
**OUR PROTECTIVE
TARIFF RACKET**

One Way of Subsidizing Industry

By
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—PRICE 25 CENTS—

PREFACE

By far the most simple, yet logical, analysis of the protective tariff theory ever made is to be found in a book called "Protection and Free Trade," written some years ago by an American economist, by the name of Henry George. Mr. George is among the few economic writers dealing with this subject, who makes himself readily understood. He leaves no room for doubt. While we think he erred in contending that labor would have little to gain by freer trade as long as ground rents are going into private pockets, he nevertheless, dealt the protective tariff racket the hardest blow it has ever received. His arguments against it are simply unanswerable. No one can claim that he is well informed as to the need for a protective tariff who has not read this highly illuminating book.

In the following chapters the writer has endeavored to present the subject from a little different angle, and in language which the man on the street can understand. It is "Mr. Average Citizen" who must be reached and convinced if we are ever to make any headway towards freeing the nation of this most unsound and harmful public policy.

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Chapter I

THE NATURE OF FOREIGN TRADE

Foreign trade, as most of us know, consists of the exchanging of goods between the nationals of one country and those of another. It is a two way affair in which exports pay for imports. Or putting it in another way in which goods are bought with goods. The ship for example, which brings to this country a cargo of tea, silks, pottery, tungsten, or other surplus products from Japan or China takes back to those countries a cargo of automobiles, sewing machines, lumber, flour and other surplus American products in exchange. It brings to us products which can be produced more cheaply in Japan and China and takes back to Japan and China products which can be produced more cheaply here.

Occasionally gold or silver may be among the shipments, provided they are needed for industrial purposes by one country or the other, or for balancing accounts between those engaged in foreign trade. The more that trade is commodities other than gold is hampered by restrictions of one kind or the other, the more of the precious metals will be needed to balance accounts. These metals also go back and forth in the course of trade not as money but as commodities, and are exchanged on the basis of their commodity value just as is the case with any other kind of labor product.

Money and Foreign Trade

Many people, especially those who believe in the policy of protective tariffs, labor under the delusion that money goes back and forth in the course of foreign trade to pay for the commodities imported just as it does in the case of domestic trade. It is because of this mistaken assumption that they are led to believe that imports must be restricted if a nation's money is to be kept at home and its markets are not to be flooded with the goods of other countries.

The beneficiaries of the tariff have always resorted to the use of this political scarecrow during political campaigns with telling effect, and they are still making use of it to fool the voters. Every importer or exporter and every banker engaged in the financing of foreign trade well knows that no

money, to speak of, ever goes to buy commodities in foreign countries. The Japanese, for example, do not turn over to us their money in payment for our goods, when they come here to buy, nor do we turn ours over to them in payment for their goods. Most Japanese have never seen an American dollar and most of us have never seen a Japanese yen. The sellers of commodities for export are paid not with the money of foreign countries but with the money of their own respective countries. This applies not only to the producers for the export market but to actual exporters as well.

The little money that does find its way across national boundaries is spent mainly by travelers who fail to buy foreign exchange. In the case of our own country and Canada, and this may apply also between other countries, provision has been made whereby it is possible for merchants and others here to accept Canadian money in small amounts and for Canadians to accept our money in small amounts subject to prevailing exchange rates, but in either case this money in due course is sent back to the nation issuing it. It has no extensive use in carrying on the trade between the two countries and if it were not for the fact that commodities are being exchanged between them it could not be used at all. It is the commodities exchanged and not money that represents the real buying power of each nation.

The Modern Banking System and Foreign Trade

The one thing more than anything else which has tended to make more obscure the real nature of foreign trade is the modern banking system and its extension into the field of international trade. It now performs services for the exporter and the importer which at one time in our history were entirely unknown. Before the advent of our modern system of banking it was a much easier matter to see just how foreign trade was being carried on. In the days when the master of some foreign sailing ship tied his bark up to the docks of some domestic seaport and proceeded directly to trade his cargo for the skins, tobacco, and other products which our settlers had to exchange, no one would have had much trouble trying to figure out the real nature of foreign trade.

Had there been people in those days so lacking in understanding as to suggest that such trade be prohibited by law,

it is safe to say that they would have been brought into court and examined as to their sanity. How things have changed. Modern day foreign trade restrictionists are now considered as being among our most practical minds, while those advocating freedom of trade are looked upon as being impractical theorists. The only protectionists of an early day, when the traders of one country met those of another and exchanged their wares, were to be found among less civilized races. They refused to trade with foreigners simply because they regarded them as being possessed of devils. Such people believed in protecting home industry with a vengeance. They were our first real "dyed-in the wool" protectionists.

While modern world trade is still a species of barter, the development and extension of banking into the field of foreign trade has relieved traders of the necessity of directly bartering with each other. By means of drafts, checks, and other commercial paper which, in the last analysis, are nothing but instructions to bank bookkeepers for the shifting of debits and credits upon bank ledgers, they now can be paid for their goods with money of their respective countries. To the extent that the goods imported balance or equal the value of the goods exported, foreign trade transactions can be completed through this system of bank bookkeeping without the use of either foreign money or gold, except as gold may be imported or exported for commercial purposes. It is mainly when restrictions are imposed on imports so as to make trade more or less a one-way affair that the banks are called upon at stated times to ship out or bring in gold or silver to balance accounts. The more one-sided trade is made, the more need there is for the precious metals to balance accounts. We thus see that while the processes of foreign trade have become more obscure and complicated with the passing of time, they still deal with the exchanging of goods. In the last analysis goods are still bought with goods, regardless of the part played by international banking.

What is Free Trade?

Free trade is simply the kind of trade that goes on in the absence of man-made restrictions. To have freedom of trade is to have the right freely to exchange commodities without the interference of government. Judging, however,

The Tariff, a Tax Upon Trade

A protective tariff is nothing more or less than a tax, and a tax upon trade for the purpose of increasing prices. It is primarily a **price-raising scheme**, the shutting out of foreign made goods from our markets being only a means to this end. If such a scheme for keeping out foreign goods from our markets results in higher prices for the domestic producer, which it must if it is to be of any benefit to him, then these higher prices must be at the expense of the domestic consumer. We hardly think that even the most ardent protectionist will deny this. While some protectionists have the temerity to argue that the foreign exporter pays this tax it is very evident that he doesn't pay it if he is prevented from bringing in his goods. It is also obvious that he doesn't bring them in if the purpose of such a tariff is carried out.

Now, who are these domestic consumers, let me ask, who are being taxed through higher prices to put more money into the pockets of certain domestic producers? Are they not also domestic producers? It is evident that most of them must be. This being the case, then the cost of this tariff protection must come largely out of **some home producers for the benefit of other home producers**. This makes of it a species of class legislation. There is no escape from this conclusion. Under such a scheme for assisting industry, what some industries gain by this particular use of taxing power, or should I say misuse of it, other industries lose. It is plain to be seen that it is simply a case of **taxing some domestic producers for the benefit of other domestic producers**.

Sellers are Also Buyers

It is utterly impossible to help home industry as a whole, by such a use of the taxing power. When we consider the fact that sellers are also buyers, it is readily seen that a tariff, which would raise prices and wages for everybody would help nobody, for what one would gain as a seller he would lose as a buyer. We can hardly imagine producers being sellers without also being buyers. It is thus seen that the more general the tariff is made, **the less protection it carries for any one**. A tariff which takes from consumers what it has given to them as producers, simply nullifies itself. **It is quite obvious that nothing is gained if one is compelled to pay out with one hand**

what he takes in with the other. We thus see that if there is to be protection for some by reason of a tariff there must be free trade for others, in other words one must buy in a free trade market and sell in a protected one if he is to gain by the tariff.

Are Tariff Benefits Passed On?

