Why Not Produce Things That Pay?

By Oliver Williams

If our Yankee progenitors grew rich by trading products of American well-paid labor for products of foreign cheap labor, why can't we?

Many of us feel that there is little use in planning to develop our businesses or professions today because the whole structure rests on the quicksand of a mistaken national policy. An avenue of constructive effort will be opened to us, however, if we can determine what it is that democracy and individual initiative involve if they are to be the foundations of American life.

It is of the utmost importance to note that in the decade when the seeds of our present unbalance were sown America had departed from regulated individualism in industry. She had fallen into a system of favoritism which was no more individualism than it was collectivism. It was the invalidism of an apathetic democracy. The principal favoritism was that of tariffs, and, unfortunately, favoritism toward particular groups always entails discrimination against others. To discontinue this tariff preference is an issue which the politicians and the press of today dare not face realistically because the result would be painful to so many politically important interests. To liberate American commerce will involve a political reformation—a reformation toward honest conservatism. If freedom is to live in America we may have to create a new conservative political party. Perhaps only in this way can our men of business be set free to make business successful, and our men of government emancipated for nobler things than the donation of shelter, bread and shoes to submerged portions of our population.

Tariffs are taxes on imported merchandise. An interesting example is the tax on imported watches, which has been equivalent to eighty-six per cent. Watches are the principal article of American trade with Switzerland. It is interesting to note that Switzerland has been a country practically without a slum, and that her wealth per person has been higher than America's. This mountain state can not, however, grow cotton and can not produce sufficient foodstuffs to supply its needs for more than one month out of twelve. For that reason the Swiss must trade in order to live, and as they need American cotton, wheat and meat more than we need the watches which they can make so well, America has an opportunity to drive an advantageous bargain. Our watch tariff, together with others such as that of ninety per cent on embroidery, as a subsidy for small American groups, has deprived most of us of these articles and thrown many of our own people into idleness. In 1920, Switzerland, a country of enormous individual purchasing power, took American merchandise of a value of 864 million Swiss francs. In 1933 it purchased but ninety million francs' worth, a drop of eighty-nine per cent. This destruction of Switzerland as an American customer has had its share in destroying the income of certain American farmers who are in distress although not yet statistically "unemployed"—who are working, but get next to nothing for their labor. And the American fine watch manufacturers are operating at a loss.

Let us consider a tariff which protects a farm interest—the duty of two cents a pound on Cuban sugar, equivalent to about 160 per cent even on the 1930 price of sugar. The climate and soil of Cuba make her the world's cheapest producer of sugar. Americans have invested about a billion dollars in developing Cuba, and in one year she purchased $515,000,000 worth of American machinery, automobiles, lard, wheat, milk and other products. In 1933 she purchased but $25,000,000. Cuba was once one of our ten best customers.

There was, however, a group of American sugar farmers who could not prosper unless they procured the government assistance of a tariff wall against cheap Cuban sugar. This group was led by Senator Reed Smoot of Utah, then chairman of the powerful Senate Finance Committee. The result of their activity was to plunge Cuba into desperation. By its sugar law of May 9, 1934, the Democratic Administration chastised Cuba for her cheap sugar by a tariff of one and one-half cents a pound which unless Cuban preference is changed will be equivalent to almost 100 per cent, besides a processing tax of one-half cent, the proceeds of which do not go to Cuba, and an extra quota of misery in the form of a restriction of exports to the United States. Cuba's cane-field laborers, forced to work from dawn to dark for maximum wages of forty-five cents a day, say to Americans, "With our blood we make the sugar which we sell you." Our trade with the island republic is, of course, largely destroyed, which is one example of what tariff protection has done for potato farmers in Aroostook County, milk canners in the Mohawk Valley, automobile mechanics in Detroit, and other Americans who used to work upon export merchandise. We must pay more for the sugar on our breakfast tables, and many of us who put our savings into Cuban investments must take our losses.

