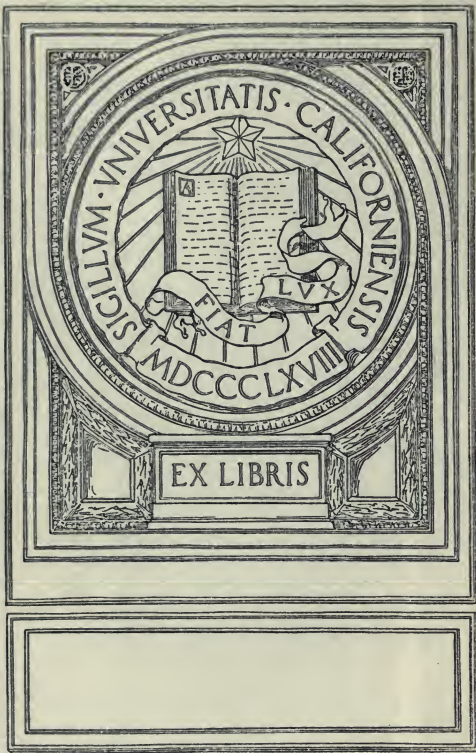


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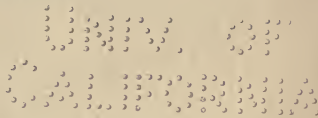


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PROTECTIONISM

THE -ISM WHICH TEACHES THAT WASTE
MAKES WEALTH



BY

WILLIAM GRAHAM SUMNER

Professor of Political and Social Science in Yale College



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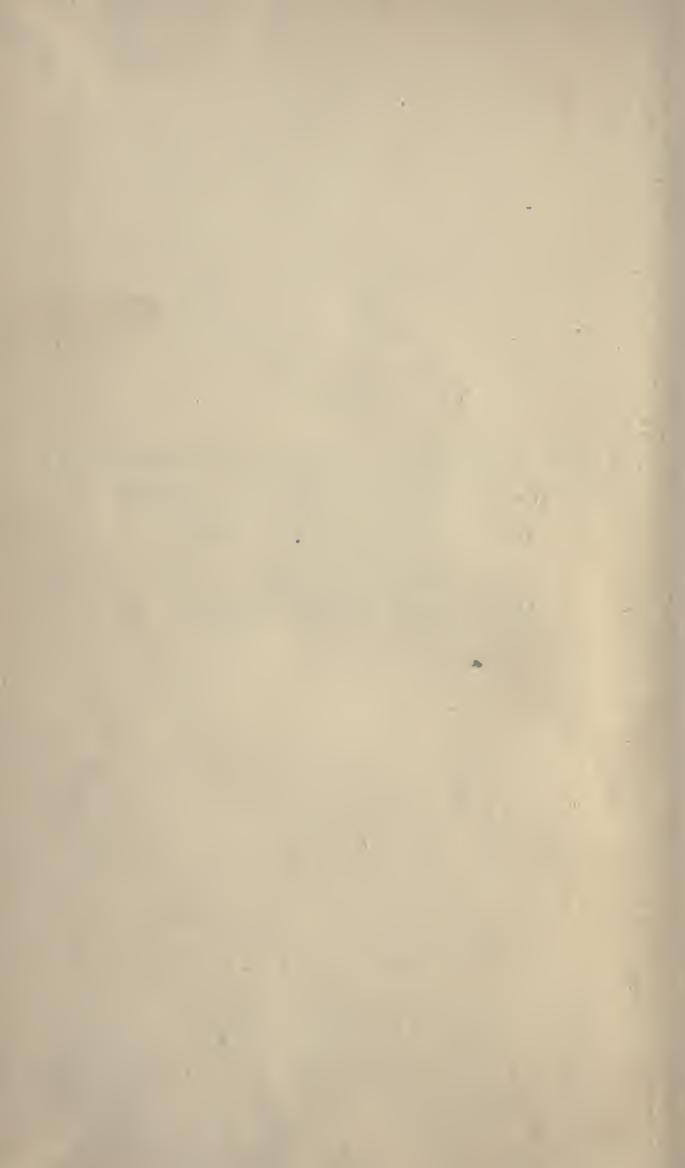
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*It is with pleasure that I place here the name of a
gentleman to whom the cause of free-trade
in the United States is under
heavy obligations*

MR. THOMAS HOLLAND.



PREFACE.

During the last fifteen years we have had two great questions to discuss: the restoration of the currency, and civil-service reform. Neither of these questions has yet reached a satisfactory solution, but both are in the way toward such a result. The next great effort to strip off the evils entailed on us by the civil war will consist in the repeal of those taxes which one man was enabled to levy on another, under cover of the taxes which the government had to lay to carry on the war. I have taken my share in the discussion of the first two questions, and I expect to take my share in the discussion of the third.

I have written this book as a contribution to a popular agitation. I have not troubled myself to keep or to throw off scientific or professional dignity. I have tried to make my point as directly and effectively as I could for the readers whom I address, viz., the intelligent voters of all

degrees of general culture, who need to have it explained to them what protectionism is and how it works. I have therefore pushed the controversy just as hard as I could, and have used plain language, just as I have always done before in what I have written on this subject. I must therefore forego the hope that I have given any more pleasure now than formerly to the advocates of protectionism.

Protectionism seems to me to deserve only contempt and scorn, satire and ridicule. It is such an arrant piece of economic quackery, and it masquerades under such an affectation of learning and philosophy, that it ought to be treated as other quackeries are treated. Still, out of deference to its strength in the traditions and lack of information of many people, I have here undertaken a patient and serious exposition of it. Satire and derision remain reserved for the dogmatic protectionists and the sentimental protectionists; the Philistine protectionists and those who hold the key of all knowledge; the protectionists of stupid good faith, and those who know their dogma is a humbug and are therefore irritated at the exposure of it; the protectionists by birth

and those by adoption ; the protectionists for hire and those by election ; the protectionists by party platform and those by pet newspaper ; the protectionists by "invincible ignorance," and those by vows and ordination ; the protectionists who run colleges, and those who want to burn colleges down ; the protectionists by investment and those who sin against light ; the hopeless ones who really believe in British gold and dread the Cobden Club, and the dishonest ones who storm about those things without believing in them ; those who may not be answered when they come into debate, because they are "great" men, or because they are "old" men, or because they have stock in certain newspapers, or are trustees of certain colleges. All these have honored me personally, in this controversy, with more or less of their particular attention. I confess that it has cost me something to leave their cases out of account, but to deal with them would have been a work of entertainment, not of utility.

Protectionism arouses my moral indignation. It is a subtle, cruel, and unjust invasion of one man's rights by another. It is done by force of law. It is at the same time a social abuse, an

economic blunder, and a political evil. The moral indignation which it causes is the motive which draws me away from the scientific pursuits which form my real occupation, and forces me to take part in a popular agitation. The doctrine of a "call" applies in such a case, and every man is bound to take just so great a share as falls in his way. That is why I have given more time than I could afford to popular lectures on this subject, and it is why I have now put the substance of those lectures into this book.

W. G. S.

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PROTECTIONISM.

CHAPTER I.

DEFINITIONS: STATEMENT OF THE QUESTION
TO BE INVESTIGATED.

A.) The System of which Protection is a Survival.

1. The statesmen of the eighteenth century supposed that their business was the art of national prosperity. Their procedure was to form ideals of political greatness and civil prosperity on the one hand, and to evolve out of their own consciousness grand dogmas of human happiness and social welfare on the other hand. Then they tried to devise specific means for connecting these two notions with each other. Their ideals of political greatness contained, as predominant elements, a brilliant court, a refined and elegant aristocracy, well developed fine arts and *belles lettres*, a powerful army and navy, and a peaceful, obedient and

hard working peasantry and artisan class to pay the taxes and support the other part of the political structure. In this ideal the lower ranks paid upward, and the upper ranks blessed downward, and all were happy together. The great political and social dogmas of the period were exotic and incongruous. They were borrowed or accepted from the classical authorities. Of course the dogmas were chiefly held and taught by the philosophers, but, as the century ran its course, they penetrated the statesman class. The statesman who had had no purpose save to serve the "grandeur" of the king, or to perpetuate a dynasty, gave way to statesmen who had strong national feeling and national ideals, and who eagerly sought means to realize their ideals. Having as yet no definite notion, based on facts of observation and experience, of what a human society or a nation is, and no adequate knowledge of the nature and operation of social forces, they were driven to empirical processes which they could not test, or measure, or verify. They piled device upon device and failure upon failure. When one device failed of its intended purpose and produced an unforeseen evil, they invented a new device to prevent the new

evil. The new device again failed to prevent, and became a cause of a new harm, and so on indefinitely.

2. Among their devices for industrial prosperity were (1) export taxes on raw materials, to make raw materials abundant and cheap at home ; (2) bounties on the export of finished products, to make the exports large ; (3) taxes on imported commodities to make the imports small, and thus, with No. 2, to make the "balance of trade" favorable, and to secure an importation of specie ; (4) taxes or prohibition on the export of machinery, so as not to let foreigners have the advantage of domestic inventions ; (5) prohibition on the emigration of skilled laborers, lest they should carry to foreign rivals knowledge of domestic arts ; (6) monopolies to encourage enterprise ; (7) navigation laws to foster ship-building or the carrying trade, and to provide sailors for the navy ; (8) a colonial system to bring about by political force the very trade which the other devices had destroyed by economic interference ; (9) laws for fixing wages and prices to repress the struggle of the non-capitalist class to save themselves in the social press ; (10) poor-laws to lessen the struggle

by another outlet ; (II) extravagant criminal laws to try to suppress another development of. this struggle by terror ; and so on, and so on.

B.) Old and New Conceptions of the State.

3. Here we have a complete illustration of one mode of looking at human society, or at a state. Such society is, on this view, an artificial or mechanical product. It is an object to be molded, made, produced by contrivance. Like every product which is brought out by working up to an ideal instead of working out from antecedent truth and fact, the product here is hap hazard, grotesque, false. Like every other product which is brought out by working on lines fixed by *à priori* assumptions, it is a satire on human foresight and on what we call common sense. Such a state is like a house of cards, built up anxiously one upon another, ready to fall at a breath, to be credited at most with naïve hope and silly confidence ; or, it is like the long and tedious contrivance of a mischievous school-boy, for an end which has been entirely mis-appreciated and was thought desirable when it should have been thought a folly ; or, it is like the mu-

seum of an alchemist, filled with specimens of his failures, monuments of mistaken industry and testimony of an erroneous method; or, it is like the clumsy product of an untrained inventor, who, instead of asking "what means have I, and to what will they serve?" asks: "what do I wish that I could accomplish?" and seeks to win steps by putting in more levers and cogs, increasing friction and putting the solution ever further off.

4. Of course such a notion of a state is at war with the conception of a state as a seat of original forces which must be reckoned with all the time; as an organism whose life will go on any how, perverted, distorted, diseased, vitiated as it may be by obstructions or coercions; as a seat of life in which nothing is ever lost, but every antecedent combines with every other and has its share in the immediate resultant, and again in the next resultant, and so on indefinitely; as the domain of activities so great that they should appall any one who dares to interfere with them; of instincts so delicate and self-preservative that it should be only infinite delight to the wisest man to see them come into play, and his sufficient glory to give them a little intelligent assistance.

If a state well performed its functions of providing peace, order and security, as *conditions* under which the people could live and work, it would be the proudest proof of its triumphant success that it had nothing to do—that all went so smoothly that it had only to look on and was never called to interfere; just as it is the test of a good business man that his business runs on smoothly and prosperously while he is not harassed or hurried. The people who think that it is proof of enterprise to meddle and “fuss” may believe that a good state will constantly interfere and regulate, and they may regard the other type of state as “non-government.” The state can do a great deal more than to discharge police functions. If it will *follow* custom, and the growth of social structure to provide for new social needs, it can powerfully aid the production of structure by laying down lines of common action, where nothing is needed but *some* common action on conventional lines; or, it can systematize a number of arrangements which are not at their maximum utility for want of concord; or, it can give sanction to new rights which are constantly created by new relations under new social organizations, and so on.

5. The latter idea of the state has only begun to win way. All history and sociology bear witness to its comparative truth, at least when compared with the former. Under the new conception of the state, of course liberty means breaking off the fetters and trammels which the "wisdom" of the past has forged, and *laissez faire*, or "let alone," becomes a cardinal maxim of statesmanship, because it means, "Cease the empirical process. Institute the scientific process. Let the state come back to normal health and activity, so that you can study it, learn something about it from an observation of its phenomena, and then regulate your action in regard to it by intelligent knowledge." Statesmen suited to this latter type of state have not yet come forward in any great number. The new radical statesmen show no disposition to let their neighbors alone. They think that they have come into power just because they know what their neighbors need to have done to them. Statesmen of the old type, who told people that they knew how to make every body happy, and that they were going to do it, were always far better paid than any of the new type ever will be, and their failures never

cost them public confidence either. We have got tired of kings, priests, nobles and soldiers, not because they failed to make us all happy, but because our *à priori* dogmas have changed fashion. We have put the administration of the state in the hands of lawyers, editors, *littérateurs* and professional politicians, and they are by no means disposed to abdicate the functions of their predecessors, or to abandon the practice of the art of national prosperity. The chief difference is that, whereas the old statesmen used to temper the practice of their art with care for the interests of the kings and aristocracies which put them in power, the new statesmen feel bound to serve those sections of the population which have put them where they are.

6. Some of the old devices above enumerated (§ 2) are, however, out of date, or are becoming obsolete.* Number 3, taxes on imports for other than fiscal purposes, is not among this number. Just now such taxes seem to be coming back into

* February 4, 1884, Mr. Robinson of New York proposed, in the House of Representatives, an amendment to the Constitution, so as to allow Congress to lay an export duty on cotton for the encouragement of home manufactures. (Record, 862).

fashion, or to be enjoying a certain revival. It is a sign of the deficiency of our sociology as compared with our other sciences that such a phenomenon could be presented in the last quarter of the nineteenth century, as a certain revival of faith in the efficiency of taxes on imports as a device for producing national prosperity. There is not a single one of the eleven devices mentioned above, including taxes on the exportation of machinery and prohibitions on emigration, which is not quite as rational and sound as taxes on imports.

I now propose to analyze and criticise protectionism.

C.) *Definition of Protectionism.—Definition of "Theory."*

7. By *protectionism* I mean the doctrine of protective taxes as a device to be employed in the art of national prosperity. The protectionists are fond of representing themselves as "practical" and the free traders as "theorists." Theory is indeed one of the worst abused words in the language, and the scientists are partly to blame for it. They have allowed the word to come into

use, even among themselves, for a *conjectural explanation*, or a *speculative conjecture*, or a *working hypothesis*, or a *project which has not yet been tested by experiment*, or a *plausible and harmless theorem about transcendental relations*, or about *the way in which men will act under certain motives*. The newspapers seem often to use the word *theoretical* as if they meant by it *imaginary or fictitious*. I use the word *theory*, however, not in distinction from fact, but, in what I understand to be the correct scientific use of the word, to denote *a rational description of a group of coördinated facts in their sequence and relations*. A theory may, for a special purpose, describe only certain features of facts and disregard others. Hence "in practice," where facts present themselves in all their complexity, he who has carelessly neglected the limits of his theory may be astonished at phenomena which present themselves, but his astonishment will be due to a blunder on his part, and will not be an imputation on the theory.

8. Now free trade is not a theory in any sense of the word. *It is only a mode of liberty*; one form of the assault (and therefore negative) which

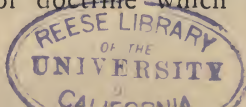
the expanding intelligence of the present is making on the trammels which it has inherited from the past. Inside the United States, absolute free trade exists over a continent. No one thinks of it or realizes it. No one "feels" it. We feel only constraint and oppression. If we get liberty we reflect on it only so long as the memory of constraint endures. I have again and again seen the astonishment with which people realized the fact when presented to them that they have been living under free trade all their lives and never thought of it. When the whole world shall obtain and enjoy free trade there will be nothing more to be said about it; it will disappear from discussion and reflection; it will disappear from the text-books on political economy as the chapters on slavery are disappearing; it will be as strange for men to think that they might *not* have free trade as it would be now for an American to think that he might not travel in this country without a passport, or that there ever was a chance that the soil of our western states might be slave soil and not free soil. It would be as reasonable to apply the word theory to the protestant reformation, or to law reform, or to

anti-slavery, or to the separation of church and state, or to popular rights, or to any other campaign in the great struggle which we call liberty and progress, as to apply it to free trade. The pro-slavery men formerly did apply it to abolition, and with excellent reason, if the use of it which I have criticised ever was correct; for it required great power of realizing in imagination the results of social change, and great power to follow and trust abstract reasoning, for any man bred under slavery to realize, in advance of experiment, the social and economic gain to be won—*most of all for the whites*—by emancipation. It now requires great power of “theoretical conception” for people who have no experience of the separation of church and state to realize its benefits and justice. Similar observations would hold true of all similar reforms. Free trade is a revolt, a conflict, a reform, a reaction and recuperation of the body politic, just as free conscience, free worship, free speech, free press, and free soil have been. It is in no sense a theory.