To argue, as do some protectionists, that the entire nation benefits indirectly by such a delegation of the taxing power, is to hold that those directly benefitted will pass on part of the benefits to others as a result of having more money to spend. This is exactly the argument of the "Townsendites." On first thought, it may sound more or less plausible. We find, however, that it does not stand the test of analysis. It so happens that the money these tariff beneficiaries spend with others they first take from them through higher prices. As they expect to get value received when they spend it, it is quite obvious that no one is benefitted except themselves. The balance of the community is still out its first contribution to the cause of protection. You cannot take my money from me and then hand it back to me in exchange for my labor, or products of my labor, and make me any more prosperous. It doesn't take any knowledge of economics to see this. Such a policy, of course, will make more work for the balance of the community, if this is what we want, as those being taxed by this tariff racket will not only have to work to supply their own wants **but the wants of tariff beneficiaries as well.** The more tariff beneficiaries take away from them through this racket, the harder they will have to work to supply their own wants.

It is difficult to understand how compelling a nation to pay more for what it consumes, or work harder for what it gets, is going to make it more prosperous, yet such a belief is absolutely necessary if we are to accept the theory that a protective tariff is a beneficial public policy. In all probability, this indirect theory of distributing tariff benefits originated with the same master mind who discovered that the way to help the poor is by helping the rich.

What Some Industries Gain Others Lose

Our tariff-subsidized industries are simply liabilities from the standpoint of other home industries that are compelled to

support them. We have no moral right to insist that some industries contribute to the support of other industries, not even in those cases in which the industries seeking protection are unable to produce at a profit. Not only is such a policy a most wasteful one, but, in too many instances, it results in the protection of domestic inefficiency against the greater efficiency of a foreign competitor. In attempting to make an industry profitable by taxing other home industries for its support, we are too often giving aid to industries that fail to meet foreign competition only because of their failure to show as great efficiency as their foreign competitors. The industry that must be subsidized in order to keep it going is not worth saving, especially when buyers are able to acquire its product at a lower cost by trading with other countries. This policy of using the Government to stamp out foreign competition and then supporting the unprofitable domestic industry by forcing other home industries to pay higher prices for their raw materials is a most wasteful one. It is not in accord with sound business practices.

Chapter III

SUBSIDIZING HOME INDUSTRIES

While most of our leaders in the Protectionist camp here in the United States profess to be opposed to the policy of subsidizing industry they, nevertheless, give their support to it when they advocate a tariff for protection. If taxing the community through higher prices in order to build up and maintain home industries is not subsidizing industry, then the word subsidy has no meaning whatsoever. While it may be true that the subsidy is not paid out of the public treasury, it, nevertheless does come out of the pockets of the general public. In this particular case, it is left to the Tariff beneficiaries to do the taxing, the government being only instrumental in setting up the necessary tax machinery. **The difference between the domestic and world price, after foreign competition has been shut out, represents the amount of subsidy collected by the protected industry.** If more people could be made to see this, tariff for protection wouldn't be nearly so popular.

Is It Necessary to Subsidize Industry?

The question before us isn't one of whether or not tariff for protection is a species of subsidy, as it is apparent that it is just this. The only question to be decided is whether subsidizing industry is good public policy, and whether such a policy is necessary in order to enable the vast majority of our industries to carry on and to pay wages that are higher than other countries are paying. If it can be shown that without this subsidy our industries would be either forced to lower wages to the level of the lower-wage countries, or close their doors, then we will be forced to admit that a protective tariff is necessary. Not even a free trader wants to see our industries close their doors or reduce wages. We want to make sure, however, that this would really happen if foreign competition should be restored.

It is an easy matter to be carried away by the false cry of "Wolf, Wolf," when there is no wolf. We must not overlook the fact that selfish interests too often play an important part in the shaping of national policies. If our industrialists can prevail upon the government to close the door to foreign competition so as to enable them to reap higher profits, it is quite evident that they are going to do it. Most of us are willing to accept government support whether we need it or not. We want to make sure, however, that it is love of country which prompts our industrialists to make such an outcry concerning the need of protection and not just plain selfishness.

The Unselfish Attitude of Employers

It is argued, of course, that this policy is necessary for the protection of American labor, but when did our industrialists become so considerate of the welfare of their employees and so sympathetic to the cause of high wages? If they are so anxious to see our wage earners enjoy higher earnings, isn't it strange that they do not give their support to labor unions, which have, for their main purpose, the raising of wages? Isn't it possible that this professed interest in higher wages is only a blind to hide their real purpose? We should weigh all these considerations most carefully before declaring for a protective tariff. To quote from the words of Henry George, "the protection of the masses has, at all times, been the pretense of tyranny,—the plea of monarchy, of aristocracy, of special privilege of every kind."

Chapter IV

PROTECTION AND WORK

That a tariff for protection tends to make more work is readily admitted. To the extent that it encourages in a country the growth of industries that are not native to its shores and which cannot compete in the world market, it naturally follows that it is going to necessitate the expenditure of more labor in production. If a nation is going to be so stupid as to try to produce goods that can be more cheaply produced in other countries because of climate, raw materials, or secret industrial processes, then it necessarily follows that it is going to involve more work for the people of that country. The expenditure of more labor in the production of a commodity necessarily means a higher labor cost, which, in turn, makes for higher prices.

If it costs our industries more to produce certain kinds of commodities than it costs to produce them in other countries it is not because of our higher wage scale, but because it requires more labor here to do it. It is quite possible for us to produce bananas or rubber under hot house conditions, but to do so would require considerably more than is required in the tropics. Our home industries which find it impossible to produce as cheaply as foreign competitors, are simply trying to produce commodities that should not be produced here. Let us not, however, make the mistake of charging this handicap up to our higher wage scale.

Trade, a Labor Saver.

While such a policy of building up industries that cannot meet foreign competition makes for more work, it is unnecessary work. Please do not overlook this fact. It simply results in a waste of labor which might otherwise be utilized in more profitable lines of industry. Wasted labor does not contribute to higher wages or better living conditions for producers. To the contrary, it has the very opposite effect. It tends not to enrich but to impoverish. Regardless of this fact, protectionists are continually talking about the need for work and how a protective tariff increases the amount of work to be done. I would remind them that it is not work that is needed but the

results of work. If we are wise, we will try to save ourselves all the work we can. It is only the fool who wants to make himself more work. If, by keeping foreign trade free of restrictions we as a nation are able to supply our wants with less labor, then common sense and good business judgment dictate that we see to it that this is done.

The more we take advantage of trade, the greater will be the saving in labor. This saved labor can still be utilized in the production of other things still desired. The effect of such a policy would be to give everybody more wealth, which means better living conditions. One of the greatest economic evils confronting every nation is wasted labor. This waste of labor and the loss of wealth which results from it, are enormous and can only make for national impoverishment. If we were wise, we would do everything within our power to curb it.

Ways to Make More Work

If it is work that is needed why stop at curtailing foreign trade in order to provide it? Why not also put an end to domestic trade between the states, counties and cities? It is obvious this would add greatly to the amount of work to be done. Why not also legislate **our labor-saving machinery** out of existence and go back to hand labor? This would still make more work for us. We might even put our unemployed to work building pyramids, or leveling down some of our mountains. It must be admitted that trade is a labor saver, just as is machinery. On the other hand while it saves labor, it **does not diminish the opportunities for making a living.** On the contrary by reducing production costs, it actually increases such opportunities.

To lower the price of goods is to increase the demand for them. Increased consumption, in turn, necessitates greater production. To increase production is to put more people to work. Protection, on the other hand, makes more work necessary, just as would going back to the crooked stick and stone hatchet; or as does the dust storm which fills our homes with dust, or the floods which wash out the dikes along a river. This extra work, however, prevents us from doing things which otherwise could and would be done, thus enabling us to supply our wants more fully. The writer readily admits that the more difficult we make it to supply our wants, the more

work it will make for us. The trouble with our protectionists is that they are unable to see that this extra work is **unnecessary and is at the expense of output**. In other words, our total output of goods would be much greater were it not for this stupid policy of producing products which can be obtained at a less cost through the channels of foreign trade.