We are not concerned here with the corruption indicated by such things as the payment by a beet sugar corporation of $13,000 to Ernest W. Smoot, clerk of the Senate Finance Committee. It is the industrial wreckage of this tariff to which we call attention. Is the American home-grown sugar business worth the tremendous price which every one of us is paying to maintain it? This industry, mainly in beet sugar, is unadapted to our climate and to our normally highly paid labor. The work of producing sugar beets is highly seasonal, and the plant investment is idle for about three-quarters of the year. In so far as sugar production in America necessitates importation of unskilled labor for the hand work of beet cultivation it is destructive of American wage levels. The value of the product is only about one per cent of the total of our continental farm crops.

We have mentioned but three out of our total of some three thousand tariffs. A list of them is published by the Department of Commerce in a light brown book, *Foreign Commerce and Navigation of the United States*, to be found in the reference rooms of public libraries. This list might be considered as something more than a dry government record. It might be looked upon as the score board of a game—a game which is world-wide in its effect, and tragic in its silent destruction of the prospects and hopes of millions of men and women.

II

High tariffs were enacted during the Civil War as a complement to the high taxes which were required for the conduct of the war. After the war the taxes were reduced but very high tariffs somehow remained. This system has been maintained by the political pressure of interests who benefited by it, and our politicians have attempted to justify the tariffs on the theory that they have raised the level of wages in America. Theodore Roosevelt, in 1902, said that "our laws should in no event afford advantages to foreign industries over American industries. They should in no event do less than equalize the difference in the conditions at home and abroad." That was the Republican doctrine of protection, and it was adopted by the Democrats in the campaign of 1928, when the Democratic inheritance of a tariff for revenue only was buried. Alfred E. Smith expressed his tariff theory before the Senate Finance Committee in the spring of 1933, when he said, "I'm not for scrapping the tariff, but I think it should cover only the difference between low-priced foreign labor and our own first-class labor." And Franklin D. Roosevelt wrote in 1933, in *Looking Forward*, that "workers who are sweated to reduce costs ought not to determine prices for American made goods," and that "tariffs should be high enough to maintain living standards which we set for ourselves." On April 2, 1934, the President's special European representative, Mr. Richard Washburn Child, stated that Japanese competition must lower world living standards.

It is a mistaken assumption that our high standard of living was maintained by our trade barriers. On the contrary, our favorable living conditions have been sacrificed because of our acceptance of the protective theory. The implication that we can secure wealth by a wishful "setting" of high standards belongs in rhetoric, "the cemetery of human realities," and social legislation can not begin to repair the wreckage caused by anti-social tariff laws. If we look back in American history to the glorious era of the China clipper ships we find no fear of foreign low wages. The Yankees of that virile generation knew their strength. The red cloth which they produced so easily they exchanged for cheap though laboriously produced chinaware and other products at Hong Kong, and the Yankees saw that their advantages in natural wealth and human inventiveness were too great—that their wages were too high—to make it profitable for America to operate some types of potteries. But in recent times we have built an eighty per cent tariff barrier against plentiful Japanese tableware, and have thus prevented the Japanese from working for us on favorable terms. Instead of taking upon themselves the disadvantages of China the

Yankees built ships, traded their cheap cotton, and became affluent. Today ten thousand merchant ships lie idle in the world's ports, with tarpaulins over their funnels to keep out the rain. In this ridiculous and tragic day there is confusion as to what national wealth really is.

In simpler times we thought that goods were wealth and did not hasten to Washington to protest when our shiploads of good bargains made fast to the wharves of Salem or Charleston. Now, with the world in debt to us for the first time in our history, we are troubled by the prospect of an "invasion of alien goods," and we legislate against debt payment in any form of merchandise other than gold! Yet we must accept an import balance to make possible a continuance of the interest payments on our business investments abroad, which make us a net creditor to the extent of eleven billion dollars. Such an import balance of merchandise our statisticians would call an "unfavorable" balance of trade. Would it necessarily be favorable for us to ship overseas every movable object we have, from shoestrings to locomotives, in return for what gold is left in the hands of foreigners?

We do not really suffer from overproduction. We see a surplus of cotton, for example, which is of no value to us, and enact laws against production, but we do not see that the standard of living of the American cotton cropper approaches that of the savage simply because we refuse to exchange our cotton for china and several thousand other articles in the specious belief that these would be "cargoes which put Americans out of work."

