CHAPTER XVI

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THE TARIFFS AND THE CONSUMER

EVERY American is a consumer no matter what his occupation or his station in life. As such he pays a high tariff whether he is a bus driver, a white-collar worker, a farmhand, a bishop, a lawyer, or a millionaire. There is no possible escape from that tax. It rests upon all, whatever their economic belief, their religion, their color, their age, their habitation. It would take a Whitman adequately to describe the vast variety of Americans—all of whom are consumers and therefore pay the tariff tax, all of whom have one economic interest, the price of the commodities they buy, for our standard of living depends upon the cost of living.

Yet not one in thousands of Americans is even aware that he pays that tax every day, almost every hour of the day, as surely as he pays his income tax if he is liable for one. It is precisely that ignorance of this levy that plays into the hands of protectionists. It is an invisible tax, included in the price of every article but not entered on the price-receipt as are the sales taxes in our cities. As Henry Wallace has well put it: "Tariffs are the most noiseless method of collecting a tax from a consumer," and in 1945 he made a sound statement to the House Ways and Means Committee when testifying at the hearings on the extension of the Reciprocal Trade Agreements Act:

> The tariff, because of the effect which it has on the living costs of each individual in the United States, should be entered as an item in the total national budget. If this were done, the tariff cost

to individual consumers in the United States would amount to several billion dollars.

If that were done, and the individual consumers could be made to understand how directly each citizen is affected by the tariff, the walls of every protection citadel would collapse. Americans pay such taxes to assure the profits of 10 per cent of our industries? It would be unthinkable if they knew they were doing that.

Supposing one of these taxpayers who has so often heard the old falsehood that "the foreigner pays the tax" decided to ascertain for himself just how the tariffs affect him from his waking hour until he retires at night. On rising he would discover that he gets out of cotton sheets and woolen blankets, the prices of which are enhanced by duties of 25 per cent ad valorem for the former, and twenty cents a pound, plus a 36 per cent ad valorem tax, for the latter. He would find that his wife's cotton nightdress is protected by an ad valorem duty of 20 per cent. When he shaves, his safety razor is the more expensive because there is a duty on each imported razor of five cents plus 15 per cent ad valorem, and so the American maker raises the cost of his product to the very point at which he can just undersell the cheapest foreign competitor.

If it is winter time, this citizen puts on woolen underwear, taxed thirty-three cents a pound, plus 30 per cent ad valorem duty. Next, he slips on a woolen suit which bears the same taxes. His felt hat may cost him 12½ per cent more than it would if not protected from foreign competition. His leather shoes and boots carry a 30 per cent ad valorem burden. If his wife prefers silk hose to rayon or nylons, their cost to her will be fixed at a 60 per cent duty for the benefit of this industry. In the days when she wore the old-fashioned corset it bore a 50 per cent ad valorem tax—so do girdles today, and her hairpins, safety pins and dress buttons cost her 30, 35 and 40 per cent respectively more than would be the case if there were no tariffs on these articles. If she wears a Swiss watch the duty on it is $1.35, plus nine cents on each jewel above seven used in its construction, and if she uses spectacles their price is enhanced by a 25 per cent duty.

This inquiring gentleman would next learn that when he sits down with his wife at their meals their china has been saved from foreign competition by a tax fence of 40 per cent, their tablecloth and napkins by a tax barrier of 30 per cent, and their table knives by a duty of ten cents each, plus an ad valorem one of 25 per cent. When they eat healthful dairy products such as butter and cheese, they may find it imperative to forego consuming other American-grown products, because these two necessary items in their food budget are maintained at artificially high prices by tariffs. Their aluminum coffee pot and kitchen ware are protected by a tax of eight and a half cents a pound and the toy, stuffed animal their baby plays with is, fortunately for youthful America, rendered safe from foreign competition by a 45 per cent ad valorem barbed-wire hindrance. If in the evening the parents play cards, the makers of the pack they use have profited—at their expense—by a tax of ten cents for each pack, plus an ad valorem duty of 10 per cent. If they decide to go to the movies instead, they may see a very good film, but they may also miss many excellent foreign ones because of barriers erected to prevent anything but an extremely limited distribution of imported films.

This couple has paid considerably more for their house than they would have if the obstacles to a free flow of international trade had been eliminated, because so many of the materials necessary to its construction, such as steel, paint, electrical equipment and so forth, need imported materials which can enter the United States only by vaulting over high tariffs. If this couple smokes, as most people do today, it is paying more for cigarettes, and the husband for cigars or pipe tobacco, because tariff duties on important types of leaf tobacco have averaged over 72 per cent ad valorem and some have touched 80 per cent and above. Finally, an inquiring American would discover that a major proportion of our imports are goods that are used in further production in this country. Exclusive of foodstuffs, finished consumers' goods are normally only 6 per cent of our imports.[1]

Tariffs are actually so related to the standard of living of the American consumer that they even have an indirect bearing on his care of his health. The more strides medical science has made in this country, the more drugs and medicine are needed in the care of patients. Contrary to the widely held belief that synthetic drugs supplied by our highly developed chemical industry are the principal raw materials used in manufacturing modern medicines, the single most important group of materials used in the pharmacy is still the organic and inorganic drugs of vegetable, animal or metallic origin which are almost entirely imported from other parts of the world. Although some of these materials enter the United States free of duty, many of them are brought in despite rates ranging from 10 per cent to 50 per cent, while the equivalent ad valorem rate is over 100 per cent on other imported drug materials. In 1938, more than $600,000 worth of duty was paid on imported drugs of vegetable origin, nearly 7 per cent of the total value of such imports in that year.