9. Protectionism is not a theory in the correct sense of the term, but it comes under some of the popular and incorrect uses of the word. It is

purely dogmatic and *à priori*. It is desired to attain a certain object—wealth and national prosperity. Protective taxes are proposed as a means. It must be assumed that there is some connection between protective taxes and national prosperity, some relation of cause and effect, some sequence of expended energy and realized product, between protective taxes and national wealth. If then by theory we mean a speculative conjecture as to occult relations which have not been and can not be traced in experience, protection would be a capital example. Another and parallel example was furnished by astrology, which assumed a causal relation between the movements of the planets and the fate of men, and built up quite an art of soothsaying on this assumption. Another example, paralleling protectionism in another feature, was alchemy, which, accepting as unquestionable the notion that we want to transmute lead into gold if we can, assumed that there was a philosopher's stone, and set to work to find it through centuries of repetition of the method of "trial and failure."

10. *Protectionism then is an ISM*, that is, it is a doctrine or system of doctrine which offers no



demonstration, and rests upon no facts, but appeals to faith on grounds of its *à priori* reasonableness, or the plausibility with which it can be set forth.) Of course, if a man should say: "I am in favor of protective taxes because they bring gain to me. That is all I care to know about them, and I shall get them retained as long as I can;"—there is no trouble in understanding him, and there is no use in arguing with him. So far as he is concerned, the only thing to do is to find his victims and explain the matter to them. The only thing which can be discussed is the doctrine of national wealth by protective taxes. This doctrine has the forms of an economic theory. It vies with the doctrine of labor and capital as a part of the science of production. Its avowed purpose is impersonal and disinterested,—the same, in fact, as that of political economy. It is not, like free trade, a mere negative position against an inherited system, to which one is led by a study of political economy. It is a species of political economy, and aims at the throne of the science itself. If it is true, it is not a corollary, but a postulate, on which, and by which, all political economy must be constructed.

II. But then, lo! if the dogma which constitutes protectionism—*national wealth can be produced by protective taxes and can not be produced without them*—is enunciated, instead of going on to a science of political economy based upon it, the science falls dead on the spot. What can be said about production, population, land, money, exchange, labor and all the rest? What can the economist learn or do? What function is there for the university or school? There is nothing to do but to go over to the art of legislation, and get the legislator to put on the taxes. The only questions which can arise are as to the number, variety, size and proportion of the taxes. As to these questions the economist can offer no light. He has no method of investigating them. He can deduce no principles, lay down no laws in regard to them. The legislator must go on in the dark and experiment. If his taxes do not produce the required result, if there turn out to be “snakes” in the tariff which he has adopted, he has to change it. If the result still fails, change it again. Protectionism bars the science of political economy with a dogma, and the only process of the art of statesmanship to which it leads is eter-

nal trial and failure—the process of the alchemist and of the inventor of perpetual motion.

D.) Definition of Free Trade and of a Protective Duty.

12. What then is a protective tax? In order to join issue as directly as possible, I will quote the definition given by a leading protectionist journal,* of both free trade and protection. “The term free trade, although much discussed, is seldom rightly defined. It does not mean the abolition of custom houses. Nor does it mean the substitution of direct for indirect taxation, as a few American disciples of the school have supposed. It means such an adjustment of taxes on imports as will cause no diversion of capital, from any channel into which it would otherwise flow, into any channel opened or favored by the legislation which enacts the customs. A country may collect its entire revenue by duties on imports, and yet be an entirely free trade country, so long as it does not lay those duties in such a way as to lead any one to undertake any employment, or make any investment he would avoid in the

* Philadelphia *American*, August 7, 1884.

absence of such duties: thus, the customs duties levied by England—with a very few exceptions—are not inconsistent with her profession of being a country which believes in free trade. They either are duties on articles not produced in England, or they are exactly equivalent to the excise duties levied on the same articles if made at home. They do not lead any one to put his money into the home production of an article, because they do not discriminate in favor of the home producer.”

13. “A protective duty, on the other hand, has for its object to effect the diversion of a part of the capital and labor of the people out of the channels in which it would run otherwise, into channels favored or created by law.”

I know of no definitions of these two things which have ever been made by any body which are more correct than these. I accept them and join issue on them.

E.) Protectionism Raises a Purely Domestic Controversy.

14. It will be noticed that this definition of a protective duty says nothing about foreigners or about imports. According to this definition, a protective duty is a device for effecting a transforma-

tion in our own industry. If a tax is levied at the port of entry on a foreign commodity which is actually imported, the tax is paid to the treasury and produces revenue. A protective tax is one which is laid to act as a bar to importation, in order to keep a foreign commodity out. It does not act protectively unless it does act as a bar, and is not a tax on imports but an obstruction to imports. Hence a protective duty is a wall to inclose the domestic producer and consumer, and to prevent the latter from having access to any other source of supply for his needs, in exchange for his products, than that one which the domestic producer controls. The purpose and plan of the device is to enable the domestic producer to levy on the domestic consumer the taxes which the government has set up as a barrier, but has not collected at the port of entry. Under this device the government says: "I do not want the revenue, but I will lay the tax so that you, the selected and favored producer, may collect it." "I do not need to tax the consumer for myself, but I will hold him for you while you tax him."

F.) "A Protective Duty is not a Tax."

15. There are some who say that "a tariff is not

a tax," or as one of them said before a Congressional Committee: "We do not like to call it so!" That certainly is the most humorous of all the funny things in the tariff controversy. If a tariff is not a tax, what is it? In what category does it belong? No protectionist has ever yet told. They seem to think of it as a thing by itself, a Power, a Force, a sort of Mumbo Jumbo whose special function it is to produce national prosperity. They do not appear to have analyzed it, or given themselves an account of it, sufficiently to know what kind of a thing it is or how it acts. Any one who says that it is not a tax must suppose that it costs nothing, that it produces an effect without an expenditure of energy. They do seem to think that if Congress will say: "Let a tax of — per cent. be laid on article A," and if none is imported, and therefore no tax is paid at the custom house, national industry will be benefited and wealth secured, and that there will be no cost or outgo. If that is so, then the tariff is magic. We have found the philosopher's stone. Our congressmen wave a magic wand over the country and say: "Not otherwise provided for, 150 per cent.," and, presto! there we have wealth. Again they say:

“Fifty cents a yard and fifty per cent. *ad valorem* ;” and there we have prosperity ! If we should build a wall along the coast to keep foreigners and their goods out, it would cost something. If we maintained a navy to blockade our own coast for the same purpose, it would cost something. Yet it is imagined that if we do the same by a tax it costs nothing.

16. This is the fundamental fallacy of protection to which the analysis will bring us back again and again. Scientifically stated it is that *protectionism sins against the conservation of energy*. More simply stated it is that *the protectionist either never sees or does not tell the other side of the account, the cost, the outlay for the gains which he alleges from protection, and that when these are examined and weighed they are sure to vastly exceed the gains, if the gains were real*, even taking no account of the harm to national growth which is done by restriction and interference.

17. There are only three ways in which a man can part with his product, and different kinds of taxes fall under different modes of alienating one's goods. 1st. He may exchange his product for the product of others. Then he parts with

his property voluntarily, and for an equivalent. Taxes which are paid for peace, order and security, fall under this head. 2d. He may give his product away. Then he parts with it voluntarily without an equivalent. Taxes which are voluntarily paid for schools, libraries, parks, etc., etc., fall under this head. 3d. He may be robbed of it. Then he parts with it involuntarily and without an equivalent. Taxes which are protective fall under this head. The analysis is exhaustive, and there is no other place for them. Protective taxes are those which a man pays to his neighbor to hire him (the neighbor) to carry on his own business. The first man gets no equivalent (§ 108). Hence any one who says that a tariff is not a tax would have to put it in some such category as tribute, plunder, or robbery. In order, then, that we may not give any occasion for even an unjust charge of using hard words, let us go back and call it a tax.

18. In any case it is plain that *we have before us the case of two Americans*. The protectionists who try to discuss the subject always go off to talk English politics and history, or Ireland, or India, or Turkey. I shall not follow them. I

shall discuss the case between two Americans, which is the only case there is. Whether Englishmen like our tariff or not is of no consequence. As a matter of fact, Englishmen seem to have come to the opinion that if Americans will take their own home market as their share, and will keep out of the world's market, they (the Englishmen) will agree to the arrangement; but it is immaterial whether they agree, or are angry. The only question for us is: What kind of an arrangement is it for one American to tax another American? How does it work? Who gains by it? How does it affect our national prosperity? These and these only are the questions which I intend to discuss.

19. I shall adopt *two different lines of investigation*. First, I shall examine protectionism on its own claims and pretensions, taking its doctrines and claims for true, and following them out to see whether they will produce the promised results; and second, I shall attack protectionism adversely, and controversially. If any one proposes a device for the public good, he is entitled to candid and patient attention, but he is also under obligation to show how he expects his scheme to work,

what forces it will bring into play, how it will use them, etc. The joint stock principle, credit institutions, coöperation, and all similar devices must be analyzed and the explanation of their advantage, if they offer any, must be sought in the principles which they embody, the forces they employ, the suitability of their apparatus. We ought not to put faith in any device (*e. g.* bi-metalism, socialism) unless the proposers offer an explanation of it which will bear rigid and pitiless examination ; for, if it is a sound device, such examination will only produce more and more thorough conviction of its merits. I shall therefore first take up protectionism just as it is offered, and test it, as any candid inquirer might do, to see whether, as it is presented by its advocates, it has any claims to confidence.

CHAPTER II.

PROTECTIONISM EXAMINED ON ITS OWN GROUNDS.

20. It is the peculiar irony in all empirical devices in social science that they not only fail of the effect expected of them, but that they produce the exact opposite. Paper-money is expected to help the non-capitalist and the debtor and to make business brisk. It ruins the non-capitalists and the debtors, and reduces industry and commerce to a standstill. Socialistic devices are expected to bring about equality and universal happiness. They produce despotism, favoritism, inequality, and universal misery. The devices are, in their operation, true to themselves. They act just as an unprejudiced examination of them should have led any one to expect that they would act, or just as a limited experience has shown that they must act. If protectionism is only another case of the same kind, an examination of it on its own grounds must bring out the fact that it

will issue in crippling industry, diminishing capital, and lowering the average of comfort. Let us see.

A.) Assumptions in Protectionism.

21. Obviously the doctrine includes two assumptions. /The first is, that if we are left to ourselves, each to choose, under liberty, his line of industrial effort, and to use his labor and capital, under the circumstances of the country, as best he can, we shall fail of our highest prosperity. 2 Second, that, if Congress will only tax us [properly] we can be led up to higher prosperity. Hence it is at once evident that free trade and protection here are not on a level. No free trader will affirm that he has a device for making the country rich, or saving it from hard times, any more than a respectable physician will tell us that he can give us specifics and preventives to keep us well. On the contrary, so long as men live, they will do foolish things, and they will have to bear the penalty, but if they are free, they will commit only the follies which are their own, and they will bear the penalties only of those. The protectionist begins with the premiss that we

shall make mistakes, and that is why he, who knows how to make us go right, proposes to take us in hand. He is like the doctor who can give us just the pill we need to "cleanse our blood" and "ward off chills." *Hence either prosperity in a free trade country, or distress in a protectionist country, is fatal to protectionism,* while distress in a free trade country, or prosperity in a protectionist country proves nothing against free trade. Hence the fallacy of all Mr. R. P. Porter's letters is obvious. (§§ 52, 92, 102, 154.)

22. The device by which we are to be made better than ourselves is to select some of ourselves, who certainly are not the best business men among ourselves, to go to Washington, and there turn around and tax ourselves blindly, or, if not blindly, craftily and selfishly. Surely this would be the triumph of stupidity and ignorance over intelligent knowledge, enterprise and energy. The motive which would control each of us, if we were free, would be the hope of the greatest gain. We should have to put industry, prudence, economy and enterprise into our business. If we failed, it would be through error. How is the congressional interference to act? How is it to

meet and correct our error? It can appeal to no other motive than desire for profit, and can only offer us a profit where there was none before, if we will turn out of the industry which we have selected, into one which we do not know. It offers a greater profit there only by means of what it takes from somebody else and somewhere else. Or, is congressional interference to correct the errors of John, James and William, and to make the idle industrious and the extravagant prudent? Any one who believes it must believe that the welfare of mankind is not dependent on the reason and conscience of the interested persons themselves, but on the caprices of blundering ignorance, embodied in a selected few, or on the trickery of lobbyists, acting impersonally and at a distance.

B.) Necessary Conditions of Successful Protective Legislation.

23. Suppose, however, that it were true that Congress had the power (by some exercise of the taxing function) to influence favorably the industrial development of the country: is it not true that men of sense would demand to be satisfied on three points, as follows?

24 (a.) If Congress can do this thing, and is going to try it, *ought it not, in order to succeed, to have a distinct idea of what it is aiming at and proposes to do?* Who would have confidence in any man who should set out on an enterprise and who did not satisfy this condition? Has Congress ever satisfied it? Never. They have never had any plan or purpose in their tariff legislation. Congress has simply laid itself open to be acted upon by the interested parties, and the product of its tariff legislation has been simply the resultant of the struggles of the interested cliques with each other, and of the log rolling combinations which they have been forced to make among themselves. In 1882 Congress did pay some deference, real or pretended, to the plain fact that it was bound, if it exercised this mighty power and responsibility, to bring some intelligence to bear on it, and it appointed a Tariff Commission which spent several months in collecting evidence. This Commission was composed of protectionists with one exception. It recommended a reduction of 25 per cent. in the tariff, and said: "Early in its deliberations the Commission became convinced that a substantial reduction of tariff duties is de-

manded, not by a mere indiscriminate popular clamor, but by the best conservative opinion of the country." "Excessive duties are positively injurious to the interests which they are supposed to benefit. They encourage the investment of capital in manufacturing enterprises by rash and unskilled speculators, to be followed by disaster to the adventurers and their employés, and a plethora of commodities which deranges the operations of skilled and prudent enterprise." (§ III.) This report was entirely thrown aside, and Congress, ignoring it entirely, began again in exactly the old way. The Act of 1883 was not even framed by or in Congress. It was carried out into the dark, into a conference committee,* where new and gross abuses were put into the bill under cover of a pretended revision and reduction. When a tariff bill is before Congress, the first draft starts with a certain rate on a certain article, say 20 per cent. It is raised by amendment to 50, the article is taken into a combination and the rate put up to 80 per cent.; the bill is sent to the other house, and the rate on

* Taussig: History of the Existing Tariff, 78 fg.

this article cut down again to 40 per cent. ; on conference between the two houses the rate is fixed at 60 per cent. He who believes in the protectionist doctrine must, if he looks on at that proceeding, believe that the prosperity of the country is being kicked around the floor of Congress, at the mercy of the chances which are at last to determine with what per cent. of tax these articles will come out. And what is it that determines with what tax any given article will come out? Any intelligent knowledge of industry? Not a word of it. Nothing in the case of a given tax on a given article, but just this: "Who is behind it?" The history of tariff legislation by the Congress of the United States, throws a light upon the protective doctrine which is partly grotesque and partly revolting.

25 (b.) If Congress can exert the supposed beneficent influence on industry, *ought not Congress to understand the force which it proposes to use?* Ought it not to have some rules of protective legislation so as to know in what cases, within what limits, under what conditions, the device can be effectively used? Would that not be a reasonable demand to make of any man who

should propose a device for any purpose? Congress has never had any knowledge of the way in which the taxes which it passed were to do this beneficent work. It has never had, and has never seemed to think that it needed to get, any knowledge of the mode of operation of protective taxes. It passes taxes, as big as the conflicting interests will allow, and goes home, satisfied that it has saved the country. What a pity that philosophers, economists, sages and moralists should have spent so much time in elucidating the conditions and laws of human prosperity! Taxes can do it all.