Chapter V

THAT COST OF PRODUCTION BUGABOO

While some of our home industries may not be able to produce certain kinds of goods as cheaply as they can be produced in other countries where natural resources or climate favor the foreign producer, they are able to meet foreign competition **so far as wages are concerned**. This is proved by our ability to capture the markets of the lower wage countries. Our export trade has been carried on despite the fact that we have been put to the disadvantage of paying ocean carrying charges, and, in many instances, high foreign tariff duties as well. It cannot be charged, either, that our home industries have been selling in the foreign market at a loss and making up this loss by obtaining higher prices at home. Our strictly competitive industries possess no arbitrary power to raise domestic prices above what they are able to secure for the same grade of goods in the foreign market. In all probability, if the figures were available, they would show that our exporters are making these foreign sales at a **greater profit than they are obtaining in the home market**. Every exporter knows that our foreign trade has been most profitable and would not be carried on if it weren't profitable. The very fact that nearly all the lower wage countries are continually clamoring for higher and higher tariff duties to keep our goods out of their markets should be evidence enough that our higher wages haven't been a handicap to us.

High Wages and Low Labor Costs Go Hand in Hand

Despite the fact that a large percentage of our industries have been able to undersell their foreign competitors in the

foreign market after paying shipping costs and tariff duties, protectionists still contend that our labor costs are higher than theirs. Their trouble is that they confuse wages with labor costs. To their way of thinking, wages and labor costs are one and the same. They are unable to see that **high wages and a low labor cost generally go hand in hand, and that low wages are generally associated with a high labor cost.** High or low wages means nothing unless we know the output of labor. It is only then that we have an accurate yardstick for measuring labor costs. While it is true that the money wage of the average Chinese laborer is much lower than that of the average American wage earner, it is also true that his output isn't nearly so great. It is because his output is so much smaller that the labor cost per unit of product turned out by him is much higher. It is the cost of labor per unit of output that really counts. Please do not overlook this fact. The reason our labor is so much cheaper is because it is more productive. This being the case, its cost per unit is less, despite the higher money wage paid.

A Few Statistics

According to reliable statistics the average output of American labor from the year 1925 to the year 1934 measured in U. S. dollars was around \$1381 per year. Since 1900 our output per worker has been increased at the rate of 2½% per year. The output of the English worker for the same period was around \$1069, that of the German worker \$646; that of the Italian worker, \$343, that of the Japanese worker \$353, and that of the Chinese worker \$110 per year. In Italy, for example, which is looked upon by protectionists as being a low labor cost country because of its low average wage scale, the Italian wage earner receives only 9.2 pounds of potatoes in exchange for an hour's work, while the American wage earner is able to buy 31.1 pounds for the same hour's work. The American wage earner gets 7½ pounds of bread for an hour's work while the Italian wage earner gets only 2.8 pounds.

The ratio of cigarettes is 112 for the American against only 15 for the Italian, butter 1.6 pounds against only one tenth of a pound for the Italian. When it comes to shoes the American wage earner is able to buy a pair and work only 3 hours

and 26 minutes for them while his Italian competitor must work 24 hours and 22 minutes for a much inferior pair. Overall, the American worker and the Italian must wear, yet the American who is supposed to be a much more expensive worker, is able to buy back these garments for only one hour and 28 minutes of work, while the Italian must work 32 hours and 56 minutes for a pair that is no better, if as good. These examples of comparative costs prove conclusively that American labor is not only far more productive but that it costs less per unit of output.

Our Wage Earners Receive Higher Wages Because They Produce More

The only reason the American wage earner receives higher wages is because of his greater output. Wages are determined by output, as every economist knows. As the output of American labor is greater than that of the lower wage foreign labor because of its greater efficiency and the more universal use of labor saving invention, the American employer can not only afford to pay higher wages, but must do so if he is to secure the more efficient labor. He can also pay more and still be able to undersell his foreign competitors. Just because the standard of living may be lower in the lower wage countries is no reason for assuming that they enjoy a lower cost of production. Lower standards of living signify not a lower cost of production **but a higher cost.** It is because **production costs are higher in the lower wage countries that their living standards are lower.** They produce less per worker, which means a higher production cost, hence a lower per capita consumption. We on the other hand produce more per worker, which gives our people **greater buying power, hence a higher standard of living.**

We Use More Machinery

We have always used far more labor saving machinery than have the lower wage countries and it is because of this that we have increased the productivity of our labor nearly **forty-fold over theirs.** We have been spending \$23.00 per capita for machinery, while Europe has been spending only \$10.00 and China, only a nickel a year. This has made it possible to keep our cost of production below theirs. We

must not overlook the fact that to increase the productivity or output of labor is to reduce its cost. If these many advantages in the way of educational, mechanical, and industrial development which we possess over most foreign nations do not contribute to a lower cost of production, then let me ask of what benefit are they? If all our boasted material progress over other nations has not enabled us to reduce our cost of production below theirs, then this progress has been a delusion and a sham.

High Wages a Stimulus to Improved Methods of Production ✓

If we were to admit that the average American wage earner is no more efficient than the average foreign laborer, our industries would still have the advantage of more **efficient labor saving methods of production**. This advantage in itself as shown by statistics, is quite sufficient to offset our higher wage scale. It is obvious that the more labor saving equipment that is used, the greater will be the **saving in labor costs per unit of output**. This being the case, we can readily see that it might be quite possible for American business to reduce prices below those of foreign competitors and still pay higher wages. Higher wages also act as a stimulus to mechanical progress, as they spur on the employing capitalists to seek out and introduce labor saving devices wherever possible in order to offset advancing wages. It, therefore often happens that wages can even be raised without adding a penny to the cost of production or to prices. It is the failure to see this that makes it so easy to fool voters with the talk of cheap foreign labor.

High Wage Countries Capture World Markets ✓

As we have previously pointed out it is not the lower wage nations that have been capturing the markets of the world, but **the higher wage nations**. Our industrialists and farmers do not fear the competition of low wage China, Italy, or Spain, nearly so much as they do the competition of higher wage Canada, Great Britain, France, or Germany. Why should this be the case let me ask, if low wages offer an advantage in production? If high wages are such a handicap as protectionists would have us believe, doesn't it seem strange that the indus-

trialists of low wage countries should put up such a determined fight to keep the goods of the higher wage countries from entering their markets? The industrialists of Japan, for example are always pleading with their government to give them still higher tariff walls so as to keep out the goods of this and other high wage countries, which they contend can be sold for less than their own. It is not the competition of the lower wage countries that the Japanese industrialist fears but the competition of the higher wage countries. This fact alone goes far to explode the cheap foreign goods menace which our protectionists are continually dinning in our ears. That there are certain kinds of products which can be produced more cheaply in Japan and other low wage countries is readily admitted. This however is not due to their lower wage scales, as we have already seen, but to the fact that **less labor is required in such countries to produce such products.**

The Future Outlook

When forced to admit that advantages of lower foreign wages may be offset by the greater efficiency of the higher wage American laborer and his greater use of machinery, our protectionist invariably fall back on the childish argument that sooner or later the workers of the lower wage countries will become as efficient as our own and will be provided with just as modern machinery. The answer to this argument is that when they do arrive at this stage in their industrial development, their wages will correspondingly increase, for as we have seen, wages are determined by output. They have always gone higher with the march of invention. Nor is there any reason to believe that the higher wage nations will be standing still industrially while the lower wage countries are trying to catch up with them. It is quite unreasonable to presume that our country has reached the peak of its industrial development.

Chapter VI

THAT CHEAP FOREIGN GOODS MENACE

We have been told so often about the menace of cheap foreign goods that many people have come to look upon them as being akin to smallpox or some other plague which should be kept out of the country at any cost. Whenever the tariff is an issue, this old scarecrow of pauper-made goods is brought out and paraded before the voters with telling effect. They are given to understand that if the tariff is lowered, our markets will be flooded by such goods, with the result that our factories will have to close their doors and much of our farm lands will be left to grow up to weeds. As a consequence we will be faced with hungry and unemployed people in a land overflowing with foreign products. It must be conceded that such an outlook is not a very pleasant one. One might easily be led to believe from such a frightful picture that these foreign traders are only looking for a chance to force their goods upon us much against our wills. Strange as it may seem this doesn't happen to be the case. As individuals we are just as anxious to buy these cheaper foreign goods as these foreign traders are to sell them to us. The only time we show any inclination not to buy them is when we collectively vote on the question. Not even a dyed-in-the-wool protectionist will refuse to buy these goods if he can save money by so doing. If buying these cheaper foreign goods is such a harmful practice for our nation as a whole, it seems strange that our citizens should be so willing and anxious to buy them the very moment tariff walls are lowered.