Were there a militant low-tariff organization in this country with adequate means, it would find no difficulty in citing numerous direct cases to prove how the consumer is mulcted by the tariffs, which instances ought to be widely circulated

[1]Calvin B. Hoover, "International Trade and Domestic Employment," a research study for the Committee for Economic Development, p. 139.

throughout the country. Thus, an enterprising New York jeweler, Charles A. Keene, who owned a watch store at 180 Broadway placed the following notice in his windows in 1906:

GREAT PROTECTION SALE. WALTHAM AND ELGIN WATCHES BOUGHT IN ENGLAND CHEAPER THAN IN AMERICA AND BROUGHT BACK TO UNDERSELL THIS MARKET

In his one-man campaign against what he called "the iniquitous methods practiced by the watch trust against both consumer and dealer," and in order "to compel the watch trust to forego extorting extravagant profits from American watch buyers," Mr. Keene also placed an advertisement in the New York *Press* on Friday morning, February 2, 1906, part of which is quoted here:

> Warning! Do not buy Waltham or Elgin watches from dealers allied with the trust!
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> It may seem paradoxical or a "bull" to say that in order to get the best American-made watches at the lowest prices you must buy them abroad, but such is the fact thanks to a benevolent "protective" tariff, which enables the watch trust to hold up the American public and demand tribute for dividends from Americans.
>
> Walk into any jewelry store in the United States and ask to be shown the best Waltham watch made. They will show you the "Riverside Maximus," at $75.
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> Under no circumstances are they allowed to sell this watch for less than $60 as they are bound by the "ironclad" agreement with the trust to maintain that as a minimum price. I buy this same "Riverside Maximus" in England, defray all shipping expenses, bring it back to this country duty free, and offer it to the American public at $42.30, and make a reasonable trade profit on the transaction.
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> The same relative price difference applies to all other grades of Waltham and Elgin watches.

Mr. Keene was able to bring these watches back to New York because the law specified that no duty need be paid if the goods exported came back in precisely the same condition they were in when they went abroad. The Dingley Act, then in force, placed the tariff upon watch-movements and cases at nearly 50 per cent of value, adding specific and ad valorem duties. Thus the profits of the watch trust were maintained at the level desired by the manufacturers to enrich themselves at the expense of the consuming public. In 1947, while some watch manufacturers were demanding more protection against foreign imports, there were signs that the new American attitude toward the tariffs was making itself felt in this business, too. Thus, Mr. M. F. Cartoun, chairman of the board of the Longines-Wittnauer Watch Company, Inc., insisted in the press that no serious conflict with imported materials was in sight.[2] He admitted that the Swiss, with their centuries of experience and concentration on the industry, could not be surpassed in making works, while the Americans far surpass the Swiss in the manufacture of cases. Nonetheless, he was certain that there would be no dangerous rivalry between the purely domestic products and those made of both Swiss and American materials. "Competition will be keen," he predicted, "but that will be good for business." He felt convinced that the "volume of business developed from case manufacture will far surpass any loss of business by reason of importation of watch works"—a statement directly at variance with those manufacturers who have been in Washington demanding higher tariffs "to preserve the industry."

The ordinary American consumer has never understood that selling American industrial products abroad at lower prices than they can obtain at home has long been charac-

[2]Reported by Ralph Hendershot in the *New York World-Telegram,* April 5, 1947.

teristic of the protective system, especially in the steel and iron industry. This was suddenly brought before the American public at the time of the building of the Panama Canal when President Theodore Roosevelt authorized the Panama Canal Commission to buy supplies for their vast construction work wherever what they needed could be obtained most cheaply. This action was due to the discovery that foreign prices were about 50 per cent less than home costs for most of the things needed; that by buying abroad the Commission could get steel rails made in Pittsburgh at these reduced figures, while steel dumping cars made in America could be picked up at from 30 per cent to 40 per cent less than Americans had to pay for them in their own homeland. It was further found that two steamers urgently needed by the Commission could be brought in for $700,000, or could be built at home for $1,400,000, with delivery guaranteed in a year and a half after the placing of the order. This led the New York *Evening Post*[3] to ask whether that would not induce the private citizen to inquire: "if low prices are a good thing for Uncle Sam, why are they pernicious for me?" and why, if the Government may save in time and money in buying foreign-built ships, its own citizens should not have the same privilege.

