

# THE TARIFF AS A FACTOR IN AMERICAN FOREIGN TRADE

*By Oscar W. Underwood*

**W**HEN will the mass of the American people adjust their vision and their habit of thought to the changed conditions that have come upon us since the Great War was ended on the battle fields? This generation and the one to come will not see the end in fact of the Great War, so far as our economic and social problems are concerned.

I asked the question stated above because I wanted to call attention to the fact—I believe it to be a fact—that until the habit of thought on economic questions by the mass of the American people has changed and become adjusted to the new business conditions confronting us and the world at large, due to disruption of the world's markets during the war, we will not begin to solve the problems of supply and demand that determine our place in the business and financial affairs of the world.

The subject that I intend to discuss is the customs tariff as a factor in American foreign trade. However, as a trade factor it is so interwoven with the lives of the American people, as well as with the unsettled conditions of production and consumption in the European markets, that I am compelled in fairly discussing the question to consider all these problems as one. We must realize that we will not begin successfully to work them out until the American producer has abandoned the economic viewpoint that he held before the Great War and has adjusted his line of thought to conform to trade conditions that confront us today.

You may ask if there are not men in private and public life wise enough and farseeing enough to analyze conditions correctly and point the way of our future development. That is undoubtedly true. There are such men and they have pointed out the way; but nothing has come of it. Along many lines of the gravest importance the wagon of public safety is still traveling in the same old ruts that shaped its course for two or three decades before the Germans invaded Belgium. This is especially true in regard to the difficult questions of taxation that face us at our custom houses. Men in high positions proclaim that changed conditions have arrived and that they must be met fairly; and they then proceed to follow the fetish of the past and legislate in the same

old way that they used to legislate before the Great War broke all business conditions away from their past moorings and left the world's affairs adrift in a stormy sea without compass or rudder.

The Congress of the United States, taken collectively, is a very timid body of men, composed individually of many highly intelligent, honest and industrious members who rarely have the courage to march in a body in advance of public sentiment or of the declared sentiment of their immediate constituencies. This is particularly true in matters where the issues involved have in the past divided the two great political parties along partisan lines, such as the economic and industrial equations that grow out of the adjustment of customs tariff taxes. The politician fears to abandon the war-cry that has become the shibboleth of his party until he is more than sure that his constituency has faced about and is viewing the economic facts involved in the light of the conditions that now confront us, rather than in the light of the political theories of the past.

I say this before discussing the tariff law recently adopted by the party in power in order that we may understand the motive lying behind its enactment. It is conceded that the new tariff law has inaugurated at the custom houses the highest system of taxation on competitive articles that has ever been written in the history of this country, and it is hard to realize how Congress could have taken such a step if we do not remember what I said above: that the Congressman is slow to abandon his party shibboleth until he is very, very sure that his constituency has faced about on the question. That they must "about face" or fall heir to permanent business depression is clear to my mind; not that I think the pendulum should swing to the furthest opposite extreme and go from high protection to free trade, but that the tariff taxes should be so adjusted as to allow reasonable competition from abroad with all articles that invite competition. By that I do not mean destructive competition, but a dividing of the whole market to a reasonable extent with the foreign producer in order that his goods may come in to pay us for merchandise we send out.

I do not contend that we can cure Europe of the economic and business crisis that confronts her. Probably, in the last analysis, only time will restore healthy business conditions. But we can, to a large extent, adjust our laws and our trade methods to meet existing conditions in Europe, in order that we can find markets

for our surplus production. We cannot have real, satisfactory business or anything approaching prosperity in the United States until Europe is on the mend, for there lies the market for the over-production of our fields and our factories. We are part and parcel of a great world-wide economic system. The politician may encourage the people to believe in an ideal of splendid isolation, but the last two years have taught us the lesson that distress anywhere will sooner or later be registered here in the price we obtain for the products of our labor and that the present derangement in Europe must of necessity bring a tremendous drag upon our future development.