Can We Impoverish Ourselves by Buying Goods Cheaply?

One would naturally suppose that if it were not to the advantage of our people to buy foreign goods, they would soon find it out for themselves, in which case there would be no need for government interference. **The fact that they do buy them is ample proof that it must be to their interest to do so.** If buying them means a saving to them, then the thing to do is not to make foreign trade more difficult of attainment but less difficult. What is more, the cheaper such goods can be bought the better it is for those buying them, as **they will not**

be obliged to give up so much of the fruits of their labor to pay for them. They cannot be too cheap to suit a free trader, and it is hard to conceive of even a protectionist refusing to buy them on this account. If we were the ones who were selling cheap, we might have reason for complaint; but, in this case we are the buyers. It is hard to conceive of buyers grumbling because the goods they are buying are low in price. Of course, most of us know, or at least should know, that foreign goods are not always cheap. In most cases, they are more expensive than our own.

Our Markets Will Not Be Flooded If Tariff Walls are Lowered

As a very large percentage of foreign goods are more costly than our own, it is evident that the removal of the "flood gates" (tariff walls) would not be followed by any great flood of imports. While there might be a considerable increase to start with, much of this increase would be temporary. This is because our industrial monopolies would not be long in bringing down the price of their products, with the result that **the increased flow of foreign goods would quickly be checked.** We thus see that our people as a whole would be benefitted by such an opening of the flood gates, although no great increase in our import trade might be experienced. Nor would there be the slightest danger of our producers losing the home market. Be sure to keep this important fact in mind. It is expected, of course, that there would be some increase in imports but, as this in turn will call for an increase in our exports to pay them, no loss can come to us by reason of this increase in imports. **It would simply result in giving us a greater export market for our surpluses.**

We can rest assured that foreigners aren't going to make us a present of their goods. It stands to reason that they will expect goods of **equal value in exchange, or of even greater value if they can get it.** This being the case, it is obvious that **our farms and factories would still have to be kept going to produce things** with which to pay for our imports. As such production is going to take labor, and American labor at that, it is quite obvious that free trade isn't going to free us entirely from the necessity of work, although it would be a blessing if it did do just this. We thus observe that the real picture is not nearly so black and terrifying as protectionists would have us believe. In fact it is a most realistic and optimistic picture.

Differences in Production Costs Are What Make Trade Profitable

It is the differences in production costs that make it advantageous to carry on trade either foreign or domestic. **This is the only reason for trade. If it were not for these differences there would be no trade either domestic or foreign.** These differences in the cost of production exist even in the case of domestic trade, yet it is carried on to the advantage of the higher cost sections of the country as well as to the lower cost sections. Differences in climate, natural resources and even wages have always operated to make for a difference in the cost of production between the different sections of our own country. Wages have always been higher here in the West than in the East, yet, this has not made it unprofitable for the West to trade with the East. Prior to the Civil War, the South was on a slave labor basis, yet, the North and South were still able to carry on trade with each other to their mutual advantage. The fact that there might have been a difference in the cost of production in favor of the South did not make for impoverishment of the North. To the contrary, it worked to its advantage as it enabled it to obtain its raw materials at lower cost. We thus see how false is the contention that nations with a high standard of living cannot profitably trade with nations having a lower standard.

Why Not Have Tariff Walls Between Our States?

If these differences in production costs, which include labor costs, make a tariff for protection necessary, as protectionists would have us believe, then it would be to the interest of the North to have a protective tariff against the South and for the West to have a tariff against the cheaper products of the East. It is hard to understand why our protectionists have not gone so far as to amend the constitution so as to apply their prosperity remedy to the states and even to the lesser political subdivisions of the country. If this tariff policy builds up home industry, it should be just as beneficial for the states, counties, and cities, as for the nation. That it would make more work cannot be denied.

Trade Makes a Market for Surplus Goods

Every country produces surpluses not needed to supply the home market. It is these surpluses that are exchanged in the course of exporting and importing. The less these surplus goods can be bought for, the greater is the advantages to the buyer. This being true, the less we have to pay for Chinese or Japanese goods the better it is for us as we will not have to give up so much of our goods to pay for them. As we have previously seen it is the **difference in production costs that give rise to trade and are what makes it profitable.** If lower wages make for a lower cost of production, as the protectionists contend, then we would still be gainers by lower foreign wages and not the losers. It is obvious that it would enable us to get more foreign products in exchange for ours.

It is difficult to see how this kind of trade can impoverish a nation. We will find upon closer analysis that foreign competition, as well as domestic competition, is also beneficial even in the case where foreign sales are highly competitive, as it helps to stimulate efficiency and makes for fairer prices. As in the case of domestic competition it too is the life of trade. As long as we are on our toes industrially our industrialists need have little fear of foreign competition. If they are not on their toes then foreign competition will help to put them there.

One-sided Trade

While our protectionists believe it is not to our interest as a nation to encourage our import trade they do think it profitable to have a big export trade. They are one-way traders wanting to do most of the selling but very little of the buying. They are blind to the fact that **the only reason for an export trade is to secure imports.** They are possessed with the peculiar notion that it is more profitable to sell than to buy, to export than to import. They labor under the delusion that if we are to be the gainers by foreign trade, we must sell more than we buy. They realize, of course, that it is to our interest to buy certain products that are not native to our shores, which would involve some exchange of goods, but in-so-far as possible they would restrict our foreign trade to the exchanging of our goods for gold. To them gold possesses some mysterious power to enrich a country which is not possessed by other commodities. This is exactly the attitude of the miser who

deprives himself of every form of wealth in order to possess gold or money. He might be just as well off if his wealth consisted of lands and buildings, and perhaps more so, but so obsessed and blinded is he by the glitter of gold that he is unable to perceive this simple self evident truth.

In the great majority of cases, there is very likely to be a greater need for commodities other than gold. It often might be to our advantage to receive payment for our exports in perhaps wood, pulp, nickel, linen, or some other product which we might need far more than we need gold. This, however, would mean that we might have to buy as much in the way of goods, other than gold, as we sell, which according to protectionists would not be to the best interest of our country. Such a two way trade would be viewed with much alarm by them as it would prevent us from showing what they call a "favorable trade balance." They cannot see that too much gold might be just as much to our disadvantage as an over-supply of any other commodity.

Gold that lies idle in our vaults is not ministering to human wants either here or anywhere else. Despite this fact, there have been times when our "favorable balance of trade" theorists have demanded that the rediscount rate be raised so as to keep our surplus gold from leaving the country, which only goes to show their blind faith in this particular commodity to perform miracles. It is a very easy matter to see who the impractical theorists are, and some day future generations will look back and ponder, yes, even laugh at such stupidity and folly.

The Prosperity of a Nation Cannot be Measured by its Gold Supply

As a result of this policy of one-sided world trade, we, in this country, have most of the world's gold buried in the hills of Kentucky. As a consequence our foreign customers are no longer able to buy our surplus products, yet we are led to believe by protectionists that such a trade policy is a good thing for the country. Can anything be more preposterous? Not only does such a public policy prevent foreign nations from buying our surplus goods but it also forces them to build higher their tariff walls in order to prevent further drains on their

dwindling gold reserves. This is especially true of those countries that are on the gold standard.

The belief that the prosperity of a nation is measured by its gold supply is a very old one and is the outgrowth of what was once known as the mercantile theory. It is one of the cornerstones of the protective tariff theory. Needless to say it does not stand the test of analysis. This old exploded theory finds its counterpart in the belief held by protectionists that it is more profitable to sell than to buy to export than to import. If we need any further proof of the fallacy of this latter theory we need only turn to the experience of Great Britain during the period in her history when her markets were thrown more widely open to the goods of other countries and when her imports were exceeding her exports. Never had she enjoyed such prosperity and never was there so little unemployment and so much industrial activity. Gradually she became the world's banker and the greatest creditor nation of all times. All this was accomplished under a system of low tariffs which enabled other countries to pay for her goods with theirs.