26 (c.) If Congress can do what is affirmed and is going to try it, is it not the part of common sense to demand that *some tests be applied to the experiment after a few years to see whether it is really doing as was expected?* In the campaign of 1880 it was said that if Hancock was elected we should have free trade, wages would fall, factories would be closed, etc., etc. Hancock was not elected, we did not get any reform of the tariff, and yet in 1884 wages were falling, factories were closed, and all the other direful consequences which were threatened had come to pass. *Brad-*

street's made investigations in the winter of 1884-5 which showed that 316,000 workmen, 13 per cent. of the number employed in manufacturing in 1880, were out of work, 17,550 on strike, and that wages had fallen since 1882 from 10 to 40 per cent., especially in the leading lines of manufacturing which are protected. What did these calamities all prove then? If we had had any revision of the tariff, should we not have had these things alleged again and again as results of it? Did they not then, in the actual case, prove the folly of protection? Oh! no, that would be attacking the sacred dogma, and the sacred dogma is a matter of faith, so that, as it never had any foundation in fact or evidence, it has just as much after the experiment has failed as before the experiment was made:

27. If, now, it was possible to devise a scheme of legislation which should, according to protectionist ideas, be just the right jacket of taxation to fit this country to-day, *how long would it fit?* Not a week. Here are 55 millions of people on $3\frac{1}{2}$ million square miles of land. Every day new lines of communication are opened, new discoveries made, new inventions produced, new processes

applied, and the consequence is that the industrial system is in constant flux and change. How, if a correct system of protective taxes was a practicable thing at any given moment, could Congress keep up with the changes and readaptations which would be required. The notion is preposterous, and it is a monstrous thing, even on the protectionist hypothesis, that we are living under a protective system which was set up in 1864. The weekly tariff decisions by the treasury department may be regarded as the constant attempts that are required to fit that old system to present circumstances, and, as it is not possible that new fabrics, new compounds, and new processes should find a place in schedules which were made twenty years before they were invented, those decisions carry with them the fate of scores of new industries which figure in no census, and are taken into account by no congressman. Therefore, even if we believed that the protective doctrine was sound, and that some protective system was beneficial, and that the one which we have was the right one when it was made, we should be driven to the conclusion that one which is twenty years old is sure to be injurious to-day.

28. There is nothing then in the legislative machinery, by which the tariff is to be made, which is calculated to win the confidence of a man of sense, but every thing to the contrary; and the experiments of such legislation which have been made, have produced nothing but warnings against the device. Instead of offering any reasonable ground for belief that our errors will be corrected and our productive powers increased, an examination of the tariff as a piece of legislation, offers to us nothing but a burden, which must cripple any economic power which we have.

C.) Examination of the Means Proposed, Viz., Taxes.

29. Every tax is a burden, and in the nature of the case can be nothing else. In mathematical language, every tax is a quantity affected by a minus sign. If it gets peace and security, that is, if it represses crime and injustice and prevents discord, which would be economically destructive, then it is a smaller minus quantity than the one which would otherwise be there, and that is the gain by good government. Hence, like every other outlay which we make, taxes must be controlled by the law of economy—to get the best

and most possible for the least expenditure. Instead of regarding public expenditure carelessly, we should watch it jealously. Instead of looking at taxation as conceivably a good, and certainly not an ill, we should regard every tax as on the defensive, and every cent of tax as needing justification. If the statesman exacts any more than is necessary to pay for good government economically administered, he is incompetent, and fails in his duty. I have been studying political economy almost exclusively for the last fifteen years, and when I look back over that period and ask myself what is the most marked effect which I can perceive on my own opinion, or on my standpoint, as to social questions, I find that it is this: I am convinced that nobody yet understands the multiplied and complicated effects which are produced by taxation. I am under the most profound impression of the mischief which is done by taxation, reaching, as it does, to every dinner-table and to every fire-side. *The effects of taxation vary with every change in the industrial system and the industrial status*, and they are so complicated that it is impossible to follow, analyze, and systematize them; but out of the study of the

subject there arises this firm conviction : taxation is crippling, shortening, reducing all the time, over and over again.

30. Suppose that a man has an income of \$1,000, of which he has been saving \$100 per annum with no tax. Now a tax of \$10 is demanded of him, no matter what kind of a tax or how laid. Is he to get the tax out of the \$900 expenditure or out of the \$100 savings? If the former, then he must cut down his diet, or his clothing, or his house accommodation ; that is, lower his standard of comfort. If the latter, then he must lessen his accumulation of capital ; that is, his provision for the future. Either way his welfare is reduced and can not be otherwise affected, and, through the general effect, the welfare of the community is reduced by the tax. Of course it is immaterial that he may not know the facts. The effects are the same. In this view of the matter it is plain what mischief is done by taxes which are laid to buy parks, libraries, and all sorts of grand things. The tax-layer is not providing public order. He is spending other people's earnings for them. He is deciding that his neighbor shall have less clothes and more library or park. But when we

come to protective taxes the abuse is monstrous. The legislator who has in his hands this power of taxation, uses it to say that one citizen shall have less clothes in order that he may contribute to the profits of another citizen's private business.

31. Hence if we look at the nature of taxation, and if we are examining protectionism from its own standpoint, under the assumption that it is true, instead of finding any confirmation of its assumptions, in the nature of the means which it proposes to use, we find the contrary. Granting that people make mistakes and fail of the highest prosperity which they might win when they act freely, we see plainly that more taxes can not help to lift them up or to correct their errors; on the contrary, *all taxation, beyond what is necessary for an economical administration of good government, is either luxurious or wasteful*, and if such taxation could tend to wealth, waste would make wealth.

D.) Examination of the plan of Mutual Taxation.

32. Suppose then that the industries and sections all begin to tax each other as we see that they do under protection. Is it not plain that

the taxing operation can do nothing but *transfer* products, never by any possibility create them? The object of the protective taxes is to "effect the diversion of a part of the capital and labor of the country from the channels in which it would run otherwise." To do this it must find a fulcrum or point of reaction, or it can exert no force for the effect it desires. The fulcrum is furnished by those who pay the tax. Take a case. ✓ Pennsylvania taxes New England on every ton of iron and coal used in its industries. Ohio taxes New England on all the wool obtained from that state for its industries.* New England taxes Ohio and Pennsylvania on all the cottons and woolens which it sells to them. What is the net final result? It is mathematically certain that the only result can be that (1) New England gets back just all she paid (in which case the system is nil, save for the expense of the process and the limitation it imposes on the industry of all), or,

* The wool growers held a convention at St. Louis May 28, 1885, at which they estimated their loss by the reduction of the tax on wool in 1883, or the *difference* between what they got by this tax before that date and after, at ninety million dollars (N. Y. *Times*, May 29). If that sum is what they lost, it is what the consumers gained. They are very angry, and will not vote for any one who will not help to re-subject the consumers to this tribute to them.

(2) that New England does not get back as much as she paid (in which case she is tributary to the others), or, (3) that she gets back more than she paid (in which case she levies tribute on them). Yet, on the protectionist notion, this system extended to all sections, and embracing all industries, is the means of producing national prosperity. When it is all done, what does it amount to except that *all Americans must support all Americans?* How can they do it better than for each to support himself to the best of his ability? Then, however, all the assumptions of protectionism must be abandoned as false.

33. In 1676 King Charles II. granted to his natural son, the Duke of Richmond, a tax of a shilling a chaldron on all the coal which was exported from the Tyne. We regard such a grant as a shocking abuse of the taxing power. It is, however, a very interesting case because the mine-owner and the tax-owner were two separate persons, and the tax can be examined in all its separate iniquity. If, as I suppose was the case, the Tyne valley possessed such superior facilities for producing coal that it had a qualified monopoly, the tax fell on the coal mine owner (landlord);

that is, the king transferred to his son part of the property which belonged to the Tyne coal owners. In that view the case may come home to some of our protectionists as it would not if the tax had fallen on the consumers. If Congress had pensioned General Grant by giving him 75 cents a ton on all the coal mined in the Lehigh Valley, what protests we should have heard from the owners of coal lands in that district! If the king's son, however, had owned the coal mines, and worked them himself, and if the king had said: "I will authorize you to raise the price of your coal a shilling a chaldron, and, to enable you to do it, I will myself tax all coal but yours a shilling a chaldron," then the device would have been modern and enlightened and American. We have done just that on emery, copper and nickel. Then the tax comes out of the consumer. Then it is not, according to the protectionist, harmful, but the key to national prosperity, the thing which corrects the errors of our incompetent self-will, and leads us up to better organization of our industry than we, in our unguided stupidity, could have made.

E.) Examination of the Proposal to "Create an Industry."

34. The protectionist says, however, that he is going to create an industry. Let us examine this notion also from his standpoint, assuming the truth of his doctrine, and see if we can find any thing to deserve confidence. A protective tax, according to the protectionist's definition (§ 13) "has for its object to effect the diversion of a part of the labor and capital of the people * * * into channels favored or created by law." If we follow out this proposal, we shall see what those channels are, and shall see whether they are such as to make us believe that protective taxes can increase wealth.

35. What is an industry? Some people will answer: It is an enterprise which gives employment. Protectionists seem to hold this view and they claim that they "give work" to laborers when they make an industry. On that notion we live to work; we do not work to live. But we do not want work. We have too much work. We want a living; and work is the inevitable but disagreeable price we must pay. Hence we want as much living at as little price as possible. We

shall see that the protectionist does "make work" in the sense of lessening the living and increasing the price. But if we want a living we want capital. If an industry is to pay wages, it must be backed up by capital. Therefore protective taxes, if they were to increase the means of living, would need to increase capital. How can taxes increase capital? Protective taxes only take from A to give to B. Therefore, if B by this arrangement can extend his industry and "give more employment," A's power to do the same is diminished in at least an equal degree. Therefore, even on that erroneous definition of an industry, there is no hope for the protectionist.

✓ 36. *An industry is an organization of labor and capital for satisfying some need of the community.*

It is not an end in itself. It is not a good thing to have in itself. It is not a toy or an ornament. If we could satisfy our needs without it we should be better off, not worse off. How then can we create industries?

37. If any one will find, in the soil of a district, some new power to supply human needs, he can endow that district with a new industry. If he

will invent a mode of treating some natural deposit, ore or clay for instance, so as to provide a tool or utensil which is cheaper and more convenient than what is in use, he can create an industry. If he will find out some new and better way to raise cattle or vegetables, which is, perhaps, favored by the climate, he can do the same. If he invents some new treatment of wool, or cotton, or silk, or leather, or makes a new combination which produces a more convenient or attractive fabric, he may do the same. The telephone is a new industry. What measures the gain of it? Is it the "employment" of certain persons in and about telephone offices? The gain is in the satisfaction of the need of communication between people at less cost of time and labor. It is useless to multiply instances. It can be seen what it is to "create an industry." It takes brains and energy to do it. How can taxes do it?

38. Suppose that we create an industry even in this sense, *What is the gain of it?* The people of Connecticut are now earning their living by employing their labor and capital in certain parts of the industrial organization. They have changed

their "industries" a great many times. If it should be found that they had a new and better chance hitherto undeveloped, they might all go into it. To do that they must abandon what they are now doing. They would not change unless gains to be made in the new industry were greater. Hence the gain is the *difference* only between the profits of the old and the profits of the new. The protectionists, however, when they talk about "creating an industry," seem to suppose that the total profit of the industry (and some of them seem to think that the total expenditure of capital) measures their good work. In any case, then, even of a true and legitimate increase of industrial power and opportunity, the only gain would be a margin. But, by our definition, "a protective duty has for its object to effect the diversion of a part of the capital and labor of the people out of the channels in which it would otherwise run." Plainly this device involves coercion. People would need no coercion to go into a new industry which had a natural origin in new industrial power or opportunity. No coercion is necessary to make men buy dollars at 98 cents apiece. The case for coercion is when it is desired to make them

buy dollars at 101 cents apiece. Here the statesman with his taxing power is needed, and can do something. What? He can say: "If you will buy a dollar at 101 cents, I can and will tax John over there two cents for your benefit; one to make up your loss and the other to give you a profit." Hence, *on the protectionist's own doctrine*, his device is not needed, and can not come into use, when a new industry is created in the true and only reasonable sense of the words, but *only when and because he is determined to drive the labor and capital of the country into a disadvantageous and wasteful employment.*

39. Still further, it is obvious that the protectionist, instead of "creating a new industry," has *simply taken one industry and set it as a parasite to live upon another.* Industry is its own reward. A man is not to be paid a premium by his neighbors for earning his own living. A factory, an insane asylum, a school, a church, a poor-house, and a prison can not be put in the same economic category. We know that the community must be taxed to support insane asylums, poor-houses, and jails. When we come upon such institutions we see them with regret. They are wasting

capital. We know that the industrious people all about, who are laboring and producing, must part with a portion of their earnings to supply the waste and loss of these institutions. Hence *the bigger they are the sadder they are.*

40. As for the schools and churches, we know that society must pay for and keep up its own conservative institutions. They cost capital and do not pay back capital directly, although they do indirectly, and in the course of time, in ways which we could trace out and verify, if that were our subject. Here, then, we have a second class of institutions.

41. But the factories and farms and foundries are the productive institutions which must provide the support of these consuming institutions. If the factories, etc., put themselves on a line with the poor-houses, or even with the schools, what is to support them and all the rest too? They have nothing behind them. If in any measure or way they turn into burdens and objects of care and protection, they can plainly do it only by part of them turning upon the other part, and this latter part will have to bear the burden of all the consuming institutions, *including*

the consuming industries. For a protected factory is not a producing industry. *It is a consuming industry!* If a factory is (as the protectionist alleges) a triumph of the tariff, that is, if it would not be but for the tariff (and otherwise he has nothing to do with it), then it is not producing; it is consuming. It is a burden to be borne. *The bigger it is the sadder it is.*

42. If a protectionist shows me a woolen mill and challenges me to deny that it is a great and valuable industry, I ask him whether it is due to the tariff. If he says no, then I will assume that it is an independent and profitable establishment, but then it is out of this discussion as much as a farm or a doctor's practice. If he says yes, then I answer that the mill is not an industry at all. We pay sixty per cent. tax on cloth *simply in order that that mill may be.* It is not an institution for getting us cloth, for, if we went into the market with the same products which we take there now and if there were no woolen mill, we should get all the cloth we want, but the mill is simply *an institution for making cloth cost per yard sixty per cent. more of our products than it otherwise would.* That is the one and only function which the mill

has added, by its existence, to the situation. I have called such a factory a "nuisance." The word has been objected to. The word is of no consequence. He who, when he goes into a debate, begins to whine and cry as soon as the blows get sharp, should learn to keep out. What I meant was this: A nuisance is something which by its existence and presence in society works loss and damage to the society—works against the general interest, not for it. A factory which gets in the way and hinders us from attaining the comforts which we are all trying to get,—which makes harder the terms of acquisition when we are all the time struggling by our arts and sciences to make those terms easier, is a harmful thing, and noxious to the common interest.

43. Hence, once more, starting from the protectionist's hypothesis, and assuming his own doctrine, we find that he can not create an industry. He only fixes one industry as a parasite upon another, and just as certainly as he has intervened in the matter at all, just so certainly has he forced labor and capital into less favorable employment than they would have sought if he had let them alone. When we ask which "channels" those

are which are to be "favored or created by law," we find that they are, by the hypothesis, and by the whole logic of the protectionist system, *the industries which do not pay*. The protectionists propose to make the country rich by laws which shall favor or create these industries, but these industries can only waste capital, so that if they are the source of wealth, *waste is the source of wealth*. Hence the protectionist's assumption that by his system he could correct our errors and lead us to greater prosperity than we would have obtained under liberty, has failed again, and we find that he wastes what power we do possess.

F.) Examination of the Proposal to Develop our Natural Resources.

44. "But," says the protectionist, "do you mean to say that, if we have an iron deposit in our soil, it is not wise for us to open and work it?" "You mean, no doubt," I reply, "open and work it *under protective help and stimulus*; for, if there is an iron deposit, the United States does not own it. Some man owns it. If he wants to open and work it, we have nothing to do but wish him God-speed." "Very well," he says, "understand

it that he needs protection." Let us examine this case then, and still we will do it assuming the truth of the protectionist doctrine. Let us see where we shall come out.

The man who has discovered iron (on the protectionist doctrine), when there is no tax, does not collect tools and laborers and go to work. He goes to Washington. He visits the statesman, and a dialogue takes place.

Iron man.—“Mr. Statesman, I have found an iron deposit on my farm.”

Statesman.—“Have you, indeed? That is good news. Our country is richer by one new natural resource than we have supposed.”