Let us come to the understanding now that a bushel of wheat or a bale of cotton does not only involve the problem of its sale, but that when it is sold it creates a market for a stove, a winter overcoat, a plow or an automobile, and therefore the domestic producer and domestic manufacturer, relying solely on the domestic market in which to dispose of the output of the farm or the factory, have an equal interest in the sale of our surplus production abroad with the man who is actually selling there. Unless agriculture can be paid for its surplus products, manufacture will fail for lack of a home market.

The present depression began with agriculture. Within twelve months' time the purchasing power of the product of the farm declined at least one-third and all industries that were sustained by the farmers' trade were thrown into the general depression. There is no secret about the cause that produced the collapse in prices. It was undoubtedly due to the failure of our European customers to buy liberally of the cotton produced in the South, the wheat produced in the North and the meat produced in the West; not that the needs of the European populations had diminished, but that they could not buy in normal quantities because they had no means of payment.

We must bear in mind that the countries producing so-called raw material, such as cotton, wheat and wool, and semi-raw material, such as flour and slaughtered meat, were (with the exception of Russia) not injured by the war, but were stimulated into increased production, and that today competition along these lines is as intense as it was before the war.

The importance of this question of finding a way to aid Europe in purchasing our unmanufactured commodities is shown by the domestic exports for the year 1920, the value of which amounted

to something over \$8,000,000,000, of which amount \$4,120,000,000 represented agricultural commodities in the raw state or semi-finished form. Four commodities made up more than 80 per cent of the total agricultural exports. We exported in that year cotton to the value of \$1,538,000,000, breadstuffs to the extent of \$1,078,000,000, and animals and animal products to the extent of \$481,000,000; tobacco, taking fourth place among our agricultural exports, we exported to the extent of nearly \$290,000,000. The continued lack of purchasing power in the European markets in the year 1921 reduced our domestic exports to \$4,379,000,000, of which over \$2,800,000,000 came from the farms and fields of America, with the resultant loss of price to the farmer and the resultant curtailment of markets to the business man and manufacturer. In the fiscal year ending June 30, 1922, our exports to Europe had fallen to \$2,067,000,000, agriculture producing much the larger percentage of exports, whereas our imports from Europe amounted to something over \$830,000,000, leaving an excess trade balance of something over \$1,236,000,000 that must be paid, together with the interest on the indebtedness due us from European countries.

This same condition will arise next year and the year after, with continuing diminishing exports, not because of lack of demand in the European markets but entirely due to the inability of the people of Europe to find means or methods by which to pay us for our goods. This statement is sustained by the fact that whereas we have had diminishing markets continually for the last few years for the products of our fields and farms, other countries producing raw material have been increasing their exports.

In this connection, bearing in mind that the ultimate consumer must pay the price or satisfy the debt, let us not forget that the governments of Europe owe to our government approximately twelve billion dollars, including the accrued and unpaid interest, and it has been stated so often by reliable authority, and left uncontradicted, that we can also accept without cavil the statement that there are balances on open account of four billion dollars due by the people of Europe to the people of America, and in addition thereto there are two billion dollars of stocks and bonds and other private investments that came from Europe and are now owned by our people. The governments and peoples of Europe therefore owe our people and our government at least eighteen billions of dollars.

This enormous sum of money cannot, of course, be paid in the immediate future, but it is of no value unless we can collect the interest on it and a small amortization charge looking to its ultimate payment. Counting 5 per cent interest and 1 per cent a year for amortization, Europe should pay us \$1,080,000,000 yearly. Add this to the excess of exports over imports for last year of \$1,236,000,000 and it gives a balance in our favor that Europe must pay to us of about two and one-quarter billion dollars a year.

The problem then is one of payment. The various methods by which a foreign debtor may procure gold with which to pay his debts are well recognized and have been stated as follows:<sup>1</sup>

“Work in America, part of the proceeds of which are sent back to the mother country (immigrant remittances).

