CHAPTER XV

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SOME OTHER TARIFF FALLACIES

IF ONLY every school boy could be made to learn the inexorable truth that there can be no exporting of goods to other countries unless we accept imports from foreign nations, he would have learned the underlying fact as to international trade which the average American now refuses to understand or accept. Next, our people should be taught the same truth in other words—that no nation can dump goods on another's shores without being paid for them, not in cash, but in goods it desires from the second country. Thus the amount of actual money used in international trade transactions is ordinarily negligible, as anyone can figure out who undertakes to imagine what vast quantities of currency would be needed if all international transactions were conducted as is the buying and selling in a village store. Again it must be stressed that if the American market is flooded with cheap foreign goods, foreign countries must similarly be flooded with American products—to the great benefit of our factories and our farmers.

Here we come to another question long a favorite of the protectionists: "Is it not true that if we buy abroad the foreigner gets the money?" The answer is that neither the foreigners nor the Americans are primarily interested in getting money as such, since money is merely a medium of exchange. They are concerned with getting the goods and services at home and abroad which are expressed in terms of money. If we are ready to buy as much as we sell no nation will lose any of the reserve stock of gold which in normal times it keeps on hand to balance its ledger of foreign transactions. But the protectionists proceed to ask: "If we buy only at home, do we not keep both the gold and our money?" Here the reply is: "Only if we have our own gold mines, are able to live without materials (such as manganese, hard fibers, coffee) essential for our standard of living and such foreign-patented goods and inventions as we desire and such products as we cannot produce in this country." Actually, if we were only to "buy American" we should face a much lower standard of living, lower wages, lower incomes and higher costs of production. It would mean a decrease in our import trade to the point where it could be paid for in gold. The accident that our gold reserve has been so large is due to the happening that foreigners have not been able to sell goods to us to pay for the things they must obtain from us. In other words, we have been exchanging our output, not for that of other countries, but for gold, to our detriment. Such a gold inflow can only be temporary, ending in disruption of the monetary system of foreign governments, or the cessation of trade, and adding no real wealth to our economy. Contrary to popular belief, the great pile of gold at Fort Knox adds nothing to our abundance. Indeed, the only way we can keep it from undermining *our* currency is by insulating it from our economy by thick walls of steel and cement.

Next, the advocates of protection are certain that were it not for protective tariffs the Fascist nations would have dumped enormous quantities of goods upon us at prices far below the actual cost of production. Well, when a store runs a bargain basement, or has a fire sale, many people go to buy but nobody worries about someone's being harmed by prices far below the cost of production. In foreign trade, if a temporary glut or some industrial or political complication causes a foreign country to dump goods at prices below production costs, consumers in this country will obviously benefit by the low prices. It is true that a bargain basement, or a fire sale, may hurt the business of neighboring stores. In the same way, dumping from abroad may cause temporary difficulty for certain American industries; but no country is rich enough to dump enough goods to do any permanent harm to any sound American industry, any more than a fire sale or a bargain basement will drive a sound competitor out of business.

Probably the dyed-in-the-wool protectionist will at this point ask another familiar question: "But protected industries do profit from the tariff?" Yes, protected industries do benefit because the Government becomes a silent partner guaranteeing profits to every kind of enterprise backed by the favored groups. But while these industries are thus aided at the considerable expense of all purchasers of their goods, other industries are severely injured, among them agriculture, shipping, meat-packing, the making of agricultural and industrial machinery, automobiles, electrical equipment and oil and coal producers. These suffer because they are exporting industries, but others concerned with purely domestic markets find their business directly checked by the higher prices made possible only by the tariffs.

Then comes the inevitable inquiry whether the high American standard of living, higher than that of any other country, although the industrial revolution started in Europe, is not due solely to our tariffs. This overlooks the fact that the standard of living is high not because of, but despite, the protective tariff, and that there are millions of Americans who are far from enjoying a high standard of living, notably the sharecroppers, the migrant laborers, the Puerto Ricans, with their incredibly low existence, and numerous other groups. As shown elsewhere in this book, poor wages are paid in some of the most highly protected industries. Again, the United States is the second largest free trade area in the world which, much more than the tariff, explains why we have lived as well as we have. Nor is it true that protection decreases unemployment and creates many new industries. If the tariff does create some industries and some jobs it is along lines of employment which cannot be maintained without government aid. In the long run, therefore, the answer is, "No!" During the period after 1930 when we had the highest tariff in our history, we experienced the highest unemployment of capital and labor and our longest period of depression.