Iron man.—“Yes, and I now want to begin mining iron.”

Statesman.—“Very well, go on. We shall be glad to hear that you are prospering and getting rich.”

Iron man.—“Yes, of course. But I am now earning my living by tilling the surface of the ground, and I am afraid that I can not make as much at mining as at farming.”

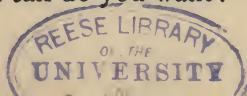
Statesman.—“That is indeed another matter. Look into that carefully and do not leave a better industry for a worse.”

Iron man.—“ But I want to mine that iron. It does not seem right to leave it in the ground when we are importing iron all the time, but I can not see as good profits in it at the present price for imported iron as I am making out of what I raise on the surface. I thought that perhaps you would put a tax on all the imported iron so that I could get more for mine. Then I could see my way to give up farming and go to mining.”

Statesman.—“ You do not think what you ask. That would be authorizing you to tax your neighbors, and would be throwing on them the risk of working your mine, which you are afraid to take yourself.”

Iron man (aside).—“ I have not talked the right dialect to this man. I must begin all over again. (Aloud). Mr. Statesman, the natural resources of this continent ought to be developed. American industry must be protected. The American laborer must not be forced to compete with the pauper labor of Europe.”

Statesman.—“ Now I understand you. Now you talk business. Why did you not say so before? How much tax do you want ?”



The next time that a buyer of pig iron goes to market to get some, he finds that it costs thirty bushels of wheat per ton instead of twenty.

“What has happened to pig-iron?” says he.

“Oh! haven’t you heard?” is the reply. “A new mine has been found down in Pennsylvania. We have got a new ‘natural resource.’”

“I haven’t got a new ‘natural resource,’” says he. “It is as bad for me as if the grasshoppers had eaten up one-third of my crop.”

45. That is just exactly the significance of a new resource on the protectionist doctrine. We had the misfortune to find emery here. At once a tax was put on it which made it cost more wheat, cotton, tobacco, petroleum, or personal services per pound than ever before. A new calamity befell us when we found the richest copper mines in the world in our territory. From that time on it cost us five (now four) cents a pound more than before. By another catastrophe we found a nickel mine, thirty cents (now fifteen) a pound tax! Up to this time we have had all the tin that we wanted above ground, because beneficent nature has refrained from putting any underground in our territory. In the metal schedule, where the metals

which we unfortunately possess are taxed from forty to sixty per cent., tin alone is free. Every little while a report is started that tin has been found. Hitherto these reports have happily all proved false. It is now said that tin has been found in West Virginia and Dakotah. We have reason to devoutly hope that this may prove false, for, if it should prove true, no doubt the next thing will be forty per cent. tax on tin. The mine-owners say that they want to exploit the mine. They do not. They want to make the mine an excuse to exploit the taxpayers.

46. Therefore, when the protectionist asks whether we ought not by protective taxes to force the development of our own iron mines, the answer is, that, on his own doctrine, he has developed a new philosophy, hitherto unknown, by which "natural resources" become national calamities, and the more a country is endowed by nature the worse off it is. Of course, if the wise philosophy is not simply to use, with energy and prudence, all the natural opportunities which we possess, but to seek "channels favored or created by law," then this view of natural resources is perfectly consistent with that philosophy, for it is

simply saying over again that *waste is the key of wealth*.

G.) Examination of the Proposal to Raise Wages.

47. "But," he says again, "we want to raise wages and favor the poor working man." "Do you mean to say," I reply, "that protective taxes raise wages—that that is their regular and constant effect?" "Yes," he replies, "that is just what they do, and that is why we favor them. We are the poor man's friends. You free-traders want to reduce him to the level of the pauper laborers of Europe." "But here, in the evidence offered at the last tariff discussion in Congress, the employers all said that they wanted the taxes to protect them *because* they had to pay such high wages." "Well, so they do." "Well then, if they get the taxes raised to help them out when they have high wages to pay, how are the taxes going to help them any unless the taxes *lower* wages? But you just said that taxes raise wages. Therefore, if the employer gets the taxes raised, he will no sooner get home from Washington than he will find that the very taxes which he has just secured have raised wages. Then he must go

back to Washington to get the taxes raised to offset that advance, and when he gets home again he will find that he has only raised wages more, and so on forever. You are trying to teach the man to raise himself by his boot straps. Two of your propositions brought together eat each other."

48. We will, however, pursue the protectionist doctrine of wages a little further. It is totally false that protective taxes raise wages. As I will show further on (§ 91 and following), protective taxes lower wages. Now, however, I am assuming the protectionist's own premises and doctrines all the time. He says that his system raises wages. Let us go to see some of the wages class and get some evidence on this point. We will take three wage-workers, a boot-man, a hat-man, and a cloth-man. First we ask the boot-man, "Do you win any thing by this tariff?" "Yes," he says, "I understand that I do." "How?" "Well, the way they explain it to me is that when any body wants boots he goes to my boss, pays him more on account of the tax, and my boss gives me part of it." "All right! Then your comrades here, the hat-man and the cloth-man, pay this tax in which you share?" "Yes, I sup-

pose so. I never thought of that before. I supposed that rich people paid the taxes, but I suppose that when they buy boots they must do it too." "And when you want a hat you go and pay the tax on hats, part of which (as you explain the system) goes to your friend the hat-man; and when you want cloth you pay the tax which goes to benefit your friend the cloth-man?" "I suppose that it must be so." We go then to see the hat-man and have the same conversation with him, and we go to see the cloth-man and have the same conversation with him. Each of them then gets two taxes and pays two taxes. Three men illustrate the whole case. If we should take a thousand men in a thousand industries we should find that each paid 999 taxes, and each got 999 taxes, if the system worked as it is said to work. What is the upshot of the whole? Either they all come out even on their taxes paid and received, or *some of the wage receivers are winning something out of other wage receivers to the net detriment of the whole class.* If each man is creditor for 999 taxes, and each debtor for 999 taxes, and if the system is "universal and equal," we can save trouble by each drawing 999 orders on the creditors to pay

to themselves their own taxes, and we can set up a clearing house to wipe off all the accounts. Then we come down to this as the net result of the system when it is "universal and equal," that *each man as a consumer pays taxes to himself as a producer.* That is what is to make us all rich. We can accomplish it just as well and far more easily, when we get up in the morning, by transferring our cash from one pocket to the other.

49. One point, however, and the most important of all, remains to be noticed. How about the thousandth tax? How is it when the boot-man wants boots, and the hat-man hats, and the cloth-man cloth? He has to go to the store on the street and buy of his own boss, at the market price (tax on) the very things which he made himself in the shop. He then pays the tax to his own employer, and the employer, according to the doctrine, "shares" it with him. Where is the offset to that part which the employer keeps? There is none. The wages-class, even on the protectionist explanation, may give or take from each other, but to their own employers, they give and take not. At election time the boss calls them in and tells them that they must vote for protection

or he must shut up the shop, and that they ought to vote for protection, because it makes their wages high. If, then, they believe in the system, just as it is taught to them, they must believe that it causes him to pay them big wages, out of which they pay back to him big taxes, out of which he pays them a fraction back again, and that, but for this arrangement, the business could not go on at all. A little reflection shows that this just brings up the question for a wage-earner: *How much can I afford to pay my boss for hiring me?* or, again, which is just the same thing in other words: *What is the net reduction of my wages below the market rate under freedom which results from this system?* (see § 65).

50. Let it not be forgotten that this result is reached by accepting protectionism and reasoning forward from its doctrines and according to its principles. In truth, the employés get no share in any taxes which the boss gets out of them and others (see § 91 fg. for the truth about wages). Of course, when this or any other subject is thoroughly analyzed, it makes no difference where we begin or what line we follow, we shall always reach the same result if the result is correct. If

we accept the protectionist's own explanation of the way in which protection raises wages we find that it proves that protection lowers wages.

H.) Examination of the Proposal to Prevent Competition by Foreign Pauper Labor.

51. The protectionist says that he does not want the American laborer to compete with the foreign "pauper laborer" (see § 99). He assumes that if the foreign laborer is a woolen operative, the only American who may have to compete with him is a woolen operative here. His device for saving our operatives from the assumed competition is to tax the American cotton or wheat grower on the cloth he wears, to make up and offset to the woolen operative the disadvantage under which he labors. If then, the case were true as the protectionist states it, and if his remedy were correct, he would, when he had finished his operation, simply have allowed the American woolen operative to escape, by transferring to the American cotton or wheat grower the evil results of competition with "foreign pauper labor."

I.) Examination of the Proposal to raise the Standard of Public Comfort.

52. But the protectionist reiterates that he wants to make our people well off, and to diffuse general prosperity, and he says that his system does this. He says that the country has prospered under protection and on account of it. He brings from the census the figures for increased wealth of the country, and, to speak of no minor errors, draws an inference that we have prospered *more than we should have done under free trade*, which is what he has to prove, without noticing that the second term of the comparison is absent and unattainable. In the same manner I once heard a man argue from statistics, who showed by the *small* loss of a city by fire that its fire department cost too much. I asked him if he had any statistics of the fires which we should have had but for the fire department (see § 102).

53. The people of the United States have inherited an untouched continent. The now living generation is practicing bonanza farming on prairie soil which has never borne a crop. The population is only 15 to the square mile. The population of England and Wales is 446 to the square

mile; that of the British Islands 290; that of Belgium 481; of France 180; of Germany 216. Bateman* estimates that in the better part of England or Wales a peasant proprietor would need from $4\frac{1}{2}$ to 6 acres, and, in the worse part, from 9 to 45 acres on which to support "a healthy family." The soil of England and Wales, equally divided between the families there, would give only 7 acres apiece. The land of the United States, equally divided between the families there, would give 215 acres apiece. These old nations give us the other term of the comparison by which we measure our prosperity. They have a dense population on a soil which has been used for thousands of years; we have an extremely sparse population on a virgin soil. We have an excellent climate, mountains full of coal and ore, natural highways on the rivers and lakes, and a coast indented with sounds, bays, and some of the best harbors in the world. We have also a population of good national character, especially as regards the economic and industrial virtues. The sciences and arts are highly cultivated among us, and

* Broderick, *English Land and English Landlords*, p. 194.

our institutions are the best for the development of economic strength. As compared with old nations we are prosperous. Now comes the protectionist statesman and says: "The things which you have enumerated are not the causes of our comparative prosperity. Those things are all vain. Our prosperity is not due to them. I made it with my taxes."

54 (a) In the first place the fact is that we surpass most in prosperity those nations which are most like us in their tax systems, and those compared with whom our prosperity is least remarkable are those which have by free trade offset as much as possible the disadvantage of age and dense population. Since, then, we find greatest difference in prosperity with least difference in tax, and least difference in prosperity with greatest difference in tax, we can not regard tax as a cause of prosperity, but as an obstacle to prosperity which must have been overcome by some stronger cause. That such is the case lies plainly on the face of the facts. The prosperity which we enjoy is the prosperity which God and nature have given us *minus what the legislator has taken from it.*

55 (b) We prospered with slavery just as we

have prospered with protection. The argument that the former was a cause would be just as strong as the argument that the latter is a cause.

56 (c) The protectionists take to themselves as a credit all the advance in the arts of the last twenty-five years, because they have not entirely offset it and destroyed it.

57 (d) The protectionists claim that they have increased our wealth. All the wealth that is produced must be produced by labor and capital applied to land. The people have wrought and produced. The tax gatherer has only subtracted something. Whether he used what he took well or ill, he subtracted. He could not do any thing else. Therefore, whatever wealth we see about us, and whatever wealth appears in the census is what the people have produced, *less* what the tax gatherer has taken out of it.

58 (e) If the members of Congress can establish for themselves some ideal of the grade of comfort which the average American citizen ought to enjoy, and then just get it for him, they have used their power hitherto in a very beggarly manner. For, although the average status of our people is

high when compared with that of other people on the globe, nevertheless, when compared with any standard of ideal comfort, it leaves much to be desired. If Congress has the power supposed, they surely ought not to measure the exercise of it by only making us better off than Europeans.

59 (*f*) During the late presidential campaign the protectionist orators assured the people that they meant to make every body well off, that they wished our people to be prosperous, contented, etc., etc. I wish so too. I wish that all my readers may be millionaires. I freely and sincerely confer on them all the bounty of my good wishes. They will not find a cent more in their pockets on that account. The congressmen have no power to bless my readers which I have not, save one; that is, the power to tax them.

60 (*g*) If the congressmen are determined to elevate the comfort of the population by taxing the population, then every new ship load of immigrants must be regarded as a new body of persons whom we must "elevate" by the taxes we have to pay. It is said that an Irishman affirmed that a dollar in America would not buy more than a shilling in Ireland. He was asked why then he

did not stay in Ireland. He replied that it was because he could not get the shilling there. That is a good story, only it stops just where it ought to begin. The next question is: How does he get the dollar when he comes to America? The protectionist wants us to suppose that he gets it by grace of the tariff. If so he gets it out of those who were here before he came. But plainly no such thing is true. He gets it by earning it, and he adds two dollars to the wealth of the country while earning it. The only thing the tariff does in regard to it is to lower the purchasing power of the dollar, if it is spent for products of manufacture, to seventy cents.

61. Here, again, then, we find that protective taxes, if they do just what the protectionist says that they will do, produce the very opposite effects from those which he says they will produce. They lessen wealth, reduce prosperity, diminish average comfort, and lower the standard of living. (See §30.)

CHAPTER III.

PROTECTIONISM EXAMINED ADVERSELY.

62. I have so far examined protectionism as a philosophy of national wealth, assuming and accepting its own doctrines, and following them out, to see if they will issue as is claimed. We have found that they do not, but that protectionism, on its own doctrines, issues in the impoverishment of the nation and in failure to do any thing which it claims to do. On the contrary, an examination in detail of its means, methods, purposes and plans show that it must produce waste and loss, so that *if it were true, we should have to believe that waste and loss are means of wealth.* Now I turn about to attack it in face, on an open issue, for if any project which is advocated proves, upon free and fair examination, to be based on errors of fact and doctrine, it becomes a danger and an evil to be exposed and combated, and truth of fact and doctrine must be set against it.

I. *PROTECTIONISM INCLUDES AND NECESSARILY CARRIES WITH IT HOSTILITY TO TRADE, OR, AT LEAST, SUSPICION AGAINST TRADE.*

A.) Rules for knowing when it is Safe to Trade.

63. Every protectionist is forced to regard trade as a mischievous or at least doubtful thing. Protectionists have even tried to formulate rules for determining when trade is beneficial and when harmful.

64. It has been said that we ought to trade only on meridians of longitude, not on parallels of latitude.

65. It has been affirmed that we can not safely trade unless we have taxes to exactly offset the lower wages of foreign countries. But it is plain that if the case stands so that an American employer says: "I am at a disadvantage compared with my foreign competitor, because he pays less wages than I,"—then, by the same token, the American laborer will say: "I am at an advantage, compared with my foreign comrade, for I get better wages than he."—If the law interferes with the state of things so that the employer is enabled to say: "I am now at less disadvantage in competition with my foreign rival, because I do not now

have to pay as much more wages than he as formerly ;”—then, by the same token, the American laborer must say: “ I am not now as much better off than my foreign comrade as formerly, for I do not now gain as much more than he as I did—there is not now as much advantage in emigrating to this country as formerly.”—Therefore, whenever the taxes just offset the difference in wages, *they just take away from the American laborer all his superiority over the foreigner*, and take away all reason for caring to come to this country. So much for the laborer. But the employer, if he has arrested immigration, has cut off one source of the supply of labor, tending to raise wages, and is at war with himself again (§ 47).

66. It has been said that two nations can not trade *if the rate of interest in the two differs by two per cent.* The rate of interest in the Atlantic States and in the Mississippi valley has always differed by two per cent., yet they have traded together under absolute free trade, and the Mississippi valley has had to begin a wilderness and grow up to the highest standard of civilization in spite of that state of things.

67. It has been said that we ought to *trade only*

with inferior nations. The United States does not trade with any other nation, save when it buys territory. A in the United States trades with B in some foreign country. If I want caoutchouc I want to trade with a savage in the forests of South America. If I want mahogany I want to trade with a man in Honduras. If I want sugar I want to trade with a man in Cuba. If I want tea I want to trade with a man in China. If I want silk or champagne I want to trade with a man in France. If I want a razor I want to trade with a man in England. I want to trade with the man who has the thing which I want of the best quality and at the lowest rate of exchange for my products. What is the definition or test of an "inferior nation," and what has that got to do with trade any more than the race, language, color, or religion of the man who has the goods?