“Gifts of dollars (relief remittances).

“Services or sales to Americans abroad (tourist expenditures).

“Services to American business, principally that transacted abroad (freight, insurance, banking, brokerage and other like ‘invisibles’).

“Payments of principal or interest on dollar loans or investments previously made by the debtor.

“Sales of goods or other values in America (foreign exports).

“These methods may be direct, or the debtor through one or more of such means may become creditor of a third party, who through one of these methods has secured dollar exchange which he turns over to his creditor, thus creating what is known as a ‘triangular’ operation.”

It may be stated by some that Europe may pay us in gold remittances, but, of course, this cannot be done, because Europe confessedly does not own the gold. Immigrant remittances have been greatly reduced since the Great War and the passage of restrictive immigration laws by Congress. The American people have been very liberal in their gifts to the peoples of Europe during and since the Great War, but the amount of the relief remittances and tourists’ expenditures is small, quite small compared to the enormous sums required to pay for the commodities we desire to export to Europe. The same is true of freight, insurance, banking and brokerage charges. Although we owed to Europe at the outbreak of the war something like five billion dollars in American securities held abroad, practically speaking

<sup>1</sup>John Foster Dulles, in *Foreign Affairs*, Vol. I, No. 1, p. 119.

they are all at home again and the amount of money that is going to Europe in payment of principal or interest on foreign loans is now very small, so that it brings us clearly to the point where if we expect to collect our debts and continue to export our wheat, meat, cotton and manufactures we must receive payment for them by admitting liberal importation of foreign goods into this country from the manufacturies of Europe.

Of course, it is an entire reversal of our business life. I do not contend that it is easy of attainment; but it must be attained sooner or later, for only so can we continue the circle of trade that allows business to develop and flourish and brings prosperity to the mass of the people.

We have at last awakened to the realization that foreign and domestic trade are not in separate water-tight compartments—that they flow through the same pipes and seek a common level. We cannot live by ourselves, shut off from the balance of the world, without working harm to our economic system that would require many years for repair. Our industrial development is adjusted to the world's growth and the world's existing economic system, and we can only cure the business evils confronting us by recognizing these economic facts as the base from which we must build the prosperity of the future. I do not think that it can be controverted that if we are to receive payment for the goods we ship abroad we must allow at least sufficient goods to come into this country to satisfy the balance of trade. There is no other way out.

It may be said that large imports for consumption are coming into this country today and that the new tariff of exclusion does not materially affect the result. But this does not satisfy the equation. The goods coming into this country from abroad have arrived largely in the shape of raw material or semi-manufactured articles that we do not produce in America, or at least of which we do not produce sufficient to supply the home consumption: sugar, for instance, where the American production does not more than half-way supply the American consumption; hides, where the home production is not adequate to supply the raw material demanded by the business of the manufacturer; and coffees and teas that are not produced in continental America at all. And so we might go on through the list of goods that are coming into the country and find that they are not really competitive, that they are only filling voids that nothing else could fill. Even in our



manufactures this is also true. Take cotton manufactures. In 1919 we produced \$2,187,000,000 worth of cotton manufactures in America. These largely went into the sales of 1920. In 1920 we exported \$320,000,000 and imported \$107,000,000 of cotton manufactures. Our exports were greater than our imports and the imports amounted to less than five per cent of the American production, and when analyzed it will be found that these imports were largely of a high grade class of goods manufactured under conditions that America cannot rival and supplying a market that the American manufacturer was unable to supply, except in goods of inferior texture.

This condition existed under tariff taxes that were supposed to be comparatively low. Yet, in the face of this condition, the government has enacted the highest and most exclusive system of taxation at the custom house that has been inaugurated since the beginning of the government. It still lets in non-competitive or practically non-competitive products; but on that class of goods where competition can exist it has so enormously increased the taxation as to allow, comparatively speaking, none to come in, thus giving the American manufacturer a monopoly of the American market and to that extent preventing the European consumer of our products from sending to us the production of his labor in return for what we send abroad.