A knife is more or less useless, strong though it may be, if its cutting edge is nicked. Our national economic organization can well be paralleled to a jackknife, the steel of which is the forty-nine million total of American workers. Of these people, as Mordecai Ezekiel, a Government economist, wrote in *Today*, less than half are in the actual producing industries which form the cutting edge of our national knife blade. The remainder, the back of this knife, are in the service industries of transportation, communication, distribution, professional work, public service, housework and so on, and in the construction industry. The back of our national knife does not cut and its portion of produced goods depends upon the sharpness of the cutting edge. The twenty-five millions in the back of the knife are not directly affected by tariffs, and of the twenty-four millions in the cutting edge two-thirds or sixteen millions would either be helped by or be unaffected by the removal of the barriers against trade. They are in low-cost-of-production, nationally profitable industries. The remaining eight millions, only one-sixth of our workers, are in farms and industries of which many units are not nationally profitable and are being supported by tariff aid. In this way Republican and Democratic protection has forced approximately one-sixth of our workers to form dents along about a third of our productive front, thus dulling our whole economic knife of forty-nine million workers.

It is true, as protectionists say, that we have not exported more than ten per cent of our exportable national production. But we have had high tariffs since the Civil War, and had it not been for this self-imposed blockade America might have increased the production of her strong industries in which she leads the world in low costs. She might have exchanged not one-tenth but a third or more of her national production for more valuable wealth which she has forced herself to go without.

The American coal industry is an example of a naturally strong, low-cost-of-production industry which is now said to be chronically sick and over-manned. In Kentucky, for instance, the unemployed coal miners have gone back up the trails again to the hills, some families crowding together eight in a shack, and existing on what corn and pork they can raise on the rough mountain sides. These wilderness slums may have a close connection with our trade warfare, for not so many years ago export coal rumbled down the valleys to Hampton Roads over the Chesapeake and Ohio and the Norfolk and Western railroads in hundred-car trainloads. At the piers, automatic car grabs would dump the "black diamonds" into the waiting ocean freighters until their red bottoms were hidden under water. We shipped an export balance of coal and coke valued at ninety-nine millions in 1929, but that is a memory now. Even more important, one-quarter of our coal is normally used for locomotive fuel, one-fifth for coke and steel manufacture, and another fifth in manufacturing. When we strike down our exports, we reduce our railroad freight haulage, our steel making, and our heavy manufacturing, and as a result we throw much coal capacity into idleness. In May, 1932, Senator Alben W. Barkley of Kentucky, who was the "keynote" speaker at the Democratic Convention that June, helped enact an import tariff on this export product, coal, and tariffs were also enacted on oil, lumber and copper. Must we forever treat symptoms and not causes in our attempts to revive our stricken giants of industry and agriculture?

The situation of the American farmer today is a serious one, and will become more serious tomorrow when crop reduction forces many farmers into unemployment. From the tobacco roads of Virginia to the apple valleys and wheat basins of Oregon, our farmers are in difficulty. It is reported that many cotton "share-croppers" are making as little as thirty dollars' cash income in a year. In three States nearly one-third of all farms have been taken from their owners by defaults during the past five years. Is our protective tariff policy to answer for this? Italy, for example, imports wheat, but we have had tariffs which even on 1930 prices were equivalent to fifty per cent on her olive oil (to protect the two per cent of our consumption which we produce ourselves); sixty-eight per cent on her lemons (to make it "profitable" to irrigate an American desert); sixty per cent on Leghorn hats, and so on. The American farmer has been kept out of his logical trade with northern Europe by tariffs like those of fifty-nine per cent on the sweaters which he would like to buy, fifty per cent on aluminum pans, fifty-four per cent on eyeglasses, seventy-two per cent on violins, seventy per cent on toys which his children would like to have, fifty-one per cent on Bordeaux wine for his holiday, and sixty per cent on surgical instruments for his sick ones. While he goes without these things the workers of Europe can not find employment in their factories and are cultivating little patches of land without machinery by almost the same methods which prevailed in the Fifteenth Century. They are "protected" by tariffs against our cheap grain and packing house products—and bread and meats and fats are scarce and dear. Thus is the world becoming medieval again.