68. If trade was an object of suspicion and dread, then indeed we ought to have *rules for distinguishing safe and beneficial trade* from mischievous trade, but these attempts to define and discriminate only expose the folly of the suspicion. We find that the primitive men, who dwelt in caves in the glacial epoch, carried on trade. The

earliest savages made footpaths through the forests by which to traffic and trade, winning thereby mutual advantages. They found that they could supply more wants with less effort by trade, which gave them a share in the natural advantages and acquired skill of others. They trained beasts of burden, improved roads, invented wagons and boats, all in order to extend and facilitate trade. They were foolish enough to think that they were gaining by it, *and did not know that they needed a protective tariff to keep them from ruining themselves.* Or, why does not some protectionist sociologist tell us at what stage of civilization trade ceases to be advantageous and begins to need restraint and regulation?

B.) Economic Units not National Units.

69. The protectionists say that their system advances civilization inside a state and makes it great, but the facts are all against them (see § 136 fg). It was by trade that civilization was extended over the earth. It was through the contact of trade that the more civilized nations transmitted to others the alphabet, weights and measures, knowledge of astronomy, divisions of time, tools

and weapons, coined money, systems of numeration, treatment of metals, skins, and wool, and all the other achievements of knowledge and invention which constitute the bases of our civilization. On the other hand, the nations which shut themselves up and developed an independent and self-contained civilization (China and Japan) present us the types of arrested civilization and stereotyped social status. It is the penalty of isolation and of withdrawal from the giving and taking which properly bind the whole human race together, that even such intelligent and highly endowed people as the Chinese should find their high activity arrested at narrow limitations on every side. They invent coin, but never get beyond a cast copper coin. They invent gunpowder but can not make a gun. They invent movable types, but only the most rudimentary book. They discover the mariner's compass, but never pass the infancy of ship-building.

70. The fact is, then, that *trade has been the handmaid of civilization*. It has traversed national boundaries, and has gradually, with improvement in the arts of transportation, drawn the human race into closer relations and more harmonious

interests. The contact of trade slowly saps old national prejudice and religious or race hatreds. The jealousies which were perpetuated by distance and ignorance can not stand before contact and knowledge. To stop trade is to arrest this beneficent work, to separate mankind into sections and factions, and to favor discord, jealousy, and war.

71. Such is the action of protectionism. The protectionists make much of their pretended "nationalism," and they try to reason out some kind of relationship between the scope of economic forces and the boundaries of existing nations. The argumentation is fatally broken at its first step. They do not show what they might show, viz., that the scope of economic forces on any given stage of the arts, does form economic units. An English county was such a unit a century ago. I doubt if any thing less than the whole earth could be considered so to-day, when the wool of Australia, the hides of South America, the cotton of Alabama, the wheat of Manitoba and the meat of Texas meet the laborers in Manchester and Sheffield, and would meet the laborers in Lowell and Paterson, if the barriers were out of the way.

But what the national protectionist would need to show would be that the economic unit coincides with the political unit. He would have to affirm that Maine and Texas are in one economic unit, but that Maine and New Brunswick are not ; or that Massachusetts and Minnesota are in one economic unit, but that Massachusetts and Manitoba are not. Every existing state is a product of historic accidents. Mr. Jefferson set out to buy the city of New Orleans. He awoke one morning to find that he had bought the western half of the Mississippi valley. Since that turned out so the protectionists think that Missouri and Illinois prosper by trading in perfect freedom.* If it had not turned out so, it would have been very mischievous for them to trade in perfect freedom.

* Since the above was in type, I have, for the first time, seen an argument from a protectionist, that a tariff between our States is, or may become, desirable. It is from the Chicago *Inter-Ocean*, and marks the extreme limit reached, up to this time, by protectionist fanaticism and folly, although it is thoroughly consistent, and fairly lays bare the spirit and essence of protectionism :

“ In the United States the present ominous and over-shadowing strike in the iron trade, by which from 75,000 to 100,000 men have been thrown out of work, is an incisive example of the tendency of this country, also, to a condition of trade which will compel individual states and certain sections of the country to ask for legislation, in order to protect them against the cheaper labor and superior natural advantage of others ” The remedy for the harm done by taxes on our foreign trade is to lay some on our domestic trade. (See §26, 95.)

Nova Scotia did not join the revolt of our thirteen colonies. Hence it is thought ruinous to let coal and potatoes come in freely from Nova Scotia. If she had revolted with us, it would have been for the benefit of every body in this union to trade with her as freely as we now trade with Maine. We tried to conquer Canada in 1812-13 and failed. Consequently the Canadians now put taxes on our coal and petroleum and wheat, and we put taxes on their lumber, which our coal and petroleum industries need. We did annex Texas, at the cost of war, in 1845. Consequently we trade with Texas now under absolute freedom, but, if we trade with Mexico, it must be only very carefully and under stringent limitations. Is this wisdom, or is it all pure folly and wrong headedness, by which men who boast of their intelligence throw away their own chances? *

72. *Trade is a beneficent thing.* It does not need any regulation or restraint. There is no

* Since the above was in type, a treasury order has subjected all goods from Canada to the same taxes as imported goods, although they may be going from Minnesota to England. Nature has made man too well off. The inhabitants of North America will not simply use their chances, but they divide into two artificial bodies so as to try to harm each other. Millions are spent to cut an isthmus where nature has left one, and millions more to set up a tax-barrier where nature has made a highway.

point at which it begins to be dangerous. It is mutually beneficent. If it ceases to be so, it ceases entirely, because he who no longer gains by it will no longer carry it on. (See § 125.)

✓ II. *PROTECTIONISM IS AT WAR WITH IMPROVEMENT.*

73. The cities of Japan are built of very combustible material, and when a fire begins it is rarely arrested until the city is destroyed. It was suggested that a steam fire-engine would there reach its maximum of utility. One was imported and proved very useful on several occasions. Thereupon the carpenters got up a petition to the government to send the fire-engine away, because it ruined their business.

74. The instance is grotesque and exaggerated, but it is strictly true to the principle of protectionism. The southern counties of England, a century ago, protested against the opening of the great northern turnpike, because that would bring the products of the northern counties to the London market, of which the southern counties had had a monopoly. After the St. Gothard tunnel was opened the people of southern Germany petitioned the Government to lay higher taxes on Italian products to offset the

cheapness which the tunnel had produced. In 1837 the first two steamers which ever made commercial voyages across the Atlantic arrived at the same time. A grand celebration was held in New York. The foolish people rejoiced as if a new blessing had been won. Man had won a new triumph over nature. What was the gain of it? It was that he could satisfy his needs with less labor than before; or, in plain language, get things cheaper. But in 1842 a Home Industry Convention was held in New York, at which it was alleged as the prime reason why more taxes were needed, that this steam transportation had made things cheap here.* Taxes were needed to neutralize the improvement.

A.) Taxes to offset Cheapened Transportation.

75. For the last twenty-five years, to go no further back, we have multiplied inventions to facilitate transportation. Ocean cables, improved marine engines, and screw steamers, etc., etc., have been only improved means of supplying the wants of people on two continents more abundantly with the products each of the other. The

* 62, Niles's Register, 132.

scientific journals and the daily papers boast of every step in this development as a thing to be proud of and rejoice in, but in the mean time the legislators on both sides of the water are hard at work to neutralize it by taxation. We, in the United States, have multiplied monstrous taxes on all the things which others make and which we want, to prevent them from being brought to us. The statesmen of the European continent are laying taxes on our meat and wheat, lest they be brought to their people. The arts are bringing us together; the taxes are needed to keep us apart. In France, for instance, the agriculturist complains of American competition—not “pauper labor,” but gratuitous soil and sunlight. He does not want the French artisan to have the benefit of our prairie soil. The government yields to him and lays a tax on our meat and wheat. This raises the price of bread in Paris, where the reconstruction of the city has collected a large artisan population. The government then finds itself driven to fix the price of bread in Paris to keep it down. But the reconstruction of the city was accomplished by contracting a great debt, which means heavy taxes. These taxes drive the

population out into the suburbs. At least one voice has been raised by an owner of city property that a tax ought to be laid on suburban residents to drive them back to the city,* and not let them escape the efforts of the city-landlord to throw his taxes on them. Then, again, France has been subsidizing ships, and when the question of renewing the subsidy came up, it was argued that the ships subsidized at the expense of the French tax-payer had lowered freight on wheat and made wheat cheap; that is, as somebody justly replied, had wrought the very mischief against which the increased tax had just been demanded on wheat. Therefore the tax-payer had been taxed first to make wheat cheap, and then again to make it dear.

76. Tax A to favor B. If A complains, tax C to make it up to A. If C complains, tax B to favor C. If any of them still complain, begin all over again. Tax them as long as any body complains, or any body wants any thing. This is the statesmanship of the last quarter of the nineteenth century.

* *Journal des Economistes*, March, 1885, page 496.

77. Bismarck, too, is going into the business. He has to rule a people who live on a poor soil, and have to bear a crushing military system. The consequence is that the population is declining. Emigration exceeds the natural increase. Bismarck's cure for it is to lay protective taxes against American pork and wheat and rye. This will protect the German agriculturist. If it lowers still more the comfort of the buyers of food, and drives more of them out of the country, then he will go and buy or fight for colonies at the expense of the German agriculturists whom he has just "protected," although the surplus population of Germany has been taking itself away for thirty years without asking help or giving trouble. What can Germany gain by diverting her emigrants to her own colony unless she means to bring the able-bodied men back to fight her battles? If she means that, the emigrants will not go to her colony.

78. France is also reviving the old colonial policy with discriminating favors and compensatory restraints. She already owns a possession in Algeria, which is the best example of a colony for the sake of a colony. It has been asserted in

the French Chambers that each French family now in Algeria has cost the Government (*i.e.*, the French taxpayer) 25,000 francs.* The longing of these countries for "colonies" is like the longing of a negro dandy for a cane or a tall hat so as to be like the white gentlemen.

B.) Sugar Bounties.

79. The worst case of all, however, is sugar. The protectionists long boasted of beet-root sugar as a triumph of their system. It is now an industry in which an immense amount of capital is invested on the Continent, but cheap transportation for cane sugar, and improvements in the treatment of the latter, are constantly threatening it. Mention is made in *Bradstreet's* for June 28, 1885, of a very important improvement in the treatment of cane which has just been invented at Berlin. Germany has an excise tax on beet-root sugar, but allows a drawback on it when exported which is greater than the tax. This acts as a bounty paid by the German tax-payer on the exportation. Consequently, beet-root sugar

* Paris correspondent of the *New York Evening Post*, February 9, 1884.

has appeared even in our market. The chief market for it, however, is England. The consequence is that the sugar which is nine cents a pound in Germany, and seven cents a pound here, is five cents a pound in England, and that the annual consumption of sugar per head in the three countries* is as follows : England, 67½ pounds ; United States, 51 pounds ; Germany, 12 pounds. I sometimes find it difficult to make people understand the difference between wanting an "industry" and wanting goods, but this case ought to make that distinction clear. Obviously *the Germans have the industry and the Englishmen have the sugar.*

80. No sooner, however, does Germany get her export bounty in good working order than the Austrian sugar refiners besiege their government to know whether Germany is to have the monopoly of giving sugar to the Englishmen.† They get a bounty and compete for that privilege. Then the French refiners say that they can not

* *Economist*, Commercial Review, 1884, p. 15.

† The Vienna correspondent of the *Economist* writes, June 15, 1885, "The representatives of the sugar trade addressed a petition to the Finance Minister, asking, above all things, that the premium on export should be retained, without which, they say, they can not continue to exist, and which is granted in all countries where beet root sugar is manufactured."

compete, and must be enabled to compete in giving sugar to the Englishmen. I believe that their case is under favorable consideration.

80½. I have found it harder (as is usually the case) to get recorded information about the trade and industry of our own country than about those of foreign nations. However, we too, although we do not raise beet-sugar, have our share in this bounty folly, as may be seen by the following statement, which comes to hand just in time to serve my purpose.* “The export of refined sugar [from the United States] is entirely confined to hard sugars, or, to be more explicit, loaf, crushed and granulated. This is because the drawback upon this class of sugar is so large that refiners are enabled to sell them at less than cost. The highest collectable duty upon sugar testing as high as 99° is but 2.36, but the drawback upon granulated testing the same, and in the case of crushed and loaf less, is 2.82 less 1 per cent. This is exactly 43c. per one hundred pounds more than the government receives in duty. But it rarely happens that raw sugar is imported testing 99°,

* *Bradstreet's*, July 25, 1885.

and never for refining purposes. The following table gives the rates of duty upon the average grades used in refining :

	Degrees.	Duty.
Fair refining testing.....	89	1.96
Fair refining testing.....	90	2.00
Centrifugal testing.....	96	2 28
Beet sugar testing.....	88	1.92

It will be clearly seen from the above figures that with a net drawback upon hard sugar of 2.79 our refiners are able to sell to foreigners, through the assistance of our treasury, sugar at less than cost. Taking for instance the net price of centrifugal testing only 97° and the net price less drawback of granulated :

Centrifugal raw sugar testing 97°.....	6.00	
Less duty.....	2.28	
Net.....	—	3.72
Granulated refined testing 99°.....	6 37½	
Less drawback.....	2.71	
Net.....	—	3.66½
		—
		6½

Nothing could demonstrate the absurdity of the present rate of drawback more clearly than the above. A refiner pays 6½c. per hundred more for raw sugar testing 2° less saccharine than he sells refined for. Not, however, to the American

consumers, but to foreigners. After paying the expenses necessary to refining by the assistance of a drawback, which clearly amounts to a subsidy of about 50c. a hundred pounds, our large sugar monopolists are assisted by the government to increase the cost of sugar to American consumers. One firm controls almost the entire trade of the east; at all events it is safe to say that the trade of the entire country is controlled by three firms, and the treasury assists this monopoly in sustaining prices against the interest of the country at large. Up to date the exports of refined sugar have amounted to 83,340 tons, which taken at 50c. a hundred has cost the treasury over \$830,000. All this may not have gone into the pockets of the refiners, as the shipowners have obtained a share, but the fact remains that the treasury is the loser by this amount. Besides this bounty presses hard upon the consumers. They not only have to pay the tax, but during the late rise they were compelled to pay more for their sugar than they otherwise would have done had not the export demand caused by selling sugar to foreigners at less than cost, the treasury paying the difference, increased prices. While an

American consumer is charged $6\frac{1}{2}$ c. for granulated, foreign buyers, through the liberality of our government, can buy it under $3\frac{3}{4}$ c. Certainly it is time that the Secretary of the Treasury asked the sugar commission to commence a comprehensive and impartial inquiry."

81. Of course the story would not be complete if the English refiners did not besiege their government for a tax to keep out this maleficent gift of foreign tax-payers. This, say they, is not free trade. This is protection turned the other way around. We might hold our own on an equal footing, but we can not contend against a subsidized industry. A superficial thinker might say that this protest was conclusive. The English government set on foot an investigation, not of the sugar refining, but of *those other interests which were in danger of being forgotten*. There was a tariff investigation which was worth something and was worthy of an enlightened government. It was found that the consumers of sugar had gained more than all the wages paid in sugar refining. But, on the side of the producers, it was found that 6,000 persons are employed and 45,000 tons of sugar are used

annually in the neighborhood of London in manufacturing jam and confectionery. In Scotland there are eighty establishments, employing over 4,000 people and using 35,000 tons of sugar per annum in similar industries. In the whole United Kingdom, in those industries, 100,000 tons of sugar are used and 12,000 people are employed, three times as many as in sugar refining. Within twenty years the confectionery trade of Scotland has quadrupled and the preserving trade—jam and marmalade—has practically been originated. In addition, refined sugar is a raw material in biscuit making and the manufacture of mineral waters, and 50,000 tons are used in brewing and distilling. Hence the *Economist* argues (and this view seems to have controlled the decision): “It may be that the gain which we at present realize from the bounties may not be enduring, as it is impossible to believe that foreign nations will go on taxing themselves to the extent of several millions a year in order to supply us and others with sugar at less than its fair price, but that is no reason for refusing to avail ourselves of their liberality so long as it does last.” * (See § 83, note.)

* *Economist*, 1884, p. 1052.

82. One point in this case ought not to be lost sight of. If the English government had yielded to the sugar refiners without looking further, all these little industries which are mentioned, and which in their aggregate are so important, would have been crushed out. Ten years later they would have been forgotten. It is from such an example that one must learn to form a judgment as to *the effect of our tariff in crushing out industries* which are now lost and gone, and can not even be recalled for purposes of controversy, but which would spring into existence again if the repeal of the taxes should give them a chance.

