CHAPTER XIX

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HOW THE TARIFF HAMPERS THE AUTOMOBILE INDUSTRY

NO LESS than 297 materials from 56 countries are imported into the United States for use in the automobile industry. This fact alone demonstrates clearly how dependent the United States is upon foreign trade, despite all its great natural resources. Without these imports Americans would not have automobiles of the quality and efficiency to which they are accustomed. In fact, without imports of certain strategic materials our mass production methods would not be possible. Thus, the United States is the largest manufacturer of steel in the world. Yet this primary basic material, without which our industrial economy would collapse, actually cannot be produced in the quantities it is and with its high grade qualities, without many imports. If steel is in short supply, our whole production picture is disorganized and of all our domestic industries the automobile consumes more steel than any other.

Present the case of the automobile industry to the protectionist and he shies violently. That is not what he wants to talk about. It is our greatest business, he says, which profited by the tariff in its early days, but is now ungrateful for its benefits and forgetful of its necessity. Besides, there are special circumstances—such as the mechanical backwardness of all other countries in comparison with our own—which make the position of our automobile builders exceptional, though why this condition, if valid, does not apply to manufacturers in other American industries, it is difficult to see. In this way the protectionists seek to explain the industry's demand for the lowering of the existing tariffs on all the 297 materials it must import in order to construct its cars and its insistence that it does not need the present tariff on imported foreign cars, and would be glad to have them lowered further or eliminated entirely. The tariffs are now 25 per cent ad valorem on trucks and motor bus chassis valued at $250 to $1,000 or more, and 10 per cent ad valorem on all other automobiles, chassis and bodies.

If we examine some of these essential imported materials the automobile industry needs, and consider their importance to this industry which in 1939 had approximately 400,000 on the payroll, it appears that manganese is essential in the manufacture of steel. Despite a protective tariff in excess of 50 per cent ad valorem designed to stimulate domestic output, more than 95 per cent of our prewar manganese requirements were imported annually since our rapidly decreasing domestic ores are generally of relatively low grade, usually containing only one or two per cent, whereas the most suitable ferro-manganese ores contain 35 per cent or more of manganese metal of which every ton of steel contains an average of fourteen pounds.[1] Our principal sources for manganese ore are Russia, the Gold Coast, Brazil, Cuba, South Africa and India. In 1940, a record-breaking year for this import, the Soviet Union supplied 35 per cent of the manganese we purchased abroad, 30 per cent came from British possessions in Africa, 10 per cent from Cuba, 9 per cent from Brazil, and the balance from India, the Philippines and other regions. In 1943, no less than one-half million tons of manganese metal were consumed by American industry, an unprecedented figure, double the volume used in prewar years. Yet it is only one of the many imported ores

[1]The Department of the Interior has estimated that at the present rate of consumption domestic supplies of manganese will last only another two years. See also Cordell Hull's testimony on manganese, Chapter V, p. 46.

essential for the manufacture of steel; there are eight thousand types of steel, with new varieties being developed almost daily. Indeed, the manufacture of large amounts of high quality steel often depends upon the importation of small amounts of particular minerals. For example, the inclusion of 1 per cent of vanadium increases the tensile strength of steel by approximately 50 per cent.

Of all the industries that consume nickel in the United States the manufacture of automobiles ranks first, using nearly 25 per cent of what is produced or imported, each typical passenger car in 1942 requiring nearly two pounds. We import amosite asbestos from the Union of South Africa for brake-linings and clutch-facings; cork for use in insulation, gaskets and clutch-plate facings from Algeria, Spain and Portugal, and diamonds for precision tools from Belgium, South Africa and the Netherlands. The jute for slip-covers comes from India, and mangrove extract for tanning from the Philippines. Shellac also comes from India, chamois for metal polishing from France and England, tung oil from China, and so the list continues. If our motor industry is working at high speed, we shall be providing other countries with dollars in payment for all these needed materials —dollars which they in turn can spend here to purchase much needed industrial and consumer goods and food from us, to say nothing of the cars we have built with the aid of their raw materials.

Our automobile industry has always depended to a considerable degree upon exports for its continued profitable operation. It is obvious that in mass production industries, overhead costs remain more or less the same, even if less than a hundred per cent of capacity is being used. Therefore, the unit cost of the product of a plant decreases with the rise of output and the last five or ten per cent of sales, and it is just this last amount that has customarily been exported—9 per cent of our total production was the average from 1935 to 1940.[2] It has even been estimated that without our export sales we should have had to pay 25 per cent more for the cars sold here, which shows how important our foreign sales have been. The industry knows that in this postwar world it could produce cheaper cars for American consumption but for the high tariffs on those 297 materials which it is compelled to import.