The Balance of Trade Riddle

According to the reasoning of protectionists the balance of trade was running against her, which from their viewpoint should have brought her not prosperity but impoverishment. The fact is, what protectionists call a favorable balance of trade may often be an unfavorable balance. In the case of our own nation, treasury reports clearly indicate that in the past when we were still a debtor nation our so-called favorable balance of trade was too often a most unfavorable one. We were actually impoverishing ourselves by shipping out more wealth, gold and silver included, than was being brought into the country, yet protectionists have had the temerity to tell us that during this period we enjoyed a favorable balance of trade. No nation can have a favorable trade balance and ship out, in the course of foreign trade, more wealth than it brings in, nor can it be considered good public policy to import and hoard the precious metals beyond the reasonable needs of the nation when there is a much greater need for importing other kinds of goods.

Chapter VII

PROTECTION AND WAGES

As we have previously seen, protectionists argue that a protective tariff is not only necessary because of our higher wages, but also to give us higher wages. They start out by assuming that our high wages are a handicap to our industries in meeting foreign competition; yet, strange to say, they would boost them still higher by resorting to tariff legislation. How the tariff is going to eliminate this supposed handicap, **if its effect is to raise wages, is not readily comprehended.** Under such a scheme, no matter how high we build our tariff walls this so-called labor cost handicap would be just as great. Nothing could possibly be gained by our industrialists by such a policy, if they are compelled to pay out in higher wages what they gain in higher prices. They would still be at the same disadvantage in meeting foreign competition.

A Protective Tariff Lowers Wages

We know of course, that a tariff does not raise wages but, to the contrary, **lowers them.** As we have seen, to be of any advantage, especially to competitive industry, tariff duties must raise prices. If they do this, **then money wages, measured by what they will buy, will be lower. The only way we can measure wages is by what they will buy.** We cannot tell whether real wages are low or high unless we do know how much money wages will buy. It is quite apparent that we do not raise real wages by merely raising money (nominal) wages, if such a raise is followed by a corresponding increase in prices.

Just how the taxing of some domestic producers for the benefit of other domestic producers is going to bring about higher wages; or how the earnings of producers are to be increased by preventing them from buying where they can buy the cheapest, is still up to the high priests of protection to explain. Simply because it makes more work necessary is no reason for concluding that it increases wages. **We have already seen that the more work it takes to produce goods, the higher will be their price.** This would make for lower real wages.

Wages Higher Here Before We Adopted a Protective Tariff

We cannot give credit to our high tariff policy for our higher wages, as they were higher before we adopted this policy. This, as we have previously seen, is the reason for its adoption. Had anyone told our early employers of labor that the adoption of this policy would result in still higher wages, he would have been laughed out of court. Had they found this to be the case after trying it, we can rest assured that they would have quickly abandoned it.

It is often argued that if tariff duties are lowered employers will be forced to reduce wages. Now, let us see about this. If it is possible for them to reduce wages at will they would do it regardless of tariff duties. Our earlier employers of labor would have also done the same thing. It has not been because of the goodness of their hearts that employers have refrained from lowering wages.

The only reason that wages here have not been reduced to the level of the lower wage countries is because it has not been within the power of employers to do so. Wages are governed, not by the arbitrary whims of the employing class, but by economic law. If some of our labor leaders could only be made to see this, they might not be so easily fooled into supporting this tariff racket.

What About Spain, Mexico and Russia?

If a protective tariff makes for higher wages and a better standard of living, why is it that such highly-protected countries as Spain, Mexico and "old" Russia have always paid such low wages and have had such a low standard of living? Surely protection should have done for them what many claim it has done for us. On the other hand, Great Britain, which has for years been on a much lower tariff basis, has paid higher wages than the above mentioned countries, and her citizens have enjoyed a higher standard of living. This only goes to prove that tariffs are not responsible for higher wages or better living conditions.

Wage Earners Tricked

The contention that a protective tariff makes for higher wages did not appear on the political horizon until long after

our country had adopted the policy. It came along about the time that the party of high protection decided to talk about protecting home industry instead of protecting infant industry. Our infant industries had grown to man's estate and many of them were wearing whiskers. This made a change in political strategy quite necessary. About this time, some clever high priest of the cult discovered that without tariff for protection, wages here "would fall to the level of the lower wage countries." This was a most vital discovery. It proved to be a political gold mine. From that day on, tariff propaganda has been carried on largely in the interest of the man with the dinner pail. His dinner pail had to be kept full and the tariff was the only means whereby this could be accomplished. His employer has been willing to spend millions of dollars at every election to keep it full.

Starting out as a cold-blooded business proposition for the benefit of the employing class, it has developed into a most humanitarian movement for the uplift of the poor down-trodden wage earner. Please excuse us while we laugh. Laborers have nothing to gain by supporting a tariff but, on the contrary, have much to lose. The only effect of such a policy is to make them **work harder to secure the things which might otherwise be obtained with less labor by resorting to foreign trade.** Instead of raising wages, it actually lowers them by **increasing production costs thus causing higher prices.**

Chapter VIII

HOW THE TARIFF AFFECTS OUR FARMERS

The American farmer has always been one of the corner-stones of our protective tariff system. Not only is this true in the sense that he has helped to sustain it by his vote, but also in the sense that he has helped to carry the load which it imposes. No one can act as a corner-stone very long without becoming badly bent, and this has been the fate of a very large percentage of our farmers. This is not to say that they have not been given all that they have asked for in the way of a tariff on imported farm products. The official records show that they have been given duties more than sufficient

to keep out the farm products of other countries. The only trouble is that they haven't been able to cash in on this kind of protection. Protection for them has been a tariff without teeth, and a toothless tariff isn't of much value, as many of our farmers are beginning to discover.

Farmers Buy in a Protected Market

The writer admits that there are a few farm products such as flax and sugar cane which can be increased in price by the shutting out of foreign competition. This, however, works to the advantage of only a very small percentage of our farmers. By far the larger percentage of them are buyers of these products; hence it is to their advantage to buy them as cheaply as possible. As our farmers are compelled to buy mainly in a protected market, they stand to lose by such a policy much more as buyers than they can possibly gain as sellers. While it may be true that an occasional domestic crop failure may enable a few of them to receive some little temporary tariff benefit, it more often happens that they are confronted with a surplus over and above the needs of the home market. In this case they are the losers by this closed market policy. This is because such a policy invites retaliation on the part of other countries causing them to close their markets to our surplus farm products.

It is because of the need for foreign markets for our farm surpluses that it has been necessary to negotiate reciprocity treaties in an effort to right some of the mischief previously done by boosting tariff rates. What is more, in preventing foreign countries from sending us their surplus products in payment for ours, we force them to resort to like tariff measures in order to prevent us from draining them of their gold which is vital to their monetary systems. It is to the interests of our farmers more than any other class of domestic producers to see that foreign markets for their surplus products are kept open to them. They cannot expect them to remain if they become a party to the closing of our markets to the surplus products of other countries.

Our Farmers Need Not Fear Foreign Competition

If, for years, our farmers as a class have been able to sell their surplus farm products in both Europe and Asia in

competition with lower wage foreign farm labor after paying freight rates and foreign tariff duties, it stands to reason that they haven't anything to fear from this competition in their home market. Were it not for the fact that they are now compelled to buy in a highly protected market it would be even much easier for them to meet foreign competition. With this handicap removed and other countries being able to pay for our farm products with commodities which they can produce at a lower cost, our farmers who are producing in excess of domestic needs would find a much better market for their exportable surpluses.

As has been previously pointed out, no class of domestic producers is in greater need of foreign markets to dispose of their surplus products than are our farmers. To deprive them of it simply means an over-saturated home market, hence, lower agricultural prices. Our farmers have had to face just such a condition for a long time and the politicians have not been able to figure out anything better to cope with the situation than to tax the balance of the community to pay farmers for not producing. In trying to cure the evils of class legislation with still more class legislation they are making even a greater farce of government

Our Farm Methods More Modern

Many of our farm leaders lose sight of the fact that what industrial progress has done for our manufacturing enterprises **it has also done for our farming industry.** It has endowed it with the most modern methods of production in the entire world, which means lower production costs. The lower wage farming industry of the old world is still a hundred to five hundred years behind our own in their farming methods. This is not merely the personal opinion of the writer, but of many able farming experts who have traveled extensively in foreign countries studying farming methods. This conclusion is also borne out by our departments of labor and agriculture.