In brief, where the monopolistic control of our domestic market is not disturbed foreign goods are allowed to enter, in many cases without paying taxes, and to that extent are helpful in adjusting the international balance of trade; but where the home manufacturer has demanded the exclusive right to exploit the home people in his own interest a prohibitive tariff tax has been enacted to bar the way to our markets, and to that extent the natural flow of commerce has been stopped. I say this in regard to the main features of the tariff law. There are some exceptions of course, for a protective tariff law is always a piebald affair, made so by the greed of special interests.

Immediately after the close of the war there was much apprehension lest Europe's distress should cause the backward flow or dumping of large amounts of goods on our markets and produce disaster here. It was by taking advantage of this sentiment that the selfish manufacturer was enabled to get into the saddle and ride through a most iniquitous tariff law, the entire tendency of which is to close rather than open the channels of trade, destroy

our commerce with foreign countries and, in the end, prove injurious to the men who encouraged its enactment.

In the industrial life of the nation there has been nothing more helpful in lessening costs and increasing production than the development of electrical machinery. Electrical power comes out of the dynamo and flows through a circle back to the source of power. It will run railroads, work great lathes in steel mills, light cities and transport people, as long as the circle of power remains unbroken; but break it at one point and it ceases to exist so far as its effectiveness is concerned. The same is true of our trade relations with the world. The circle of trade has been broken. It must be mended in order that it may go on vigorously again. So far as we are concerned, the wire will remain grounded and lack sufficient power until the consumers of our products in Europe are supplied with the opportunity to pay us for what they buy. The most effective thing that could happen to us to produce this result would be a real and effective increase of imports coming into the United States from the factories and foundries of Europe. It would supply the markets for our farm products and much of our semi-raw materials. The American manufacturer would then be able to sell his goods in the home market and the depression in the cotton and wheat markets would disappear. There would be a revival of business all along the line and a gradual moving onward toward conditions of permanent prosperity in the country, which, in my judgment, can be produced in no other way.

If there is any other way in which we can receive payment for the goods we want to sell abroad and if there is any other way in which we can receive payment from our European debtors, except by barter and trade, by the exchange of commodities, by tearing down the prohibitive tax wall recently erected and allowing reasonable importations of European manufactures to come into this country, I do not know what it is.

In the decades gone by, when we were a debtor nation, the protectionist would point with pride to our then small exports and say the payment would come back in "shining gold," but it did not—and it could not—come back that way.

Let us balance the books from the birth of the nation down to the time of the Great War, and what do we find? Between 1790 and 1915, inclusive, we exported the products of our fields, our mines and our factories as the surplus production of American labor to the value of \$58,820,315,030. We received in return (in



barter and trade) merchandise of foreign production to the value of \$49,999,482,199. The balance of trade was with us to the extent of \$8,820,832,831.

Examination of the statistics showing the imports and exports for the period named above discloses the fact that we actually sent out of our country \$1,678,695,174 more gold and silver than actually came back. The excess of exports over imports in the period of one hundred and twenty-five years averaged \$83,997,825 yearly and it must be borne in mind that for the greater portion of the period the nation had low or moderate taxes on the importation of goods into this country. How was the excess balance paid if not in trade balance or with gold? It was paid by exchange charges, by carriage charges, by tourists' expenditures abroad and other invisible means, a loss of that much of our national wealth for which we received no visible return.

Let us not forget that under the comparatively low tariff rates of the customs tariff act of 1913, recently repealed, from 1915 to and including 1920 we became the great creditor nation of the world and during that period our exports of merchandise and bullion over imports of similar commodities exceeded eighteen billion dollars, an average of three billion, six hundred million each year. Trade begets trade, exclusion produces stagnation, and laws passed in favor of monopoly will in the end be destructive of both capital and labor.