83. On our side⁹ the water efforts have been made to get us into the sugar struggle by the proposed commercial treaties with Spain and England, which would in effect have extended our protective tariff around Cuban and English West Indian sugar.* The sugar consumers of the United States were to pay to the Cuban planters the twenty-five million dollars revenue which they

* A friend has sent me a report (*Barbados Agricultural Reporter*, April 24, 1885), of an indignation meeting at Bridgetown to protest, because the English Government refused to ratify the commercial treaty with the United States. The islanders feel the competition of the "bounty-fed" sugar in the English market; a new complication, a new mischief.

now pay to the treasury on Cuban sugar, on condition that the Cubans should bring back part of it and spend it among our manufacturers. It was a new extension of the plan of taxing some of us for the benefit of others of us. Let it be noticed, too, that when it suited their purpose, the protectionists were ready to sacrifice the sugar industry of Louisiana without the least concern. We have been trying for twenty-five years to secure the home market and keep everybody else out of it. *As soon as we get it firmly shut, so that nobody else can get in, we find that it is a question of life and death with us to get out ourselves.* The next device is to tax Americans in order to go and buy a piece of the foreign market. At the last session of Congress Senator Cameron proposed to allow a drawback on raw materials used in exported products. On that plan the American manufacturer would have two costs of production, one when he was working for the home market, and another much lower one when working for the foreign market. As it is now, the exports of manufactured products, of which so much boasting is heard, are for the most part articles sold abroad lower than here so as not

to break down the home monopoly market. The proposed plan would raise that to a system, and we should be giving more presents to foreigners.

84. To return to sugar, our treaty with the Sandwich Islands has produced anomalous and mischievous results on the Pacific coast. In the southern Pacific New Zealand is just going into the plan of bounties and protection on sugar.*. It would not, therefore, be very bold to predict a world-wide catastrophe in the sugar industry within five years.

85. Now what is it all for? What is it all about? Napoleon Bonaparte began it in a despotic whim, when he determined to force the production of beet root sugar to show that he did not care for the supremacy of England at sea which cut him off from the sugar islands. In order not to lose the capital engaged in the industry, protection was continued. But this led to putting more capital into it and further need of protection. The problem has tormented financiers for seventy-five years. There are two natural products of which the cane is far richer in sugar. But the processes of the beet-sugar industry have

* *Economist*, Commercial Supplement, Feb. 14, 1885, p. 7.

been improved, until recently, far more rapidly than those of the cane industry. Then the refining is a separate interest. If then a country has cane-sugar colonies which it wants to protect against other colonies, and a beet-sugar industry which it wants to protect against neighbors who produce beet-sugar, and refiners to be protected against foreign refiners, and if the relations of its own colonial cane-sugar producers to its own domestic beet-sugar producers must be kept satisfactorily adjusted, in spite of changes in processes, transportation and taxation, and if it wants to get a revenue from sugar, and to use the colonial trade to develop its shipping, and if it has two or three commercial treaties in which sugar is an important item, the statesman of that country has a task like that of a juggler riding several horses and keeping several balls in motion. Sugar is the commodity on which the effects of a world-embracing commerce, produced by modern inventions, are most apparent, and it is the commodity through which all the old protectionist anti-commercial doctrines will be brought to the most decisive test.

C.) *Forced Foreign Relations to Regulate Improvement which can no Longer be Defeated.*

86. If we turn back once more to our own case we note the rise in 1883-4 of the policy of commercial treaties, and of a "vigorous foreign policy." For years a "national policy" for us has meant "securing the home market." The perfection of this policy has led to isolation and ostentatious withdrawal from cosmopolitan interests. I may say that I do not write out of any sympathy with vague humanitarianism or cosmopolitan sentiments. It seems to me that local groupings have great natural strength and obvious utility so long as they are subdivisions of a higher organization of the human race, or so long as they are formed freely and their relations to each other are developed naturally. But now suddenly rises a clap-trap demand for a "national policy," which means that we shall force our way out of our tax-created isolation by diplomacy or war. The effort, however, is to be restrained carefully and arbitrarily to the western hemisphere, and we have anxiously disavowed any part or lot in the regulation of the Congo, although we shall certainly some day desire to take our

share in the trade of that district. Our statesmen, however, if they are going to let us have any foreign trade, can not bear to let us go and take it where we shall make most by it. They must draw *à priori* lines for it. They have taxed us in order to shut us up at home. This has killed the carrying trade, for, if we decided not to trade, what could the shippers find to do? Next shipbuilding perished, for if there was no carrying trade why build ships, especially when the taxes to protect manufactures were crushing ships and commerce? (§ 101). Next the navy declined, for with no commerce to protect at sea, we need no navy. Next we lost the interest which we took thirty years ago in a canal across the isthmus, because we have now, under the no-trade policy, no use for it. Next diplomacy became a sinecure, for we have no foreign relations.

87. Now comes the "national policy," not because it is needed, but as an artificial and inflated piece of political bombast. We are to galvanize our diplomacy by contracting commercial treaties, and meddling in foreign quarrels. No doubt this will speedily make a navy necessary. In fact our proposed "American policy"

is only an old, cast-off, eighteenth century, John Bull policy, which has forced England to keep up a big army, a big navy, heavy debt, heavy taxes, and a constant succession of little wars. Hence we shall be taxed some more to pay for a navy. Then it is proposed to tax us some more to pay for canals through which the navy can go. Then we are to be taxed some more to subsidize merchant ships to go through the canal. Then we are to be taxed some more to subsidize voyages, *i e.*, the carrying trade. Then we are to be taxed some more to provide the ships with cargoes (§ 83).

88. All this time, the whole West Indian, Mexican, and Central and South American trade is ours if we will only stand out of the way and let it come. It is ours by all geographical and commercial advantage, and would have been ours since 1825 if we had but taken down the barriers. Instead of that we propose to tax ourselves some more to lift it over the barriers. Take the taxes off goods, let exchange go on, and the carrying trade comes as a consequence. If we have goods to carry, we shall build or buy ships in which to carry them. If we have merchant ships, we shall

need and shall keep up a suitable navy. If we need canals, we shall build them, as, in fact, private capital is now building one and taking the risk of it. If we need diplomacy we shall learn and practice diplomacy of the democratic, peaceful, and commercial type.

89. Thus, under the philosophy of protectionism, the very same thing, if it comes to us freely by the extension of commerce and (the march of improvement, is regarded with terror, while, if we can first bar it out, and then only let a little of it in at great cost and pains, it is a thing worth fighting for. Such is the fallacy of all commercial treaties. The crucial criticism on all the debates at Washington in 1884-5 was: *Have these debaters made up their minds to any standard by which to measure what you get and what you give under a commercial treaty?*—It was plain that they had not. A generation of protectionism has taken away the knowledge of what trade is (§§ 125, 139), and whence its benefits arise, and has created a suspicion of trade (§ 63, fg). Hence when our public men came to compare what we should get and what we should give, they set about measuring this by things which were

entirely foreign to it. Scarcely two of them agreed as to the standards by which to measure it. Some thought that it was the number of people in one country compared with the number in the other. Others thought that it was the amount sold to as compared with the amount bought from the country in question. Others thought that it was the amount of revenue to be sacrificed by us as compared with the amount which would be sacrificed by the other party. If any one will try to establish a standard by which to measure the gain by such a treaty to one party or the other, he will be led to see the fallacy of the whole procedure. The greatest gain to both would be if the trade were perfectly free. If it is obstructed more or less, that is a harm to be corrected as far and as soon as possible. If then either party lowers its own taxes, that is a gain and a movement toward the desirable state of things. No state needs any body's permission to lower its own taxes, and entanglements which would impair its fiscal independence would be a new harm.*

* Since the above was in type, a report from the "South American Commission" has been received and published. This Com-

- ✓ 90. Protectionism, therefore, is at war with improvement. It is only useful to annul and offset the effects of those very improvements of which we boast. In time, the improvements win power so great that protectionism can not withstand them. *Then it turns about and tries to control and regulate them at great expense by diplomacy or war.*
-

mission submitted certain propositions to the President of Chili on behalf of the United States. The report says :

“The second proposition involved the idea of a reciprocal commercial treaty between the two countries under which special products of each should be admitted free of duty into the other when carried under the flag of either nation. This did not meet with any greater favor with President Santa Maria, who was not disposed to make reciprocity treaties. His people were at liberty to sell where they could get the best prices and buy where goods were the cheapest. In his opinion commerce was not aided by commercial treaties, and Chili neither asked from nor gave to other nations especial favors. Trade would regulate itself, and there was no advantage in trying to divert it in one direction or the other. So far as the United States was concerned, there could be very little trade with Chili, owing to the fact that the products of the two countries were almost identical. Chili produced very little that we wanted, and although there were many industrial products of the United States that were used in Chili, the merchants of the latter country must be allowed to buy where they sold and where they could trade to the greatest advantage. With reference to the provision that reduced duties should be allowed only upon goods carried in Chilian or American vessels, he said that Chili did not want any such means to encourage her commerce : her ports were open to all the vessels of the world upon an equality, and none should have especial privileges.”—(N. Y. *Times*, July 3, 1885.)

If this is a fair specimen of the political and economic enlightenment which prevails at the other end of the American Continent, it is a great pity that the “Commission” is not a great deal larger. They are like the illiterate missionaries who found themselves unawares in a theological seminary. We would do well to send our whole Congress out there.

The greater and more world-wide these improvements are, the more numerous are the efforts in different parts of the world to revive or extend protection. No doubt there is loss and inconvenience in the changes which improvement brings about. A notable case is the loss and inconvenience of a laborer where a machine is first introduced to supplant him. Patient endurance and hope, in the confidence that he will in the end be better off, has long been preached to him. It is true that he will be better off, but why not apply the same doctrine in connection with the other inconveniences of improvement, where it is equally true?

3. PROTECTION LOWERS WAGES.

91. On a pure wages system, that is, where there is a class who have no capital and no land, wages are determined by supply and demand of labor. The demand for labor is measured by the capital in hand to pay for it just as the demand for any thing else is measured by the supply of goods offered in exchange for it. In Cobden's language: "When two men are after one boss, wages are low; when two bosses are after one man, wages are high."

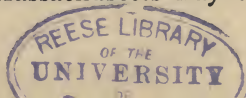
A.) No True Wages Class in the United States.

92. The United States, however, have never yet been on a pure wages system because there is no class which has no land or can not get any. In fact, the cheapening of transportation which is going on is making the land of this continent, Australia, and Africa, available for the laborers of Europe, and is breaking down the wages system there. This is the real reason for the rise of the proletariat and the expansion of democracy which are generally attributed to metaphysical, sentimental, or political causes. A man who has no capital and no land can not live from day to day except by getting a share in the capital of others in return for services rendered. In an old society or dense population, such a class comes into existence. It has no reserves; no other chances; no other resource. In a new country no such class exists. The land is to be had for going to it. On the stage of agriculture which is there existing very little capital and very little division of labor are necessary. Hence he who has only unskilled manual strength can get at and use the land, and he can get out of it an abundant supply of the

rude primary comforts of existence for himself and his family. If it is made so cheap and easy to get from the old centers of population to the new land that the lowest class of laborers can save enough to pay the passage, then the effect will reach the labor market of the old countries also. Such is now the fact.

93. The weakness of a true wages class is in the fact that they have no other chance. Obviously, however, *a man is well off in this world in proportion to the chances which he can command.* The advantage of education is that it multiplies a man's chances. *Our* non-capitalists have another chance on the land, and the chance is near and easy to grasp and use. It is not necessary that all or any number should use it. Every one who uses it leaves more room behind, lessens the supply and competition of labor, and helps his class as a class. The other chance which the laborer possesses is also a *good* one, and consequently sets the minimum of unskilled wages high. Here we have the reason for high wages in a new country.

94. The relation of things was distinctly visible in the early colonial days. Winthrop tells how the General Court in Massachusetts Bay tried to



fix the wages of artisans by law. It is obvious that artisans were in great demand to build houses, and that they would not work at their trades unless the wages would buy as good or better living than the farmers could get out of the ground, for these artisans could go and take up land and be farmers too. The only effect of the law was that the artisans "went West" to the valley of the Connecticut, and the law became a dead letter. The same equilibration between the gains from the new land and the wages of artisans and laborers has been kept up ever since.

95. In 1884 an attempt was made to unite the Eastern and Western Iron Associations for common effort in behalf of higher wages. The union could not be formed because the Eastern and Western Associations *never had had the same rate of wages*. The latter being further west, where the supply of labor is smaller, and the land nearer, have obtained higher wages. It may be well to anticipate a little right here in order to point out that this difference in wages has not prevented the growth of the industry in the West, and has not made competition in a common

market impossible.* The fact is of the first importance to controvert the current assumption of the protectionists. They say that an industry can not be carried on in one place if the wages there are higher than must be paid by somebody in the same industry in another place. This proposition has no foundation in fact, at all. Farm laborers in Iowa get three times the wages of farm laborers in England. The products of the former pay 5,000 miles transportation, and then drive out the products of the latter. Wages are only one element, and often they are far from being the most important element in the economy of production. *The wages which are paid to the men who make an article have nothing to do with the price or value of that article.* This proposition, I know, has a startling effect on the people who hold to the monkish notions of political economy, but it is only a special case of the theorem that "*Labor which is past has no effect on value,*" which is the true corner-stone of any sound political economy. (Wages are determined by the supply and demand of labor.) Value is determined

* This is the case for which the *Inter-Ocean* proposed the remedy described § 71 note,

by the supply and demand of the commodity. These two things have no connection. Wages are one element in the capitalist's outlay for production. If the total outlay in one line of production, when compared with the return obtained in that line, is not as advantageous as the total outlay in another line when compared with the return available in the second line, then the capital is withdrawn from the first line and put into the second, but the rate of wages in either case or any case is the market rate, determined by the supply and demand of labor, for that is what the employers must pay if they want the men, whether they are making any profits or not.

96. The facts and economic principles just stated above show plainly why wages are high, and put in strong light the assertion of the protectionists that their device makes wages high (§ 47), that is, higher than they would be otherwise, or higher here than they are in Europe. Wages are not arbitrary. They can not be shifted up and down at any body's whim. They are controlled by ultimate causes. If not, then what has made them fall during the last eighteen months, ten to forty per cent., most in the most protected

industries (§ 26)? Why are they highest in the least protected and unprotected industries, *e. g.*, the building trades? Hod carriers recently struck in New York for \$3 for nine hours' work. Where did the tariff touch their case? *Why does not the tariff prevent the fall in wages?* It is all there, and now is the time for it to come into operation, if it can keep wages up. Now it is needed. When wages were high in the market, and it was not needed, it claimed the credit. Now when they fall and it is needed, it is powerless.

97. Wages are capital. If I promise to pay wages I must find capital somewhere with which to fulfill my contract. If the tariff makes me pay more than I otherwise would, where does the surplus come from? Disregarding money as only an intermediate term, a man's wages are his means of subsistence—food, clothing, house rent, fuel, lights, furniture, etc. If the tariff system makes him get more of these for ten hours' work in a shop than he would get without tariff, *where does the "more" come from?* Nothing but labor and capital can produce food, clothing, etc. Either the tax must make these out of nothing, or it can

only get them by taking them from those who have made them, that is by subtracting them from the wages of somebody else. Taking all the wages class into account then the tax can not possibly increase, but is sure by waste and loss to decrease wages.

B.) How Taxes do act on Wages.

✓ 98. If taxes are to raise wages they must be laid not on goods but on men. Let the goods be abundant and the men scarce. Then the average wages will be high, for the supply of labor will be small and the demand great. If we tax goods and not men, the supply of labor will be great, the demand will be limited, and the wages will be low. Here we see why employers of labor want a tariff. For it is an obvious inconsistency and a most grotesque satire that the same men should tell the workmen at home that the tariff makes wages high, and should go to Washington and tell Congress that they want a tariff because the wages are too high. We have found that the high wages of American laborers have independent causes and guarantees, outside of legislation. They are provided and maintained by the economic circumstances of the country. This is

against the interest of those who want to hire the laborers. No device can serve their interest unless it lowers wages. From the standpoint of an employer the fortunate circumstances of the laborer become an obstacle to be overcome (§ 65). The laborer is too well off. Nothing can do any good which does not make him less well off. The competition which troubles the employer is not the "pauper labor" of Europe.