Because of this lack of modern farm methods, worn out soils and more dense populations to feed, the nations of the old world have little in the way of farm products to export. Most of them are forced to import food. This being the case our farmers have nothing to fear from their competition in our home markets. This even applies to Soviet Russia which

still has a long way to go to supply her own needs for food. Protectionists can't point to a single country in Europe or Asia where grain or other farm products that are native to our shores, can be produced any more cheaply than they can right here in America. Wheat has always sold for more in both Asia and Europe than it has here. This is also true of many other farm products.

Other Competition

The only other competition which our farmers would have to meet in a free trade market would be from the farmers of Australia, Canada, and Argentina. In this case, however, it can be shown that farm production costs, with few exceptions, are just as high in these particular countries as they are here. This is proved by the fact that for years our farmers have been meeting this competition in the world market. Nor can it be shown that our farm products have been sold in the world market at a loss. Neither Canada nor Australia enjoys a lower labor cost, and the lower wages of Argentina are more than offset by higher farm machinery and transportation costs. While land costs may be somewhat lower in Canada than here; this is more than offset by a less dependable Canadian climate.

The writer's experience in raising grain in western Canada; and it has been quite extensive; has fully convinced him that farming costs there are considerably higher. The lower land costs are proof of this. When we take into consideration the additional cost of transportation made necessary to bring Canadian wheat into our markets and the higher prices which the Canadian wheat grower can obtain by selling his grain in the markets of Europe and Asia, it will be seen that the fears of our farmers concerning Canadian competition are entirely unfounded. Canadian, Australian and Argentine farm products, with few exceptions, have always gone and will continue to go, tariff or no tariff, to the markets of Asia and Europe where a greater scarcity prevails and where prices are higher. The few exceptions to this might be in the case of the longer fibered wool from Australia, the llama and alpaca wools of South America and occasionally beef cattle from the prairies of Western Canada. We need these longer fibered wools to give greater strength and firmness to fabrics made of our own shorter fibered domestic wool. The time is also fast approach-

ing when we are going to be compelled to import more beef cattle if our wants as a nation are to be fully supplied. The needs of the nation as a whole are always paramount to the profits of any class of producers and the government which fails to heed this fact is not representing the nation as a whole.

Importing Helps Our Farmers to Export

While it is true that under a policy of free trade we might continue to import a few thousand bushels of the harder varieties of Canadian wheat for blending purposes, just as we are now doing under the bonded wheat provision of the tariff law, much of this grain, after being ground into flour would leave the country again just as it does now. It would go to make up our flour exports. Protectionists like to fool our grain growers by pointing to the amount of Canadian wheat sold to our millers prior to the placing of wheat on the protected list. What they fail to tell them is that much of this wheat left the country again after being mixed with our softer varieties and ground into flour, just as it does now under the present milling-in-bond provision of the tariff law.

Canadian Wheat and Our Flour Exports

Were it not for the fact that we have been able to import some of this high-protein Canadian wheat for blending purposes, much of our soft wheat could not be sold for milling purposes. Our protectionists fail to tell us this. Most of them are ignorant of the fact. What is more, the purchase of high protein Canadian wheat by our millers is offset, in large measure, by the amount of our soft wheat also imported by the Canadian flour mills for blending purposes. During the year 1929, Canada imported more than 36,000 barrels of American flour for this purpose. Take away the right of our millers to buy the hard, high-protein Canadian wheat for blending purposes, and they would no longer be able to **hold the foreign market for higher grades of flour**. As a consequence, the demand for our softer wheats would undergo quite a decided shrinkage. While our protectionists evidently do not know this, our millers are quite aware of the fact.

In the absence of tariff walls between this country and Canada any products which we might buy of that country would only enable Canadians to buy from us. They need our

soft fruit, our cotton, our soft wheat, our tobacco and other farm products as well as many of our manufactured products. Not only would our farmers benefit by the sale of these farm products to Canadian consumers but from the sale of our manufactured products as well. The more American workers that are employed in our manufacturing industries, the more farm products they will be able to buy. We thus see that our farmers as well as all other domestic producers would be benefitted by freer trade between the two countries. Canadian producers would also benefit to even a greater extent, as Canada is even more dependent on foreign trade.

Chapter IX

PROTECTION AND PROSPERITY

Protectionists contend that the tariff has been largely responsible for our industrial advancement as a nation. Now, let us see about this. If a protective tariff makes for greater national prosperity and industrial advancement, as is claimed, then these effects should be manifested in one country as well as in another. Spain and Mexico have even outdone us in tariff wall building, yet, strange to say, their industrial progress has been very slow, and they have hardly known the meaning of the word "prosperity." For some peculiar reason, the tariff has failed to perform the same miracles for them that it is supposed to have performed for us. Russia, too, in the past was a very highly protected country, yet she experienced very little industrial advancement. On the other hand, Great Britain, which has been on a low tariff basis for many years, leads all Europe industrially. While her people are not so well off, economically speaking, as our own, they are much better off than the people of the more highly protected countries of the Old World. Such facts as these tend to upset this theory that protection tends to make for industrial advancement.

The Reason for Our Progress

It is the contention of the writer that we have advanced industrially and prospered, not because of the tariff, but in

spite of it. Our greater prosperity and industrial advancement can be explained on other and more logical grounds. In the first place, we have been blessed by a very **wide range of natural resources making this country an ideal spot industrially.** In the second place, we have been most fortunate in having the kind of people who possess those qualities so necessary to industrial advancement. Last but not least; **the size of the country has made it one of the greatest free trade areas in all the world.** It is these factors which here contributed to give us great productive power, hence have been responsible for our industrial advancement as a nation: It is because of this great industrial advancement that tariff protection **is so unnecessary for us,** and it is because of it that we have continued to prosper despite tariff walls. This advancement would have taken place regardless of tariff legislation. The only difference is that **we would have saved a great deal of labor** had it taken place under a **free trade policy.** This would have made for even greater prosperity.

We Have Advanced Despite the Handicap

While it is true that we have often enjoyed a considerable degree of prosperity and industrial advancement under a protective tariff policy, this favorable condition, as we have seen, has come about despite the tariff handicap. A powerful man may take considerable forward progress in spite of the ball and chain tied to his leg, especially if other conditions are favorable, but he would be able to go much faster were it not for this handicap. The sailing ship may be able to make considerable progress in spite of the barnacles which cling to her hull, provided the breezes are with her. As a nation, we have been most fortunate in having the breezes with us.

The Highest Protected Nations Have Suffered Most

To the extent that tariff has helped to deprive the masses of their earnings in order to enrich the favored few, it has brought the nation not prosperity, but impoverishment. To the majority it has meant hard times, even during our most prosperous years. We have had the most widespread poverty and unemployment and the most serious industrial depressions under this high tariff dispensation despite the fact that we have

raw materials in abundance and the most modern means of production. What is more, the countries with the highest tariff walls suffered the most during the last depression. This surely doesn't speak well for this much lauded remedy for hard times.

With our tremendous possibilities for turning out wealth, there should be plenty for all. If by reason of our mechanical and industrial development we have greatly increased the productive power of our labor during the past hundred years, as authorities contend, then we should have been able long before this to have abolished involuntary poverty and unemployment from our midst. While our high tariff policy has not been wholly responsible for these evils it unquestionably has been a contributing factor.

Chapter X

THE TARIFF NOT ALWAYS COLLECTIBLE

To levy a tariff for protection is an easy matter, but to make it possible for all of our domestic industries to cash in on it, isn't so simple as many people would have us believe. Unless an industry can cash in on it, it has nothing to gain by keeping out competitive foreign products. It can be shown to the satisfaction of any thinking person that many home industries have little chance to profit by the excluding of competitive foreign goods from the domestic market. It so happens that what many such industries gain by the shutting out of foreign competition, they lose by reason of the increase in domestic competition, which is sure to follow.