Another instance of how the American consumer was mulcted in this way came from an American contractor who was building railways in Peru prior to the opening of the Canal. He reported that he could buy rails of the steel trust in Pittsburgh, ship them by water around Cape Horn to Callao and thence by rail to Cerro de Pasco over a mountain pass 15,600 feet high, at less cost than he could get them delivered to him in Salt Lake City for a similar home enterprise. This Panama episode led the Hartford *Courant,* a good Republican protectionist newspaper, to say: "Thus it

[3]May 16, 1905.

appears that the shouting in Pittsburgh about taking the bread out of the mouth of the American working man is poppycock . . . . so long as our railmakers are willing to sell abroad at lower figures than at home, they should not ask any questions about who is the purchaser." *The New York Times*[4] derided the protest of the manufacturers who objected to the President's order for foreign purchases and said that "they are so used to the notion that the Government exists for their benefit and is merely an instrument with which to bleed the American people and they were so accustomed to having the officers of the Government act on that notion, that they overlooked the risk they ran in snatching for the most they could get. They made a big mistake."

If these instances occurred years ago, much the same situation prevails today and the principle is unaffected. The protected interests are still determined to increase their profits by government aid—at the expense of the American consumer. Thus, in the summer of 1947 the wool interests forced a bill through Congress giving the President authority to increase the protection of wool by putting on a 50 per cent wool import fee on top of the existing tariff, and to exclude as much as half the normal foreign wool shipments if he deemed it wise. Curiously enough, Senator Alben W. Barkley, the Democratic Senate leader, declared that the wool men had "not asked" for a special tariff. Therefore, it must have been some hidden friends of the wool people in Congress who put the bill through by a vote of 191 to 166 in the House, and of 48 to 38 in the Senate. Senator Barkley declared that the passage of the bill would indict "our own sincerity before the world."

In his veto message, President Truman asserted that he was willing to continue the present Treasury support, to which, he insisted, woolgrowers were entitled, but said that:

[4]May 22, 1905.

"This bill contains features which would have an adverse effect on our international relations and which were not necessary for the support of our domestic woolgrowers. . . . ." He then made the very useful admission that the bill if enacted would have increased the domestic market price for wool "to approximately the support price, thus shifting the cost of support from the Treasury to the consumers of wool products. The prices of these products are already high." This from the head of our Government was a complete admission that it is the American consumer who pays the tax when duties are put on. The President was particularly indignant that this was attempted "at the very moment when this government is taking the leading part in a United Nations Conference at Geneva called for the purpose of reducing trade barriers and of drafting a Charter for an International Trade Organization, in an effort to restore the world to economic peace . . . . ." He correctly stated that "it would be a blow to our leadership in world affairs" and "would be interpreted around the world as a first step on that same road to economic isolationism down which we travelled after the First World War . . . . ."

Nonetheless, he was willing to sign a bill continuing until the end of 1948 the Administration's authority to hold up the price of wool to 42 cents a pound as compared with the world price of 38 cents to 36 cents. This involves a loss of between $20,000,000 to $35,000,000 to the Government and the taxpayers, and this at the very moment when the Administration was avowedly trying to lower the cost of clothing to the American man and woman. The Government then had on hand through the Commodity Credit Corporation nearly a quarter of a million tons of high-priced American wool which could only be used up by our domestic mills. In other words, the Government was bleeding its citizens who needed clothing in a time of scarcity, in order to keep out foreign wool and line the pockets of the American woolgrowers by from four to six cents a pound! Mr. Truman could not only see no wrong in this, but insisted that the domestic woolgrowers are "entitled to receive support." He balked only at the amount to be taken from the taxpayers! Secretary Marshall, Henry L. Stimson and Cordell Hull opposed the wool bill, and so did Under-Secretary of State Clayton, who hurried home from the Geneva Conference to insist that if the bill went through and was approved it would stamp the representatives of the United States as mere hypocrites.[5]

It is true that there are many interests involved in woolgrowing. The owners of several hundred million acres of grazing land would suffer if the tariff were removed and the price support abolished; many banks would be in trouble because of their holdings of sheep-land mortgages, and the railroads would likewise be hurt. All of this would be the inevitable by-products of the abolition of the abnormal policy now in force which makes the government a partner in the effort to keep a nonpaying business afloat to the detriment of the long-suffering American consumer.

[5]It is interesting to note that Senator Robert A. Taft, as a spokesman for the protectionists, said that "no reason at all exists why any foreign nation should be concerned that this in any way upsets the reciprocal trade program. . . . . This does not present a change in the policy of the United States." He added that it merely gave the President discretionary power which could not be used unless the Chief Executive found such steps "necessary to protect the domestic wool position." He admitted that "it might have been better if the House had not introduced the issue."