Sometimes the argument is advanced that, even if the tariff supports many inefficient or unnecessary industries, but for the tariff system we should not have made the extraordinary record we did in World War II in overwhelming our enemies by our mass production. Actually, during the war the Government found it necessary to suspend our tariffs on strategic materials in order to make possible the great stream of them for our war machine. Again, most large-scale expansion during the war took place in nonprotected industries and no one complained about that in any way. Similarly mistaken is the assertion that free trade would shut off our credit relations with the rest of the world. Free trade is essential if those credit relations are to be developed to the fullest extent. A chief reason for the default after 1930 on debts owed to us by foreigners was the high level of the tariffs we maintained during the 1920's and the higher levels after 1930 which made it impossible for them to pay back our loans in goods.

Two other moss-grown arguments of the protectionist must not be overlooked. One is that the foreigner pays the tax, and the second that our trade with Japan hurt us because of the cheapness of the goods she dumped upon us. In regard to the first, there are two cases in which the foreigners may pay the tax, one, where there is a monopoly abroad, in which case the producers may prefer to reduce their profit on what they can sell to this country rather than have their sales diminished by the addition of the duty to the price. Second, let us assume that there is a Canadian producer so placed that he can only sell in the United States where he competes with an American article, which also has a surplus for export. There being no general demand for his Canadian product, he cannot recover in an increased price the duty that he must pay. These cases are "the rare exceptions to the general rule that the ability to tax ends with the territorial limits of the taxing power."[1] In these instances there is nothing in the transaction to give any stimulus or aid to American producers. To quote Henry George again, "an import duty can only fall on foreign producers when its payment does not add to the price; while the only possible way in which an import duty can encourage home producers is by adding to the price."[2] As for our trade with Japan, it is worth repeating here that Japan was one of our best customers and that her trade was in no way injurious to us. The Japanese purchased more raw cotton from us than did any other country. Thousands of American workers in agriculture and industry benefited by our exports to her. Only 8 per cent of our imports from Japan were substantially competitive with our products, and we sold to her more than she sold to us. As our exports were so different from hers, Japan did not compete sharply with us for the business of other nations and could easily have obtained the same things she bought from us from other countries except possibly cotton. Our

[1] *Protection or Free Trade? op. cit.*, p. 86.
[2] *Ibid.*, p. 87.

chief interest was in obtaining from her the raw materials our industry needed.

In latter years defenders of the tariff have sought to meet obvious arguments against it by promising a "scientific tariff" which would always be adjusted to meet any economic changes. By this they meant that a way would be found to offset exactly the differences in cost of production between two countries. But this is anything but a "scientific" procedure, because it is differences in the cost of production which are primarily responsible for trade, next to the possession of material or crops because of special climatic or national conditions. Trade can take place beneficially, even if one country has a lower cost of production in the case of every single thing it produces, so long as its cost of production is relatively lower for some items than for others. If a "scientific" tariff were in fact applied in such a way as to eliminate all differences in the cost of production, it would eliminate all trade and therefore the increases in production which result from the specialization usually accompanying trade. There can no more be a "scientific" or an "automatic" tariff than there can be scientific or automatic robbery, since all tariffs are legalized tribute paid by the public to dishonest, incompetent or inefficient interests, or to prosperous businesses seeking through protection to limit competition and thus increase their profits.

It is a strange phenomenon that the very people who insist that cheap foreign labor is a menace are often the same ones who have such a clear view of the advantages of mass production methods that they insist it would be folly for us to aid other countries to industrialize and to develop commercially. Their general concept seems to be that if industrialized these countries would then become our competitors instead of our customers. Is this a fact or a fallacy? The following figures show that, on the contrary, the most highly industrialized countries are our best customers:

U.S. Exports to Selected Countries 1929–39
(In Million Dollars)

	Canada	*United Kingdom*	*France*	*China*
1929	948	848	266	124
1931	396	456	122	98
1933	211	312	122	52
1935	323	433	117	38
1937	509	536	165	50
1939	489	505	182	56

This table of prewar exports demonstrates clearly how the purchases from us of the three industrialized nations mentioned contrast with undeveloped China, despite the fact that the population of China is four times larger than that of the three other countries combined. Actually, before the war the per capita imports of American goods by Canada were three hundred times greater than those of China. Had China only had a per capita purchasing power equal to that of France, our poorest customer in the list above, our exports to the former would have exceeded our total exports from the United States for any year in the past! Eugene Staley makes the point that "the United States sells almost as much to less than twelve million Canadians on the North as to more than a hundred and twenty million people in the Latin-American republics on the South." He adds: "This is true notwithstanding the fact that Canada has a thoroughly modern technology, like that of the United States and a similar climate, while Latin-America might be regarded by some as a more logical area for the marketing of United States products because its climate, resources and stages of industrial development are so markedly different. A major part of the explanation is that Canada's economic development is so much further advanced that its productivity, in-come level and living standards are much higher than those of Latin-America."[8]