That there are many home industries which are unable to boost prices above the foreign or world price ought to be apparent to anyone who has given the matter serious consideration. If the home industry possesses no monopoly power to raise domestic prices, then it cannot benefit by a protective tariff. While selling in an open or world market, such industries are often forced to buy in a closed or protected one which means higher prices for their raw materials.

Industries Which Sell in a World Market

None of our strictly competitive industries, such, for example, as farming which produces in excess of domestic requirements, is able to cash in on the tariff. The reason such industries cannot cash in on it is because they possess no power to control production which would give them power to fix prices. In their case, the price of their products is determined by world supply and demand; in other words by world competition, regardless of how high the tariff may be on the products they produce. World supply and demand, under normal conditions, fixes prices for them in the domestic market as well as in the foreign market and it will continue to do so in the absence of government price fixing schemes as long as such industries are confronted by an exportable surplus. Even our farm leaders who are protectionists realize this. This is why they have worked so hard to have the proposed debenture scheme made a part of the farm tariff law.

If it were possible to raise the price of such competitive products above the world price, such an advance could not possibly be maintained in the face of new domestic competition which would be sure to spring up at the very first sign of better prices. There is always capital seeking investment, and the field of higher returns always attracts it. Potential competition is continually awaiting a chance to become active. As a result of this the earnings of competitive capital, sooner or later, find a common level.

The Proof of Our Lower Production Costs

The real underlying cause, however, for the failure to maintain domestic prices of such competitive products above the world price, even after the door to competitive foreign products has been closed, is to be found in our low cost of production, which, in most cases, is as low or lower than the foreign cost. Every political economist knows that average prices in a strictly competitive market over a period of years are determined by the cost of production. The fact that the products of most of our competitive industries do not sell for higher prices after foreign competition has been shut out, is absolute proof that the cost of production is no higher here than in other countries. If this were not the case, the prices of these products would immediately rise following the shutting

out of foreign competition and would remain higher. It can be shown that as a general rule this does not happen. In most cases instead of going higher domestic prices have actually fallen as a result of the increase in domestic competition. It is, therefore, clearly evident that the tariff does not enable this class of industries to raise prices. If it doesn't do this, then it doesn't enable them to collect this tariff subsidy. It is, therefore, of no benefit to them.

An Actual Example

For proof of this let us take the present tariff on onions. The only thing it has accomplished has been to increase the competition in onion growing here at home and deprive the American consumer of eating milder Bermuda onions which might agree better with his digestion. The very next year after this onion tariff went into effect, the domestic market was glutted with domestic onions, and the price went to below the cost of production. What our onion growers had failed to do in order to make the tariff affective was to secure a monopoly of onion lands so as to prevent other domestic producers from going into the onion growing business. This new domestic competition has been just as keen and just as damaging as was the previous foreign competition, if not more so.

Now if this argument relative to our competitive exporting industries is sound, and every real economist knows that it is, then our farmers as well as a large percentage of our industrialists are only fooling themselves when they think that a protective tariff is making them more prosperous. If by reason of the increase in domestic competition their sales are no greater than before and the prices of their products no higher, then it is quite apparent that they have nothing to gain by this tariff racket.

Industrial Monopolies and the Tariff

Except for the few tariff-created industries, whose sales are confined to the home market, the only other industries which stand to gain anything worth while by the tariff are our few great industrial monopolies. With foreign competition in the home market shut out, these monopolies are able to raise prices to all the traffic will bear. If need be, they can also sell their surpluses in foreign markets at a loss and make up this loss

by charging domestic consumers more, although it is very seldom that this step is necessary. It isn't necessary that an industry have an absolute monopoly to get the benefit of the tariff, but it is imperative that competition be restricted or limited to a considerable degree, and that there be little, if any, potential competition to worry about.

Our cane sugar growing industry is not an absolute monopoly by any means, but the cane sugar growing area is so limited in this country that competition in the growing of sugar cane must always be limited. With the home demand for such sugar exceeding the domestic supply, it is very evident that a tariff, by keeping out the foreign supply, would give to the few sugar cane growers considerable monopoly power in the way of controlling prices. Ultimately, of course, such increased profits would be absorbed by the owners of cane sugar growing lands in advancing the ground rents.

The Tariff Creates Monopolies

What is true of the sugar cane industry is true of any industry where the area of production is insufficient to meet domestic requirements. Our large combinations known as "trusts" gain the most from the tariff. The extent to which the tariff enables such industries to fleece the public is too often covered up by the watering of stocks which makes their net earnings look small. We have no way of telling exactly the amount of money extracted from the pockets of domestic consumers every year by the subsidizing of these monopolies. We do know, however, that it amounts to no small sum. Not only does a protective tariff enable these "trusts," or monopolies, to reap profits they are not entitled to, but it is largely responsible for their existence.

A prominent English statesman once boasted that his country had little need for anti-trust laws as her low tariff policy made them quite unnecessary. He was quite right, as "trusts" do not thrive where there is world competition. When we come to examine more closely the effects of this tariff policy we find that the only industries to be benefitted by it are a few "hot house" created industries, which should never have been encouraged, and a few industrial monopolies. The strange thing about it is, we gladly tax ourselves to make pos-

sible such a national program and we call it practical politics and good business. It is just another case of mistaking our own shortsightedness for practical mindedness.

Chapter XI

THE KIND OF FACTS THAT NEED TO BE CAREFULLY EXPLAINED

The writer has made it a point to examine scores of so-called facts concerning our inability to meet foreign competition only to find that in the vast majority of cases, they are not facts at all but half truths and pure unadulterated deception. It is not at all pleasant to have to say this, but in the interest of truth and honesty it must be said. Here are a few examples to prove our case. Many more might be cited. Just before the last Presidential election, a former governor of my State of Washington returned to his home here in Spokane from a trip to Western Canada. Upon his arrival he was interviewed by local newspaper reporters and this is what he told them: "If it were not for the tariff on wheat, our local markets would be flooded by Canadian wheat."

Here is another case, according to high tariff newspapers, where facts disprove theories. To prove his point, our distinguished ex-governor quoted figures showing the difference between the Calgary, Alberta and Spokane wheat prices, which by the way, happened to be at that particular time a little higher than here. By adding the premium on American funds to the Canadian price, which on that date was around 12 per cent, he was able to show, to the satisfaction of many that Canadian wheat could be laid down here for less than the Spokane price.

Always Overlooking Something

Now, strange as it may seem, this practical business man had entirely overlooked the important factor of transportation costs. Protectionists are always overlooking something. This is what makes their facts so misleading and unreliable. In

this particular case, the freight rate on wheat from Calgary to Spokane was, and still is, 25 cents a bushel. Had this rate been cut in two, which would have been expecting too much from the railway company, the Canadian shipper could not have shipped his wheat to Spokane and obtained as much for it as he could have received at his nearest home elevator. Shortly after this, the premium on American funds entirely disappeared, which placed the Canadian wheat shipper at even a still greater disadvantage in shipping to our markets.

The Electric Light Globe Scarecrow

Example number two has to do with electric light globes. A few years ago a few shipments of Japanese light globes entered our markets, with the result that it furnished our high tariff theorists with still more proof of the need for a protective tariff. As in other cases, it enabled them to make a mountain out of a mole hill. Again, they shouted from the house tops that this is just another proof that we cannot meet the competition of cheap Japanese labor. Let us see what the real facts are in the case. In the first place, these imported globes were of much inferior quality to our own, which puts them in **an entirely different price class**. They were cheaper in price simply because they were cheaper in quality. By far the greater percentage of them were sold for decorative purposes. In the second place, it was not the cheapness of Japanese labor that enabled the Japanese light globe manufacturer to sell them in our markets, but the **speculation in exchange rates and the monopoly price charged for domestic light globes**.

The Japanese yen, following the last depression, underwent a considerable depreciation, which for a time enabled the Japanese exporter to secure a premium upon American funds. This depreciation is ascribed by some as being largely due to the speculation in exchange by the Chinese bankers of Shanghai and Dairen, who were selling the yen on the New York money market at low rates in order to cripple the Japanese in Manchuria.