99. "Pauper labor" had a meaning in the first half of this century, in England, when the overseers of the poor turned over the younger portion of the occupants of the poor-houses to the owners of the new cotton factories, under contracts to teach them the trade and pay them a pittance. Of course the arrangement had shocking evils connected with it, but it was a transition arrangement. The "pauper laborers'" children, after a generation, became independent laborers; the system expired of itself, and "pauper laborer" is now a senseless jingle.

100. The competition which the employers fear *is the competition of those industries in America which can pay the high wages and which keep the*

wages high because they do pay them. These draw the laborer away. These offer him another chance. If he had no other way of earning more than he is earning, it would be idle for him to demand more. The reason why he demands more and gets it is because he knows where he can get it, if he can not get it where he is. If then he is to be brought down, the only way to do it is *to destroy, or lessen the value of, his other chance.* This is just what the tariff does.

101. The taxes which are laid for protection must come out of somebody. As I have shown (§ 32, fg.) the protected interests give and take from each other, but, if they as a group win anything, they must win from another group, and that other group must be the industries which are not and can not be protected. In England these were formerly manufactures and they were taxed, under the corn laws, for the benefit of agriculture. In the United States, of course, the case must be complementary and opposite. We tax agriculture and commerce to benefit manufactures. Commerce, *i. e.* the ship building and carrying trade, has been crushed out of existence by the burden (§ 86). But the burden thus

thrown on agriculture and commerce lowers the gains of those industries, lessens the attractiveness of them to the laborer, lessens the value of the laborer's other chance, lessens the competition of other American industries with manufacturing, and so, by taking away from the blessing which God and nature have given to the American laborer, enable the man who wants to hire his services to get them at a lower rate. The effect of the taxes is just the same as such a percentage taken from the fertility of the soil, the excellence of the climate, the power of tools, or the industrious habits of the people. Hence it reduces the average comfort and welfare of the population, and with that average comfort it carries down the wages of such persons as work for wages.

C.) Perils of Statistics, Especially of Wages.

102. Any student of statistics will be sure to have far less trust in statistics than the uninitiated entertain. The book-keepers have taught us that figures will not lie, but that they will tell very queer stories. Statistics will not lie, but they will play wonderful tricks with a man who does not understand their dialect. The unsophisticated

reader finds it difficult, when a column of statistics is offered to him, to resist the impression that they must prove *something*. The fact is that a column of statistics hardly ever proves any thing. It is a popular opinion that any body can use or understand statistics. The fact is that a special and high grade of skill is required to appreciate the effect of the collateral circumstances under which the statistics were obtained, to appreciate the limits of their application, and to interpret their significance. The statistics which are used to prove national prosperity are an illustration of this, for they are used as absolute measures when it is plain that they have no use except for a comparison. Sometimes the other term of the comparison is not to be found and it is always ignored (§ 52).

103. A congressional committee in the winter of 1883-4, dealing with the tariff, took up the census and proceeded to reckon up the wages in steel production by adding all the wages from the iron mine up. Then they took bar iron and added all the wages from the bottom up again, in order to find the importance of the wages element in that, and so on with every stage of iron indus-

try. They were going to add in the same wages six or eight times over.

104. The statistics of comparative wages which are published are of no value at all.* It is not known how, or by whom, or from what selected cases, they were collected. It is not known how wide, or how long, or how thorough, was the record from which they were taken. The facts about various classifications of labor in the division of labor, and about the rate at which machinery is run, or about the allowances of one kind and another which vary from mill to mill and town to town are rarely specified at all. Protected employers are eager to tell the wages they pay per day or week, which are of no importance. The only statistics which would be of any use for the comparison which is attempted would be such as show the proportion of wages to total cost per unit. Even this comparison would not have the force which is attributed to the other. Hence the statistics offered are worthless or positively misleading. In the nature of the case such statistics are extremely hard to get. If applica-

* I except those of Mr. Carroll Wright. He has sufficiently stated of how slight value his are.

tion is made to the employers, the inquiry concerns their private business. They have no interest in answering. They can not answer without either spending great labor on their books (if the inquiry covers a period), or surrendering their books to some one else, if they allow him to do the labor. If inquiry is made of the men, it becomes long and tedious and full of uncertainties. Do United States Consuls take the trouble involved in such an inquiry? Have they the training necessary to conduct it successfully?

105. The fact is generally established and is not disputed that wages are higher here than in Europe. The difference is greatest on the lowest grade of labor—manual labor, unskilled labor. The difference is less on higher grades of labor. For what the English call “engineers,” men who possess personal dexterity and creative power, the difference is the other way, if we compare the United States and England. The returns of immigration reflect these differences exactly (§ 122, note). The great body of the immigrants consists of farmers and laborers. The “skilled laborers” are comparatively a small class, and, if the claims of the individuals to be what they call

themselves were tested by English or German trade standards, the number would be very small indeed. Engineers emigrate from Germany to England. Men of that class rarely come to this country, or, if they come, they come under special contracts, or soon return. Each country, spite of all taxes and other devices, gets the class of men for which its industrial condition offers the best chances. The only thing the tariff does in the matter is to take from those who have an advantage here a part of that advantage. ✓

4. PROTECTIONISM IS SOCIALISM.

106. To simply give protectionism a bad name would be to accomplish very little. When I say that protectionism is socialism I mean to classify it and bring it not only under the proper heading but into relation with its true affinities. (*Socialism is any device or doctrine whose aim is to save individuals from any of the difficulties or hardships of the struggle for existence and the competition of life by the intervention of "the State."*) Inasmuch as "the State" never is or can be any thing but some other people, socialism is a device for making some people fight the struggle for existence for others. The devices always have a doctrine

the absolute fact that over what social class means

behind them which aims to show why this *ought* to be done.

107. The protected interests demand that they be saved from the trouble and annoyance of business competition, and that they be assured profits in their undertakings, by "the State," that is, at the expense of their fellow-citizens. If this is not socialism, then there is no such thing. If employers may demand that "the State" shall guarantee them profits, why may not the employés demand that "the State" shall guarantee them wages? If we are taxed to provide profits, why should we not be taxed for public workshops, for insurance to laborers, or for any other devices which will give wages and save the laborer from the annoyances of life and the risks and hardships of the struggle for existence? The "we" who are to pay changes all the time, and the turn of the protected employer to pay will surely come before long. The plan of all living on each other is capable of great expansion. It is, as yet, far from being perfected or carried out completely. The protectionists are only educating those who are as yet on the "paying" side of it, but who will certainly use political power to put them-

selves also on the "receiving" side of it. The argument that "the State" must do something for me because my business does not pay, is a very far-reaching argument. If it is good for pig iron and woollens, it is good for all the things to which the socialists apply it.

CHAPTER IV.

SUNDRY FALLACIES OF PROTECTIONISM.

108. I can now dispose rapidly of a series of current fallacies put forward by the protectionists. They generally are fanciful or far-fetched attempts to show some equivalent which the taxpayer gets for his taxes.

(A). That infant industries can be nourished up to independence and that they then become productive.

109. I know of no case where this hope has been realized, although we have been trying the experiment for nearly a century. The weakest infants to-day are those whom Alexander Hamilton set out to protect in 1791. As soon as the infants begin to get any strength (if they ever do get any) the protective system forces them to bear the burden of other infants, and so on forever. The system superinduces hydrocephalus on the infants, and instead of ever growing to maturity,

the longer they live, the bigger babies they are. It is the system which makes them so, and on its own plan it can never rationally be expected to have any other effect. (See further, under the next fallacy, § 111, fg.)

110. Mill * makes a statement of a case, as within the bonds of conceivability, where there might be an advantage for a young country to protect an infant industry. He is often quoted without regard to the limitation of his statement, as if he had affirmed the general expediency of protection in new countries and for infant industries. It amounts to a misquotation to quote him without regard to the limitations which he specified. The statement which he did make is mathematically demonstrable.† The doctrine so developed is very familiar in private enterprise. A business enterprise may be started which for some years

* Bk. V., ch. 10, § 1.

† It has been developed mathematically by a French mathematician (*Journal des Economistes*, Aug. and Sept., 1873, pp. 285 and 464). Let a be the mean annual loss by the tax so long as it lasts in order to start the industry. Let b be the mean annual gain by the industry after it is started. Let x be the years that the tax is to last. The losses and gains must be capitalized at their present worth. The present worth of the losses is the sum of the series,

$$a \cdot \frac{a}{(1+r)} \cdot \frac{a}{(1+r)^2} \cdot \dots \cdot \frac{a}{(1+r)^{x-1}}$$

will return no profits or will occasion losses, but which is expected later to recoup all these. *What are the limits within which such an enterprise can succeed?* It must either call for sinking capital only for a short period (like building a railroad or planting an orange grove), or it must promise enormous gains after it is started (like a patented novelty). The higher the rate of interest, as in any new country, the more stringent and narrow these conditions are. Mill said that it was conceivable that a case of an industry might occur in which this same calculation might be applied to a protective tax. If, then, any body says that he

The present worth of the gains forever is the sum of the infinite series,

$$\frac{b}{(1+r)^x} \cdot \frac{b}{(1+r)^{x+1}} \cdot \dots \cdot 0$$

Putting one of these sums equal to the other we get

$$x = \frac{\log. \left(\frac{b}{a} + 1 \right)}{\log. (1+r)}$$

In this expression let r be six per cent., give various values to x , and derive the ratio $\frac{b}{a}$. It then appears that, if the tax lasts *five* years, the mean annual gains *forever* must be one-third of the mean annual losse: in order that there may be neither gain nor loss from the experiment. If the tax lasts ten years the gains forever must be 80 per cent of the losses for that period; 25 years, 329 per cent; 100 years, 33,900 per cent,

can offer an industry which meets the conditions, let it be examined to see if it does so. If protection is never applied until such a case is offered, it will never be applied at all. A thing which is mathematically conceivable is one which is not absurd; but a thing which is practically possible is quite another thing. For myself, I strenuously dissent from Mill's doctrine even as he limits it. In the first place the state can not by taxes work out an industrial enterprise of a character such that it, as any one can see, *demand the most intense and careful oversight by persons whose capital is at stake in it*, and, in the second place, the state would bear the loss, while it lasted, but private interests would take the gain after it began.

(B.) *That protective taxes do not raise prices but lower prices.*

III. To this it is obvious to reply: what good can they then do toward the end proposed? Still it is true that, under circumstances, protective taxes do lower prices. The protectionist takes an infant industry in hand and proposes to rear it by putting on taxes to ward off competition, and by giving it more profits than the

world's market price would give. This raises the price. But the consumer then raises a complaint. The protectionist turns to him and promises that by and by there will be "overproduction," and prices will fall. This arrives in due time, for every protected industry is organized as a more or less limited monopoly, and a monopoly which has overproduced its market, *at the price which it wants*, is the weakest industry possible (§ 24). The consumer now wins, but a wail from the cradle calls the protectionist back to the infant industry which is in convulsions from "overproduction." Some of the infants die. This gives a new chance to the others. They combine for more effective monopoly, put the prices up again by limiting production, and go on until "overproduction" produces a new collapse. This is another reason why infants never win vitality. The net result is that the market is in constant alternations of stringency and laxity, and nothing at all is gained.

112. Whenever we talk of prices *it should be noticed that our statements involve money*—the rate at which goods exchange for money. If then we want to raise prices, we must *restrict the supply* of goods, so that on the doctrine of money

also we shall come to the same result as before, that protective taxes lessen production and diminish wealth.

113. The problem of managing any monopoly is to dose the market with just the quantity which it will take at the price which the monopolist wants to get. In a qualified monopoly, that is, one which is shared by a number of persons, the difficulty is to get agreement about the management. They may not have any communication with each other and may compete. If so they will overdose the market and the price will fall. Then they meet, to establish communication; form an "association," to get harmonious action, and agree to divide the production among them and limit and regulate it, to prevent the former mistake and restore prices (§ 24).

(C.) That we should be a purely agricultural nation under free trade.

114. A purely agricultural nation covering a territory as large as that of the United States is inconceivable. The distribution of industries now *inside* the United States is a complete proof that no such thing would come to pass,

for we have absolute free trade inside, and manufactures are growing up in the agricultural states just as fast as circumstances favor, and just as fast as they can be profitably carried on. Under free trade there would be a subdivision of cotton, woollen, iron and other industries, and we should both export and import different varieties and qualities of these goods. The southern states are now manufacturing coarse cottons in competition with New England. The western states manufacture coarse woollens, certain grades of leather and iron goods, etc., in competition with the East. Here we see the exact kind of differentiation which would take place under free trade, and we can see the mischief of the tariff, whether on the one hand it strikes a whole category with the same brutal ignorance, or tries, by cunning sub-classification, to head off every effort to save itself which the trade makes.* If, however, it was conceivable that we should become a purely agricultural nation, the only legitimate inference would be that our whole population could be better supported in that way than in any other. If there

* See a fallacy under this head: Cunningham, Growth of English Industry, 410, note.

was a greater profit in something else some of them would go into it.

(D.) That communities which manufacture are more prosperous than those which are agricultural.

115. This is as true as if it should be said that all tall men are healthy. It would be answered that some are and some are not; that tallness and health have no connection. Some manufacturing communities are prosperous and some not. The self-contradiction of protectionism appears in one of its boldest forms in this fallacy. We are told that manufactures are a special blessing. The protectionist says that he is going to give us some. Instead of that he makes new demands on us, lays a new burden on us, gives us nothing but more taxes. He promises us an income and increases our expenditure; promises an asset and gives a liability; promises a gift and creates a debt; promises a blessing and gives a burden. The very thing which he boasts of as a great and beneficial advantage gives us nothing, but takes from us more. Prosperity is no more connected with one form of industry than another. If it were so, some of mankind would have, by nature, a per-

manently better chance than others, and no one could emigrate to a new, that is agricultural country, without injuring his interests. The world is not made so.

(E.) That it is an object to diversify industry, and that nations which have various industries are stronger than others which have not various industries.

116. It is not an object to diversify industry, but to multiply and diversify our satisfactions, comforts; and enjoyments. If we can do this by unifying our industry, in greater measure than by diversifying it, then we should do, and we will do, the former. It is not a question to be decided *à priori*, but depends upon economic circumstances. If a country has a supremacy in some one industry it will have only one. California and Australia had only one industry until the gold mines declined in productiveness, that is, until their supreme advantage over other countries was diminished: they began to diversify when they began to be less well off. The oil region of Pennsylvania has a chance of three industries, the old farming industry, coal, and oil. It will have only

one industry so long as oil gives chances superior to those enjoyed by any other similar district. When it loses its unique advantage by nature it will diversify. The "strongest" nation is the one which brings products into the world's market which are of high demand, but which cost it little toil and sacrifice to get; for it will then have command of all the good things which men can get on earth at little effort to itself. Whether the products which it offers are one or numerous is immaterial. All the tariff has to do with it is that when the American comes into the world's market with wheat, cotton, tobacco, and petroleum, all objects of high demand by mankind and little cost to him, it forces him to forego a part of his due advantage. (§§ 125, 134.)

(F.) That manufactures give value to land.

117. This doctrine issued from the Agricultural Bureau. It has been thought a grand development of the protectionist argument. It is a simple logical fallacy based on some misconstrued statistics. The value of land depends on supply and demand. The demand for land is population. Hence where the population is dense the value

of land is great. Manufactures can be carried on only where there is a supply of labor, that is, where the population is dense. Hence high value of land and manufacturing industry are common results of dense population. The statistician of the Agricultural Bureau connected them with each other as cause and effect, and the *New York Tribune* said that it was the grandest contribution to political economy since "the fingers of Horace Greeley stiffened in death;" which was true.

118. If manufactures spring up spontaneously out of original strength, and by independent development, of course they "add value to land," that is to say, the district has new industrial power and every interest in it is benefited; but, if the manufactures have to be protected, paid for, and supported, they do not do any good as manufactures, but only as a device for drawing capital from elsewhere, as tribute. In this way, protective taxes do alter the comparative value of land in different districts. This effect can be seen under some astonishing phases in Connecticut and other manufacturing states. The farmers are taxed to hire some people to go and live in manu-

facturing villages and carry on manufacturing there. This displacement of population, brought about at the expense of the rural population, diminishes the value of agricultural land and raises that of city land right here within the same state. The hill side population is being impoverished, and the hill-side farms are being abandoned on account of the tribute levied on them to swell the value of mill sites and adjoining land in the manufacturing towns. (§§ 120, 137.)

(G.) That the farmer, if he pays taxes to bring into existence a factory, which would not otherwise exist, will win more than the taxes by selling farm produce to the artisans.

