per cent, combing wool 54 per cent, cigarette leaf 62 per cent, flaxseed 28 per cent, long staple cotton 24 per cent, mustard seed 32 per cent, vanilla beans 5 per cent and edible olives 33 per cent. These random examples will prove to the reader how directly the tariff affects the life of the individual.<sup>1</sup> It can, however, be shown even more specifically. As has been pointed out by Professor Lawrence W. Towle,<sup>2</sup> the effect of a tariff duty is that the consumer often pays a price "enhanced by *more* than the amount of the duty, for ordinarily the imported article is not imported directly by the ultimate consumer but must pass through the hands of one

<sup>1</sup>For further details of this see Chapter XVI, pp. 166-68.

<sup>2</sup>Lawrence W. Towle, *International Trade and Commercial Policy* (New York: Harper & Bros., 1947).

or more middlemen. The increase in the price paid by the consumer exceeds the amount of the duty because the middleman customarily marks up his cost price by a fixed percentage, and this percentage mark-up applies to the duty as well as to the price paid by the middleman."

Professor Towle illustrates this by taking the case of a pair of shoes for which the importer pays \$3.00 a pair at the port of entry. What happens is shown by the following table:

	<i>No</i> <i>Tariff</i>	<i>50 per cent</i> <i>Ad Valorem</i> <i>Tariff</i>
Importer's c.i.f price	\$3.00	\$3.00
Duty paid to government	0.00	1.50
Total cost to importer	3.00	4.50
Importer's mark-up 33½ per cent	1.00	1.50
Total cost to retailer	4.00	6.00
Retailer's mark-up	1.33	2.00
Price to consumer	5.33	8.00

Thus, of the \$5.33 paid by the consumer, \$3.00 represents the imported price and \$2.33 the middleman's profit. But if a tariff equivalent to 50 per cent is charged as in the second column the price to the consumer rises to \$8.00. As will be noticed, the difference between the duty and increased price is \$1.17 additional profit for the middleman.

After such a straightforward illustration as this, no one can question that the tariff is a domestic problem in that it affects every single American, man, woman, or child, making their living the more difficult, or doubt that it is not the foreigner who pays the tax. Years ago it was correctly stated that "if each article sold was plainly labelled with the natural price and the artificial protection-created price separately stated, the people would make short work of the tariff. It is because of popular ignorance that the always forgotten

sufferer takes his punishment like the weak and stupid ox."<sup>3</sup> It is, of course, impossible to expect that any such clever expedient would ever be approved by Congress; actually the hope of relief lies today in the international situation rather than in any expectation that, without far more potent and convinced leadership in Washington, it will be possible to dispel the mist of ignorance and untruths which surround the whole tariff question. Yet elucidation must come.

Meanwhile, every effort should be made by the Administration to supplement President Truman's Baylor College address by other public speeches laying the simple facts as to the tariff before the American people—as, for example, how few working men are aided and how many injured by it, that what labor needs is economic justice—not protection—"not legalized restrictions which permit one set of men to tax their fellows," as Congressman Tom Johnson once put it.<sup>4</sup> There should be rammed home such statements as that made by former Secretary Cordell Hull in discussing the manganese situation in his defense of the reciprocity treaties:

The fog of propaganda cannot obscure the truth. First, the number of wage-earners mining manganese ore in the United States is only a few hundred. . . . Secondly, the amount of American production of manganese after all these years is less than 10 per cent of the amount consumed in the United States. . . . Furthermore, the sum total of the results of domestic efforts to produce manganese have declined for a number of years.<sup>5</sup>

Mr. Hull added that in the years 1923 to 1928 the value of the domestic output was \$7,617,800, whereas the duties col-

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<sup>3</sup>George S. Merriam in the *Free Trade Broadside*, vol. 1, no. 5, p. 8.

<sup>4</sup>Letter to the Cloak-Makers of Cleveland, Ohio, in 1893, declining their request that he vote against the Wilson tariff bill.

<sup>5</sup>Cf. Harold B. Hinton, *Cordell Hull: A Biography* (Garden City: Doubleday, Doran & Co., 1942), p. 286.

lected amount to \$31,773,480. Since 1928 about \$60,000,000 has gone to the Treasury from the same source. While the United States Government has thus enriched the few owners of manganese mines in the United States, it has continued to buy the supplies it needed, and its citizens likewise, from the other countries whom nature has favored with larger and better deposits, at the increased prices due to the tariff—all for the benefit of a few hundred people.