The reactions against the Hawley-Smoot Bill cited elsewhere were particularly marked in the case of automobiles. The bitter resentment abroad resulted not only in high tariffs but even embargoes and limited quotas, and in some cases, notably in Switzerland, it expressed itself in direct boycotting of American cars and other goods. That indefensible tariff went into effect on June 30, 1930. Three days before President Hoover signed the bill, Italy raised its automobile tariff from 100 per cent to 167 per cent. By 1937, a cheap American car had to pay a duty of 215 per cent to enter Italy, and the Italian automobile-makers were waging a campaign in conjunction with Polish, Austrian and Czechoslovakian car-makers to bar the American product altogether. Automobile imports into Poland from the United States were then limited to five hundred metric tons per quarter, though the Government was willing to admit more tonnage if it was brought through the port of Gdynia. At that same time, Czechoslovakia maintained a tariff of 107 per cent on American cars. Eight other countries had barriers then of 40 per cent to 60 per cent on imported motor

[2]Speaking before the National Automobile Chamber of Commerce on June 9, 1932, James D. Mooney, then a Vice President of General Motors in charge of foreign sales, said that if his corporation could sell another 300,000 cars abroad, it would mean at least $30 million more profits, and that, if its exports increased, the chain of circumstances resulting would enlarge the domestic trade of this country. Automotive exports at that time were, he said, "down to negligible proportions" as the result of tariffs, quotas, embargoes, monetary depreciations, exchange restrictions, etc.

vehicles, while eight more including England, Mexico, China and India had put tariffs ranging from 20 per cent to 40 per cent on them. Early in 1932, Sweden doubled the duty on foreign automobiles and parts for them, and by 1934 the Portuguese duties ran from 20 per cent to 50 per cent. These evil results of the Hawley-Smoot Bill surely suffice to explain, at least in part, the antitariff position of the great automobile companies.

In 1929, the year of the coming of the great depression, our automotive export business reached the enormous figure of $565,000,000. Three years later it had dropped to only $87,000,000, from which point it began its weary climb back, fostered by the coming of the war. In 1940, the exports had risen to $155,000,000 (without including tires, spare parts, etc.) of which 26.9 per cent went to Europe, 26 per cent to North America, 21.4 per cent to South America, 13.6 per cent to Asia, and 12.1 per cent to Africa. It is plainly preposterous to assert that this industry has anything to fear from foreign competition or is in need of protection from the war-ruined laborers of Europe or of industrially backward Asia. Indeed, American automobile workers have everything to gain from helping to better the conditions of foreign labor everywhere, for, with automobiles as with the products of our other industries, our best customers are the highly industrialized nations where there is sufficient purchasing power to enable the population to buy our goods. Hence it is of the utmost importance that costs of production of American motor cars be reduced to a lower point than ever before if we are to maintain a great export trade. If the postwar high prices continue, there will be great difficulty in selling many cars in Europe until that rather distant day comes when it can feed itself, rebuild itself, support itself and earn sufficient money and create enough surplus goods to purchase what it needs in the United States and elsewhere.

How dependent our automobile industry is upon the farmers of the United States is plain if one considers that if our tariffs make it more difficult for them to dispose of their surplus food products abroad, they will not be able to buy the tractors, cars and trucks they need to replace those worn out during the war or further expand the use of agricultural machinery in those vast farm areas where the most modern methods of crop production have not yet been applied. The increased importance of mechanization cannot be exaggerated in this era of rising prices, and the continuing movement of young people from farms to the cities. All tariff hindrances to this mechanization place a burden upon the entire American people.

In 1934, a relatively bad year, the industry employed 275,000 men of whom more than 40,000 were making cars for export for which labor the 40,000 received more than $55,000,000 in wages in that year. In 1937, there were 517,000 automobile factory workers and fully one in seven of the gainfully employed people in the country was directly or indirectly paid by the motor car companies or those devoted to the servicing of the cars in operation, including raw material workers in factories and refineries, truck and bus drivers, road repairers, etc. All of them averaged in 1939 three hundred dollars a year more than the average annual wage of the workers in all other American industries. Yet the benefit they received from these higher wages was limited by our tariffs and the higher cost of living due in part to them and the curtailing of our exports. Surely no one can deny that increased export markets for automobiles during the bad years would not only have made possible better wages, but productive employment for thousands of additional workers from the ranks of the millions of unemployed.

The following table gives a clear idea of the tremendous possibilities for the expansion of our automobile trade:

Persons Per Passenger Car In Selected Countries

United States	6
New Zealand	8
Australia	8
Sweden	29
Switzerland	43
Norway	64
Finland	106
Belgium	113
Denmark	123
Spain	143
Czechoslovakia	353
Italy	391
Greece	794
Hungary	2,120

About 75 per cent of the passenger automobiles in the world are registered in the United States. Of the 42 million automobiles (passenger cars and trucks), more than 30 million are in this country. The United Kingdom is second with 2.2 million, followed by France with 1.6 million, Canada with 1.5 million and the Soviet Union with 1.06 million. How vastly increased purchasing power in countries now backward and undeveloped, would help all American industry is plain if one considers what Canada paid us in 1937 for cars, namely $10,000,000, and how little China was able to expend for this same purpose—$884,575. Yet China's population is more than forty times as large as that of Canada and if ever a country needed every kind of self-propelling machinery, it is certainly she. Our automobile makers are justified in asking that, when the time comes that China and the other war-wrecked countries are able to buy abroad again on a large scale, no single obstacle of any kind, no tariff and no invisible tariff, should be placed in the way of America's profiting to the fullest extent by the trade which will do so much to modernize and rebuild the present damaged world.