III

Nationalists believe with Wallace B. Donham, Dean of the Graduate School of Business Administration of Harvard University, that we should "put our own national house in order" before it will be safe for us to trade our wares in the world's market-places. The opposite view was well put by Harold G. Moulton and Leo Pasvolsky of the Brookings Foundation in Washington, who wrote that "the assumption that domestic trade could be expanded simultaneously with the curtailment of foreign trade is without foundation. If producing areas are seriously depressed as a result of the loss of foreign markets, the purchasing power among vast sections of our population is curtailed and in consequence their ability to purchase goods in the domestic market is lessened. The agricultural depression has brought with it the failure of thousands of banks, and widespread default. It is doubtful, indeed, whether our economic system would survive amid the difficulties that would be involved in making the wholesale shifts that would be required to make this country independent of foreign trade."

We come to the problem of why no American industry is expanding, and of what direction our industrial growth can take under present conditions, and of the consequences of our ceasing to expand at all. There is a very large group of industries which depend upon continued investment as distinguished from continued consumption. These industries include the production of building materials such as steel, lumber and cement, and tool and machine manufacturing. It was estimated by the American Federation of Labor in March, 1934, that of eleven million and more unemployed, six million were in the durable goods industries, less than five million in the service industries and less than seven million in the consumption goods industries. A report by Arthur R. Tebbutt of the Graduate School of Business Administration of Harvard University, issued in August, 1933, points out that in three recent years, while the consumption of consumer's goods dropped but ten per cent, the iron and steel industry dropped eighty-three per cent, and lumber seventy-one per cent. This report states that to secure an increase in the making of new plants and other "producers' goods" will require new investments of capital, and these will take place only as confidence is inspired among the investing public in the soundness and permanency of the recovery. Such expenditures mean not "buy now" but "invest now." We might ask why investors or banks should invest savings or credit in our strong industries, from electrical manufacture in Boston to motion picture production in Los Angeles, when these enterprises can not use even their present plant capacity because of the laws which keep them from trading their production. On the other hand, why should capital be invested in an industry which is so unadapted to American conditions that it can not continue without tariff crutches? If it does not profit our private banks to loan credits for exports or for construction, it will not profit citizens to have the Administration use their money or credit for these things. Our protective system is keeping our horses of savings locked up in their vaulted stables, and is keeping the American construction and machinery-making industries from giving employment to their skilled workers. And it has urged $1,200,000,000 of American capital into the employment of foreign labor in two or three hundred uneconomic little branch plants, in an endeavor to overcome retaliatory tariffs and hold overseas customers.

American productive genius excels in invention and in the low-cost, high-wage, standardized production, on both a large and a small scale, of bulk commodities and of thousands of articles from radios and refrigerators to belt conveyors and dynamos. Such production goes hand in hand with broad-gauge marketing and world trade, and our wages are no bar to competition, for the wage element is small in machine production. But if we force ourselves to compete with foreign hand-work, high-cost, low-wage industries, we force labor out of high-wage and into low-wage production.

In discussing the tariff, one finds that there is considerable fear that to buy the products of lower standard countries, as Garet Garrett has written in the *Saturday Evening Post,* is equivalent to admitting their lower paid laborers to America to compete with American labor. This is perhaps the most fundamental misunderstanding of our times. As a matter of fact, our wage level has been higher than that of poorer nations partly because we were willing to trade the products of our superior capital and resources for the products of the labor of less fortunate countries. It may not be too far-fetched a simile to liken a nation with superior endowments to a man who, like a physician, has advantages of training and experience. If a physician should decide not to "trade" with his shoemaker on the ground of the latter's low material standard of living, the physician would have to make his shoes at home. He might be just as efficient at making shoes as the shoemaker, but obviously he would have less time than before for his better rewarded medical practice. To continue this logic further, the doctor might feel that a "no trade" policy was even more necessary now that the cobbler's wages are lower than they were before the doctor stopped purchasing shoes from him! The confusion in this reasoning about competitive standards of living is in the failure to distinguish between sharing one's home with a man and letting him make one's shoes. It is the confusion of free immigration with free trade; of sentimental internationalism with practical and confident international business relationship. Could it be that American foreign policy has been based almost entirely upon such a confusion of principles? We may learn that the only true protective policy, if national as opposed to minority prosperity is the goal, is, first, a prohibition of the immigration of persons not exceptionally able, and, second, an increase in our total capital that there may be more demand for the workers whom we already have. If we make useless a portion of our machinery by stopping the international exchange of its output we destroy part of our capital and reduce the demand for and the wages of American labor. Before we say with Stuart Chase that "we have put our necks in technology's noose," that capital displaces labor in its net effect, it would be logical to give our capital—our machinery—a chance to employ our man power by bringing the potential customers of our machines into the expanding circle of world trade.