If one studies our customs returns carefully one finds not only that the total customs income is a negligible figure, but that in some cases the American citizen pays out nearly as much, or more, for the import duties as the total value of the product the tariff was supposed to be protecting. The following table clearly illustrates this.<sup>9</sup>

<i>Commodity</i>	<i>Domestic Output</i>	<i>Duty Collected</i>
Agar-Agar	\$18,000	\$95,000
Christmas Tree Ornaments	200,000	468,000
Bobbinets	842,000	1,030,000
Manganese ore (containing 35% or more of manganese)	731,000	2,896,000
Embroidered household articles	4,000,000	3,391,000
Olives	1,702,000	1,599,000

In most such cases no harm would be done by letting the American worker who produces these materials shift to some other trade, or making his employer stand on his own feet.

Now what are the countries or continents which are supposed to be trying their best to take the bread out of the mouths of our workers and should therefore be considered as our chief commercial enemies? Taking the figures for 1938, Europe exported to us \$371,727,000 worth of goods upon which it paid duty in order to pass them over our boundaries, while \$196,306,000 came in free of duty. From

<sup>9</sup>Cf. *Fortune Magazine*, April, 1947.

Asia, \$450,155,000 came in duty free and \$119,771,000 paid duty, and for South America the respective figures were \$192,717,000 and \$70,263,000 upon which we collected entry taxes. The large amount of duty-free imports from Asia is due to the importation of certain raw materials and food-stuffs which are not taxed. It stands out from these facts that the highly industrialized countries of Europe are those most eager to do business with us and most ready to exchange goods. Thus, in 1938, the United Kingdom bought from us no less than \$139,294,000 worth of finished manufactures, excluding agricultural products. The Argentine purchased \$72,614,000 of finished goods, and the Philippines were our third best customer for finished manufactures with Japan only a few dollars behind; \$65,092,000 for the former and \$65,079,000 for the latter. South Africa stood fifth as it paid us \$63,100,000, with the Soviet Government buying \$58,054,000 worth of the products of our factories. Of the other countries, Brazil stood seventh, Australia eighth, France ninth, Venezuela tenth, and Germany only eighteenth, just ahead of British India and the Netherlands Indies. Yet the belief persists with many people that we do not do as well in exporting as the European nations. On the contrary, we head the list.

Here the question will undoubtedly be asked: "How great a difference has been made by the trade agreements negotiated by the Roosevelt and Truman Administrations in the ratio of duty to the value of dutiable imports?" The answer is, very little. The ratio was 40.10 per cent in 1929 and had fallen only to 39.30 per cent in 1938, a trifling change, especially as the reciprocity agreements affect some 2,416 articles. Indeed, in six out of fifteen tariff schedules in 1938 the ratio was actually higher than in 1929. These figures make it impossible for the opponents of the trade agreements to say that they have lowered the protection of American goods to

a serious degree. From the tariff reformer's point of view they make it plain what a compromise the Hull trade agreements have been, and how far they are from making a really radical change in the protective system. It is, however, important to note that while our imports of finished manufactures increased by some \$77,000,000, or 22.5 per cent, between 1932 and 1938 when the trade agreements were in force, our exports of completed manufactures increased in the same time by no less than \$900,000,000, or 142 per cent—another hard nut for the opponents of the trade agreements to crack.

How about the effect of European cartels on American export trade? It is often asked whether it is not necessary for this country to legalize cartels and for its merchants to participate in them in order to meet cartel competition and to prevent the exploitation of our producers. It is true that the American business man is at times at a disadvantage in having either to give up a foreign market or, if he strikes hands with a foreign cartel, to risk being prosecuted by his own government for violation of the antitrust laws. Cartels have been discussed elsewhere in this book, but it is proper to point out here that one school of American thought believes that the outsider has a greater advantage in dealing in a foreign country than does any cartel composed of other foreign exporters. The independent dealer is not bound by any rules, does not have to contribute to the cost of maintaining the cartel, does not need to restrict his sales or his prices to suit partners in his enterprise, and can very readily take advantage of any errors by the management of the foreign cartel. If, however, as happens, the exporter is driven out of a field by the foreign combination, he can turn up again at any moment, taking quicker advantage of any local condition than can the foreign cartel.

Finally, the public should understand that every effort



should be made to enlarge the field of business competition as opposed to the monopolizing of American industries by greater and greater aggregations of capital fortified by high tariffs and the growing invisible tariffs. All of these are shackles to hamper the liberty of the individual to do business as he sees fit, wherever he pleases, whenever he pleases, at his own risk. All of them raise the cost of living to the individual. All of them head us toward the totalitarian field. Above all, in every discussion of the protection theory there should be stressed that Alexander Hamilton himself, the founder of the American protective system, declared that "protection to be available must be got out of the belly and back of the great mass of the people."