Labor Costs Here and in Japan

As for labor costs, the advantage is with this country, as every trade expert and economist knows. The Japanese are still a nation of artisans, and the information that comes to us

directly from those who have traveled extensively in their country is to the effect that they are very slow to adopt the American idea of mass production, which would insure lower production costs. We have the most up-to-date light globe industry in the world and the cheapest and most efficient labor to man it. This being the case, it would have been a very easy matter for our light globe trust to rid itself of this Japanese competition by simply **bringing down the price of its globes to a reasonable figure.** This would have ended the Japanese competition almost overnight and still left the domestic industry in **control of the home market.**

While this would have resulted in some reduction of profits to the stockholders of this corporation and a shrinkage of watered stocks, it would not have caused any reduction here of either employment or wages. This industry does not pay any more wages now than it is forced to pay, and it cannot hire efficient help and pay less. If it could, it would be doing so. Employment in this industry would likely be increased, as lower prices for light globes would, in all probability, result in more of them being sold. This industrial monopoly, however, does not prefer to get rid of foreign competition by any such means, at least not so long as it can depend on the government to do the job at the expense of American consumers. Foreign competition, or at least the fear of foreign competition, is **our best protection against exploitation by domestic monopolies;** yet, we haven't had the good sense as a nation to realize it.

That Cheap Cedar Shingle Bugaboo

Example number three has to do with shingles. For a number of years our shingle mill operators, here in the northwest, have been clamoring for a higher tariff, it being contended by them that they are put to a big disadvantage in meeting the competition of British Columbia shingles because of the cheap Oriental labor which they contend is being used by their Canadian competitors.*

The fight to exclude these British Columbia shingles has been going on for a number of years and has been supported by many northwest newspapers and most of the representatives

*Since this was written our domestic shingle producers have succeeded in getting the duty on shingles raised and a shingle quota established.

in Congress from the Northwest. Now, what are the real facts in the case? We take them from the records at Washington. During a recent republican administration, the tariff commission was ordered by the President to make an impartial investigation of this shingle problem, which it proceeded to do. For once it did a fairly good job, despite the efforts made by domestic shingle mill owners to influence its decision. It also happened that in this particular instance the Commission was most fortunate in having a friendly foreign industry with which to deal.

The Findings of the Tariff Commission

This Tariff Commission was packed with those friendly to a protective tariff, yet when its report was submitted to the President, there was nothing in it that could give either him or Congress any reason for increasing the tariff on shingles. This is what the Commission found: First, that the British Columbia shingles are not cheap, as our shingle mill operators and newspapers had been claiming. On the contrary, they are not only **superior in quality** to our own, but **also higher in price**. This, of course, puts them in a very different class. Second: the Commission found that the few Oriental laborers who are being employed by the British Columbia shingle operators consists of a few Chinese and Hindoos who are used in the Sorting and Packing Departments.† "They are used here" says the Commission, "not because they can be hired for less, as they cannot be, but because they are more methodical and painstaking at this kind of work, which insures the buyer of shingles a more honest pack." They get the same pay as do the other workers.

Why We are Using Fewer Shingles

As far as the Commission was able to ascertain, the average cost of shingle production is about the same in both countries. The report ended by showing what many of us already knew, that the poor market for shingles during the past few years is traceable, in the main, to the greater use of substitutes and the decline in the buying power of farmers who formerly

†The sorting and packing of these shingles are done on a piece-work basis, the Chinese being paid the same as white labor.

war the Japanese cotton industry did give our cotton mill operators some cause for alarm it was only a temporary scare. It, of course, can happen that even industrialists in the lower wage countries may from time to time discover new processes, through inventions or chemistry, that will make substantial reductions in production costs. In this particular instance the Japanese cotton industry installed an improved cotton loom which materially cut down the need for labor. In addition to this, it, for a time, enjoyed more favorable foreign exchange rates while our own cotton industry found itself handicapped by higher raw cotton costs imposed upon it by "New Deal" farm legislation. Now while such foreign competition may be more or less menacing its ultimate effect, in the absence of tariff walls, is to spur on competitors to greater efficiency and modernization. There has been nothing to prevent our cotton industry from adopting this same cotton loom if ours is not as efficient. We can also trust to Yankee ingenuity to greatly improve upon it if this is found necessary to meet Japanese competition.

Chapter XII

TRADE BARRIERS INVITE WARS

That high tariffs are a contributory cause of war is as clear as anything can be. Whenever a nation governed by unscrupulous military rulers finds that because of trade barriers it is unable to exchange its finished products for raw materials or its raw materials for finished products, the temptation immediately arises to secure these things through territorial expansion, providing it possesses the military strength to accomplish this end. The more militant a nation is, the more it is guided by the materialistic and brutal concept that might makes right. What it can't get by bargaining it takes by force. This temptation is the greater where a nation is less self efficient and where populations are threatening to overtake the means of subsistence. In such cases the freer that trade can be kept between nations the more assurance we have of maintaining peace throughout the world. This is because trade better

enables a nation to supply its wants. The more dense its population, the more need it has for foreign trade.

The writer is not claiming that free trade is any cure-all for wars. He, however, does claim that it would help and help greatly to prevent them. It is only fair that nations that are richer in raw materials should share them with their less fortunate neighbors. This is made more or less impossible where tariff walls are so high as to restrict trade. We have heard much talk about foreign nations becoming good customers for American goods following the war; but how, pray tell us, are they going to buy our surplus goods if we continue the policy of refusing to accept their goods in exchange? We have already drained them of most of their gold, which by the way, isn't doing us any good, and we can't afford to extend them credit. Were we to extend them credit they would not be able to repay us except in goods, and our protectionists would never permit this to happen.

Chapter XIII

NEW AND UNDEVELOPED COUNTRIES

The newer and more undeveloped countries also greatly suffer from a high tariff policy as they too are more dependent on foreign trade. The lack of such trade simply makes it more difficult, hence more expensive for them to supply their wants. It undoubtedly makes more work for them, if this is what they want, but they have far less to show for this extra work. They are more prosperous only if going without is any indication of true prosperity, which can hardly be admitted.

Let us take Canada for example, her people would be able to enjoy much more of this world's goods, which by the way is **the real measure of prosperity**, if they were able to buy freely where they can buy most cheaply. Because of artificial trade barriers they pay considerably more than we do for much of what they consume, yet their champions of a protective tariff call this good business. Like the protectionists of all countries they labor under the delusion that their country can make herself more prosperous by handicapping its people in their efforts to supply their wants. They would tax them to

provide industries that cannot meet the competition of the more highly developed industries of this and other countries. If the benefits of free trade which now exist to such a large degree between our states could be extended to include Canada, thus greatly extending the free trade area on the American continent, it would make it easier for the people of both countries to supply their wants. The Canadian people, of course, would benefit most by such a policy as their country is less self sufficient as a nation.

Chapter XIV

CONCLUSION

The American people not only like to be "humbugged," as the old showman, P. T. Barnum, once said, but they are being "humbugged" and they haven't the good common horse sense to know it. The popularity of this tariff racket proves this. It is the greatest political racket that ever has been perpetrated on a people, yet those who profit by it, or who think they profit by it, have been most successful in their efforts to perpetuate this fraud. It is a very easy matter to fool people into accepting this doctrine who have little or no understanding of the real nature of foreign trade, and who are unable to distinguish between wages and labor costs. Protectionists catch only the surface appearances of things which are generally most misleading. It is because of this that the protective tariff theory seems so plausible to them. As long as a majority of the voters continue to accept these delusive surface appearances at their face value, little headway can be made towards restoring international trade.

As long as most of the voters are content with the kind of economic education they receive from the average newspaper, which is too often but the mouthpiece of the tariff beneficiaries, there isn't much hope of ever ridding the nation of this economic superstition. The masses are in the same predicament as the huge bull which Henry George speaks of in his book "Protection and Free Trade." This bull was tied to a stake by a long rope and while there was plenty of grass for him

to eat, he kept winding himself around the stake until the grass was out of his reach. While he bellowed and pawed and the flies helped themselves to a square meal off his shoulders, he didn't have the wit to see how he could unwind the rope so as to get in reach of the necessary food to sustain him. So it is with the average voter. Economics are his blind side. It is because of this he continues to follow blind leaders up blind alleys and the end is not yet in sight.