Our future could be dynamic, if we set free our productive genius and our machinery. "If we think of the 350 million people in India who are now content to wrap themselves in a cotton sheet, who will deny the advance in civilization that these human beings may take before the year 2000?" In America, for every 100,000 people there are 21,923 motor vehicles; in China, only seven! The foreign trade of 440,000,000 Chinese is little more than that of 11,000,000 Argentines, and the same is true of India, a nation of 350,000,000 people. In Mr. Grundy's State of Pennsylvania the mighty iron works stand ready to meet a large part of the world's opportunities for the profitable use of steel in water systems, rails, signals, bridges, locomotives and cars, cranes, road-making machinery, automobiles, buses and trucks. America could be, among many other things, the prosperous road-builder of the world! And she should not fear that other nations would harm her if they should raise their standards of living by buying her tools and machinery, for her greatest trade has been with the wealthy industrial nations. We should change the slogan "We Can Make it in America" to "Let Americans Make What it Pays Them to Make." Free commerce is free industry, and when we unshackle our trade in genuine reciprocity we shall set free our strength!

Let us decide simply to set a tariff rate on our imports from each nation which shall be of the same percentage as the highest tariff which that country levies on any American products. Nothing more complicated than that is needed.

America is like a sailing ship which is rolling under bare poles in a favoring trade wind. We are too sea-sick, too timorous of the competitive swell to raise our sails and steady the vessel. We stay below decks and experiment with pulling upon our bootstraps. Instead of conviction and leadership our officers exhibit confusion and followership. The captain extols both trade and trade barriers. The purser forces an undervaluation of the dollar abroad, which is equivalent to a new tariff, and hopes to be given "at least nine months or a year so that we may find out a little more about the situation." The steward circulates a questionnaire on crop prohibition and asks for debate on the ship's course, saying that he "leans to the international solution" but that this solution is extreme, and he proposes a vague "planned middle course." But that course will only keep us in the middle of the sea, and that is a restless haven.

The Literary Landscape

by

HERSCHEL BRICKELL

Side by side with frantic preparations for the next war, in which the United States is participating as eagerly as any other nation, we have a complete exposure of the international traffic in arms in two of the most important books that have been published in recent years, although whether or not they will have any effect whatever upon a situation of steadily increasing seriousness, the Landscaper hesitates to prophesy.

When we come to bury the next Unknown Soldier in Arlington or elsewhere, however, something ought to be said in the funeral oration about the extreme probability that he was killed by American munitions, from the manufacture of which his own family may have profited.

The salient point about the munitions business, one of the largest and best organized industries in the world, is that people who deal in the marvelously effective death-dealing devices of the present day are merchants who sell to people who have the money to pay for what they want. It is wholly a question of cash; patriotism has nothing whatever to do with it. Indeed, as has been said, the only perfect example of internationalism in existence is the traffic in arms, and if that isn't enough to give all the idealists in the world a headache, they must have harder heads than one would think from observing their actions and reading their remarks.

The current interest in the matter of arms traffic was aroused several months ago by the publication in *Fortune* of an article called *Arms and the Man,* which has now been reissued by Doubleday, Doran at ten cents, and which is being widely distributed by peace societies. Even before this striking exposure was published, there had been brought out a small volume by Otto Lehmann-Rüssbuldt (King), called *War for Profits,* which contained the essential facts.

Two Good Books

The new books on the subject referred to in a foregoing paragraph are H. C. Engelbrecht and F. C. Hanighen's *Merchants of Death* (Dodd, Mead, $2.50), and George Seldes's *Iron, Blood and Profits* (Harper, $2.50), the first a Book-of-the-Month Club choice, and as this is being written a best-seller; if one should be forced to a choice, it is in some respects a better book than Mr. Seldes's volume, especially in its cool, detached and factual tone, but there are many things in the Seldes book not in the other volume.