When the new states of Europe were created by the Treaty of Versailles their new governments, lacking revenue and not daring to impose direct taxes on their people, resorted to the dangerous expedient of imposing high taxes at the border on merchandise seeking to enter their markets from abroad. An immediate slowing down of commerce resulted. The old lines of trade that had existed for decades and centuries were disrupted, new markets could not be built up over night and industrial disaster followed. The inability of the various peoples of Europe to trade among themselves freely is one of the great impediments in the way of a return to healthy business conditions. For illustration consider Vienna, at one time the great capital of the Austro-Hungarian Empire and one of the great trade marts of the world, today a city of unemployed and hungry people. This condition is not due primarily to war disasters but rather to the artificial trade barriers erected by the governments of the new nations carved out of the old Empire.

On the other hand, consider what has aided most in the up-building of American trade and commerce. You say the great natural resources of our country. These have of course aided, but the whole answer is not there. Russia has as great natural resources as we have and China does not lag far behind. You say the business genius of our people. Admitted, but we do not stand alone in that respect. As merchants and manufacturers we have not outrivaled the English, French and Germans. The leading factor in the building of business America has been the ready means of communication between the states of the Union, unhampered, for one hundred and fifty years, by artificial barriers to trade. This has enabled us to build up the greatest home market the world has ever known.

The business history of the United States, its free growth and wonderful development, should be taken as a lesson by the business men of the world when they are considering measures to alleviate the disasters confronting us today. There must be better and more free trade communication and the policy of building artificial barriers to stop commerce at national borders must be abandoned.

It has been said there is nothing new in the world, and that statement holds true concerning the laws of trade. These laws are based on the accumulated experience and wisdom of the ages; they date at least as far back as the ancient civilization of Egypt. They have been continually violated by the avaricious, and the violator has always paid the penalty.

Time has taught us that a creditor nation cannot exclude from its borders the merchandise of other countries without destroying the foreign market for the product of its own people's labor. It may live upon its own fat for a time, but in the end, so far as trade is concerned, it will become a hermit nation and die of dry rot. The way is clear for the future. If we wish to travel the road of prosperity and plenty for all we must break down the barriers that stop the natural flow of trade and commerce.

# THE UNITED STATES AND REPARATIONS

*By Allyn A. Young*

THE reparations controversy goes from bad to worse. "We are well out of it," one often hears it said. In one view—a short-sighted view—we are, perhaps, comfortably out of it. But are we rightly and honorably out of it? I do not see how, in common honesty, thoughtful Americans can hold that we are.

By entering the war we created and accepted responsibilities we have not yet discharged. Those responsibilities are to the peoples whose defeat our participation secured no less than to those with whom we were allied as victors. Just when it seemed that a German victory was to create a new hegemony in Europe, we threw our weight on the other side and made another outcome certain. Germany was left disarmed within diminished boundaries. France, freed of immediate danger, found herself just disappointingly and tantalizingly short of the position all her history had taught her to believe necessary to her permanent safety. The peoples of Eastern Europe were left to the difficult and precarious task of settling themselves down into a new political framework. Europe and its problems are in part our handiwork. Disowning them does not alter the fact.

If we entered the war merely to protect our own interests, we went farther than those interests demanded and meddled with matters which were not our concern. If we entered it to prevent what we thought to be an intolerable outcome, we are responsible for the other outcome we helped to secure. Doubtless if we had kept our troops at home Europe today would have been no less troubled than in fact it is. In all probability the outlook toward the future would have been darker. If we had done nothing more than scrupulously guard our own interests, Europe's problems, we may well believe, would have been even more desperate than they are. We merely helped to shape those problems—to determine just what they should be. Responsibilities, however, are for actual events, not for abstract or hypothetical states of affairs. For a little while we exerted a tremendous pressure upon the course of events in Europe. Then, satisfied that the European balance had been tipped definitely in one direction rather than the other, we left Europe to right herself as best she could.

Some will say that by agreeing to a treaty of peace we could