The real wealth of any country lies in what it is able to produce, either for direct consumption or production and services that are exchangeable for the products of other lands. Industrialization, with its fuller use of natural resources and its ability to mass-produce goods, increases the wealth of a country so that the direct result is an enlargement of its purchasing power which makes itself felt both on the domestic market and the world market. Our own country is the most striking case in point. First we were helped by Europe to industrialize, yet now, despite the fact that we have become the chief machinery-producing country in the world, we buy more goods and materials from Europe than ever before, again largely because of the enormous free trade area of this country. If we visualize a world with similar ease of distribution and of demand meeting supply, it is plain that removal of trade barriers and of economic warfare would be a long step toward encouragement of industrialization throughout the world until a level of production was reached when the principle of comparative advantage could freely operate.

By this is meant that if there were the maximum of industrialization each country would more than ever produce the specific goods and materials which it can create more easily and more cheaply than other countries because of differences in natural resources, climate, geographical location, technical equipment, industrial tradition and transportation advantages. It would, obviously, never be possible so to industrialize the world that the nations could not do a vast business with each other. As Maxwell Stewart has pointed out: "Industrialization may change the character of trade,

[8]Eugene Staley, "World Economic Development," International Labor Office (1944), pp. 127–29.

but it increases rather than reduces the amount of goods exchanged."[4] To this Mr. Staley adds this warning: "Efficiency of production adapted to the particular resources and circumstances of the country and to its best opportunities for specialization in trade with the rest of the world, not mere imitation of the types of production that have expanded most dramatically in other countries, is the key to economic advancement."[5]

To return to the United States, the magnitude of the readjustment of our capital goods industries from the level to which they were expanded during the war will be much reduced if an active program of exports is possible. But when a nation stresses exports rather than imports as evidence of its strength, it is like being glad that it has to pay a high price for what it consumes. For it consumes *imports* and the only purpose of *exports* is to permit us to pay for our imports which constitute real wealth for consumption. In the case of England it is perfectly plain that imports of food and other goods are vital necessities without which the country would perish. Exports must therefore be speeded up in its present crisis far beyond any previous records. Moreover, the fact that England is desperately seeking additional workers to create the exports needed shows clearly the important part played by sales to foreigners in maintaining prosperity at home. England must, literally, "export or die."

Here in the United States, however, a school of thought persists which declares that, since exports constitute a small percentage of our total production, about 10 per cent, they "provide the national economy with no worthwhile net advantages."[6] Actually, the smallness of this percentage bears

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[4]Maxwell Stewart, "What Foreign Trade Means To You," Public Affairs Pamphlet, no. 99 (revised, 1946).

[5]*Op. cit.*, p. 5.

[6]See Amos E. Taylor, "The 10% Fallacy," Committee on International Economic Policy (1945), p. 3.

little relation to its importance. A decrease in exports would have an immediate and disastrous effect not only on certain major industries, like automobile-making, and upon whole areas of our country, but as past crises have shown, upon our entire national economy. Mr. Taylor has well illustrated this by taking up the case of cotton:

> Exports of raw cotton normally range from approximately thirty to more than sixty per cent of total production. Cotton is the principal crop of the South but its production extends into sections of the Southwest. It is grown on about one-fourth of the nation's farms and more than forty per cent of the total farm population is found in the states in which cotton production is centered. The consequences of eliminating the cotton farmers and the many thousands of persons engaged in picking, ginning, compressing, warehousing, and transporting cotton would be serious not only in the states immediately concerned but also in the rest of the country. Cotton is a source of purchasing power which provides a stimulus to industry and business throughout the country. Factory employment in the non-cotton states is heavily supported by cotton exports which averaged more than half a billion dollars a year during the interwar years.

It must not be thought by any American that export trade is a matter which only concerns our growers of great staples like cotton and grain, or our great industrial trusts and corporations like those making farm machinery, refrigerators, automobiles, tires, etc. Were this the case it must be repeated that exports would still be of vital importance to the entire national economy and to every American citizen. Actually, there are small exporters, and if, by levelling tariff barriers, many more well-managed, small enterprises could also export their goods it would be a great help to them in their desperate struggle for existence—a losing one during World War II—which has so roused the President and Congress that a Congressional inquiry has been taking testimony as to possible remedies to check this dangerous drift. It has not yet appeared, however, that the inquirers are aware either of the possibility of expanded exports for small enterprises, or the role the tariffs play in building up the favored giant industries and making it possible for them to squeeze out their small competitors. Here, too, the tariff appears in its true light as the enemy of the plain people, and no protectionist arguments can ever conceal this fact.