119. This is an arithmetical fallacy. It proposes to get three pints out of a quart. The farmer is out for the tax and the farm produce and he can not get back more than the tax because, if the factory owes its existence to the protective taxes, it can not make any profit outside of the taxes. The proposition to the farmer is that he shall pay taxes to another man who will bring part of the tax back to buy produce with it. This is to make the farmer rich. The man who owned stock

in a railroad and who rode on it, paying his fare, in the hope of swelling his own dividends, was wise compared with a farmer who believes that protection can be a source of gain to him.

120. Since, as I have shown (§ 101), protective taxes act like a reduction in the fertility of the soil, they lower the "margin of cultivation," and raise rent. They do not, however, raise it in favor of the agricultural land owner, for, by the displacement just described, they take away from him to give to the town land owner. Of course, I do not believe that the protective taxes have really lowered the margin of cultivation in this country, for they have not been able to offset the greater richness of the newest land, and the advance in the arts. What protection costs us comes out of the exuberant bounty of nature to us. Still I know of very few who could not stand it to be a great deal better off than they are, and the New England farmer is the one who has the least chance, and the fewest advantages, with which to endure protection.

(H.) *That farmers gain by protection, because it draws so many laborers out of competition with them.*

121. Since the farmers pay the taxes by which this operation is supposed to be produced, a simple question is raised, viz., how much can one afford to pay to buy off competition in his business? He can not afford to pay any thing unless he has a monopoly which he wants to consolidate. Our farmers are completely open to competition on every side. The immigration of farmers every three or four years exceeds all the workers in all the protected trades. Hence the farmers, if they take the view which is recommended to them, instead of gaining any ground, are face to face with a task which gets bigger and bigger the longer they work at it. If one man should support another in order to get rid of the latter's competition as a producer, that would be the case where the tax payer supports soldiers, idle pensioners, paupers, etc. A protected manufacturer, however, by the hypothesis, is not simply supported in idleness, but he is carrying on a business the losses of which must be paid by those

who buy off his competition in their own production. On the other hand, when farmers come to market, they are in free competition with several other sources of supply. Hence, if they did any good to agricultural industry by hiring the artisans to go out of competition with them, they would have to share the gain with all their competitors the world over while paying all the expense of it themselves.

122. The movement of men over the earth and the movement of goods over the earth are complementary operations. Passports to stop the men and taxes to stop the goods would be equally legitimate. Since it is, once for all, a fact that some parts of the earth have advantages for one thing and other parts for other things, men avail themselves of the local advantages either by moving themselves to the places, or by trading what they produce where they are for what others produce in the other places. The passenger trains and the freight trains are set in motion by the same ultimate economic fact. Our exports are all bulky and require more tonnage than our imports. On the westward trip, consequently, bunks are erected and men are brought in space where

cotton, wheat, etc., were taken out. The tariff, by so much as it lessens the import of goods, leaves room which the ship owners are eager to fill with immigrants. To do this they lower the rates. Hence the tariff is a premium on immigration. The protectionists have claimed that the tariff does favor immigration. But nine-tenths of the immigrants are laborers, domestic servants, and farmers.* Probably more than one-third of the total number, including women, find their way to the land. As we have seen, the tariff also lowers the profits of agriculture, which discourages immigration and the movement to the land. Therefore, if the farmer believes what the protectionist tells him, he must understand that the taxes he pays bring in more people, and raise the value of land by settling it, and that they also bring more compe-

* IMMIGRATION IN 1884.

	Males.	Females.	Total
Professional occupations...	2,184	100	2,284
Skilled occupations.....	50,905	4,156	55,061
Occupations not stated.....	19,778	11,887	31,665
No occupation.....	75,483	169,904	245,387
Miscellaneous occupations	160,159	24,036	184,195
Total.....	308,509	210,083	518,592

Under miscellaneous were 106,478 laborers and 42,050 farmers.

tition, which the farmer must buy off by lowering the profits of his own (the farming) industry. Then, too, so far as the immigrants are artisans, the premium on immigration is a tax paid to increase the supply of labor, that is, to lower wages, although the protectionists say that the tariff raises wages. Hence we see that when a tax is laid, in our modern complicated society, instead of being a simple and easy means or method to be employed for a specific purpose, its action and reaction on transportation, land, wages, etc., will produce erratic, contradictory, and confused effects, which can not be predicted or analyzed thoroughly, and the protectionist, when he pleads three or four arguments for his system, is alleging three or four features of it which, if properly analyzed and brought together, are found to be mutually destructive, and cumulative only as to the mischief they do. (See §§ 29, 101.)

(I.) *That our industries would perish without protection.*

123. Those who say this think only of manufacturing establishments as "industries." They also talk of "our" industries. They mean

those we support by the taxes we pay; not those from which we get dividends. No industry will ever be given up except in order to take up a better one, and if, under free trade, any of our industries should perish, it would only be because the removal of restrictions enabled some other industry to offer so much better rewards that labor and capital would seek the latter. It is plain that, if a man does not know of any better way to earn his living than the one in which he is, he must remain in that, or move to some other place. If any one can suppose that the population of the United States could be forced, by free trade, to move away, he must suppose that this country can not support its population, and that we made a mistake in coming here. This argument is especially full of force if the articles to be produced are coal, iron, wool, copper, timber, or any other primary products of the soil. For, if it is said that we can not raise these products of the soil in competition with some other part of the earth's surface, all it proves is that we have come to the wrong spot to seek them. If, however, the soil can support the population under an arrangement by which cer-

tain industries support themselves, and those which do not pay besides, then it is plain that the former are really supporting the whole population,—part directly and part indirectly, through a circuitous and wasteful organization. Hence the same strong and independent industries could certainly still better support the whole population, if they supported it directly.

124. I have been asked whether we should have had any steel-works in this country, if we had had no protection. I reply that I do not know; neither does any body else, but it is certain that we should have had a great deal more steel, if we had had no protection.

125. "But," it is said, "we should import every thing." Should we import every thing and give nothing? If so, foreigners would make us presents and support us. Should we give equal value in exchange? If so, there would be just as much "industry" and a great deal less "work" in that way of getting things than in making them ourselves. The moment that ceased to be true we should make and not buy. Suppose that a district, A, has two million inhabitants, one million of whom produce a million bushels of wheat, and

one million produce a million hundred weight of iron; and suppose that a bushel of wheat exchanges for a hundred weight of iron. Now, by improved transportation and emigration, suppose that a new wheat country, B, is opened, and that its people bring wheat to the first district, offering two bushels for a hundred weight of iron. Plainly they must offer more than one bushel for one hundred weight, or it is useless for them to come. Now the people of A, by putting all their labor and capital in iron production, produce two million hundred weight. They keep one million hundred weight, and exchange one million hundred weight of iron for two million bushels of wheat. The destruction of their wheat industry is a sign of a change in industry (unifying and not diversifying) by which they have gained a million bushels of wheat. Such is the gain of all trade. If the gain did not exist trade would not be a feature of civilization,

(J.) *That it would be wise to call into existence various industries, even at an expense, if we could thus offer employment to all kinds of artisans, etc., who might come to us.*

126. This would be only maintaining public workshops at the expense of the taxpayers, and would be open to all the objections which are conclusive against public workshops. The expense would be prodigious, and the return little or nothing. This argument shows less sense of comparative cost and gain than any other which is ever proposed.

(K.) *That we want to be complete in ourselves and sufficient to ourselves, and independent, as a nation, which state of things will be produced by protection.*

127. I will only refer to what I have already said about China and Japan (§ 69) as types of what this plan produces. If a number of families from among us should be shipwrecked on an island, their greatest woe would be that they could not trade with the rest of the world. They might live there "self-contained" and "independent,"

fulfilling the ideal of happiness which this proposition offers, but they would look about them to see a surfeit of things, which, as they know, their friends at home would like to have, and they would think of all the old comforts which they used to have, and which they could not produce on their island. They might be contented to live on there and make it their home, if they could exchange the former things for the latter. If now a ship should chance that way and discover them and should open communication and trade between them and their old home, a protectionist philosopher would say to them: "You are making a great mistake. You ought to make every thing for yourselves. The wise thing to do would be to isolate yourselves again by taxes as soon as possible." We sent some sages to the Japanese to induct them into the ways of civilization, who, as a matter of fact, did tell them that the first step in civilization was to adopt a protective tariff and shut up again by taxes the very ports which they had just opened.

(L.) *That protective taxes are necessary to prevent a foreign monopoly from getting control of our market.*

128. It is said that English manufacturers once combined to lower prices in order to kill out American manufactures, and that they then put up their prices to monopoly rates. If they did this, why did not their other customers send to the United States and buy the goods here in the first instance, and why did not the Americans go and buy the goods of the Englishmen's other customers in the second instance? If the Englishmen put down their prices for their whole market in the first instance, why did they not incur a great loss? and, if they raised it for their whole market in the second instance, why did they not yield the entire market to their competitors? The Englishmen are said to be wonderfully shrewd, and are here credited with the most stupid and incredible folly.

129. The protective system puts us certainly in the hands of a home monopoly for fear of the impossible chance that we may fall into the hands of a foreign monopoly. Before the war

we made no first quality thread. We got it at four cents a spool (retail) of an English monopoly. Under the tariff we were saved from this by being put into the hands of a home monopoly which charged five cents a spool. In the meantime the foreign monopoly lowered thread to three cents a spool (retail) for the Canadians, who were at its mercy. Lest we should have to buy nickel of a foreign monopolist, Congress forced us to buy it of the owner of the only mine in the United States, and added thirty cents a pound to any price the foreigner might ask.

(M.) That free trade is good in theory but impossible in practice ; that it would be a good thing if all nations would have it.

130. That a thing can be true in theory and false in practice is the most utter absurdity that human language can express. For, if a thing is true in practice (protectionism, for instance) the theory of its truth can be found, and that theory will be true. But it was admitted that free trade is true in theory. Hence two things which are contradictory would both be true at the same time about the same thing. The

fact is, that *protectionism is totally impracticable*. It does not work as it is expected to work; it does not produce any of the results which were promised from it; it is never properly and finally established to the satisfaction of its own votaries. They can not let it alone. They always want to "correct inequalities," or revise it one way or another. It was they who got up the Tariff Commission of 1882. Their system is not capable of construction so as to furnish a normal and regular status for industry. One of them said that the tariff would be all right if it could only be made stable; another said that it ought to be revised every two years. One said that it ought to include every thing; another said that it would be good "if it was only laid on the right things."

131. If all nations had free trade, no one of them would have any special gain from it, just as, if all men were honest, honesty would have no commercial value. Some say that a man can not afford to be honest unless every body is honest. The truth is that, if there was one honest man among a lot of cheats, his character and reputation would reach their maximum value. So the nation which has free trade when the others do

not have it, gains the most by comparison with them. It gains while they impoverish themselves. If all had free trade all would be better off, but then no one would profit from it more than others. If this were not true, if the man who first sees the truth and first acts wisely did not get a special premium for it, the whole moral order of the universe would have to be altered, for no reform or improvement could be tried until unanimous consent was obtained. If a man or a nation does right, the rewards of doing right are obtained. They are not as great as could be obtained if all did right, but they are greater than those enjoy who still do wrong.

(N.) *That trade is WAR, so that free trade methods are unfit for it, and that protective taxes are suited to it.*

132. It is evidently meant by this that trade involves a struggle or contest of competition. It might, however, as well be said that practicing law is war, because it is contentious; or that practicing medicine is war, because doctors are jealous rivals of each other. The protectionists do, however, always seem to think of trade

as commercial war. One of them was reported to have said in a speech in the late campaign, that nations would not fight any more with guns but with taxes. The nations are to boycott each other. One would think that the experience our southerners made of that notion in the civil war, upon which they entered in the faith that "cotton is king," would have sufficed to banish forever that antique piece of imbecility, a commercial war. If trade is war, all the tariff can do about it is to make A fight B's battles, although A has his own battles to fight besides.

(O.) That protection brings into employment labor and capital which would otherwise be idle.

133. If there is any labor or capital which is idle that fact is a symptom of industrial disease; especially is this true in the United States. If a laborer is idle he is in danger of starving to death. If capital is idle it is producing nothing to its owner, who depends on it, and is suffering loss. Therefore, if labor or capital is idle, some antecedent error or folly must have produced a stoppage in the industrial organization. The cure is, not to lay some more taxes, but to find the error and cor-

rect it. If then things are in their normal and healthy condition, the labor and capital of the country are employed as far as possible under the existing organization. We are constantly trying to improve our exchange and credit systems so as to keep all our capital all the time employed. Such improvements are important and valuable, but to make them costs more thought and skillful labor than to invent machines. Hence Congress can not do that work by discharging a volley of taxes at selected articles, and leaving those taxes to find out the proper points to affect, and to exert the proper influence. It takes intelligent and hard working men to do it. The faith that any thing else can do it is superstition.

(P.) That a young nation needs protection and will suffer some disadvantage in free exchange with an old one.

134. The younger a nation is the more important trade is to it (cf. § 127, fg). The younger a nation is the more it wins by trade, for it offers food and raw materials which are objects of greatest necessity to old nations. The things England buys of us are far more essential to her

than what she buys of France or Germany. The strong party in an exchange is not the rich party, or the old party, but the one who is favored by supply and demand,—the one who brings to the exchange the thing which is more rare and more eagerly wanted.* If a poor woman went into Stewart's store to buy a yard of calico, she did not have to pay more because Stewart was rich. She paid less because he used his capital to serve her better and at less price than any body else could. England takes 60 per cent. of all our exports. We sell, 1st, wheat and provisions, prime articles of food; 2d, cotton, the most important raw material now used by mankind; 3d, tobacco, the most universal luxury and the one for which there is the intensest demand; 4th, petroleum, the lighting material in most universal use. These are things which are rare and of high demand. We are, therefore, strong in the market. Protection only robs us of part of our advantage (§ 116).

(Q.) That we need protection to get ready for war.

135. We have no army, or navy, or fortifications

* See a fallacy under this point: Cunningham, Growth of English Industry, 410 note.

worth mentioning. We are wasting more by protective taxes in a year than would be necessary to build a first-class navy and fortify our whole sea-coast. It is said that, in some way, the taxes get us ready for war, and yet in fact we are not ready for war. It is plain that this argument is only a pretense put forward to try to cover the real motives of protection. If we prefer to go without army, navy, and fortifications, as we now do, then the best way to get ready for war, consistently with that policy, is *to get as rich as we can*. Then we can count on buying any thing in the world which any body else has got, which we need. Protection, then, which lessens our wealth, is only diminishing our power for war.

(R.) That protectionism produces some great moral advantages.

136. It is a very suspicious thing when a man who sets out to discuss an economic question shifts over on the "moral" ground. Not because economics and morals have nothing to do with each other. On the contrary, they meet at a common boundary-line, and, when both are sound, straight and consistent lines run from one

into the other. Capital is the first requisite of all human effort for goods of any kind, and the increase of capital is therefore the expansion of *chances* that intellectual, moral, and spiritual good may be won. The moral question is: How will the chances be used? If then the economic analysis shows that protective taxes lessen capital, it follows that those taxes lessen the regular chances for all higher good.

137. It is argued that hardship disciplines a man and is good for him; hence, that the free-traders, who want people to do what is easiest, would corrupt them, and that protectionists, by "making work," bring in salutary discipline for the people. This is the effect upon those who pay the taxes. The counter operation on the beneficiaries of the system I have never seen developed. Bastiat said that the model at which the protectionist was aiming, was Sisyphus, who was condemned in Hades to roll a stone to the top of a hill, from which, as soon as he got it there, it rolled down again to the bottom. Then he rolled it up again, and so on to all eternity. Here then was infinity of effort, zero of result; the ultimate type to which the protectionist system would

come. Somebody pitied Sisyphus, to whom he replied: "Thou fool! I enjoy everlasting hope!" If Sisyphus could extract moral consolation from his case, I am not prepared to deny but that a New England farmer, ground between the upper mill-stone of free competition, in his production, with the Mississippi Valley, and the nether mill-stone of protective taxes on all his consumption, may derive some moral consolation from his case. There are a great many people who are apparently ready to inflict salutary chastisement on the American citizen for his welfare—and their own advantage.

138. The protectionist doctrine is that *if my earnings are taken from me and given to my neighbor, and he spends them on himself, there will be important moral gains to the community which will be lost if I keep my own earnings, and spend them on myself.* The facts of experience are all to the contrary. When a man keeps his own earnings he is frugal, temperate, prudent, and honest. When he gets and lives on another man's earnings, he is extravagant, wasteful, luxurious, idle, and covetous. The effects on the community in either case correspond.



139. The truth is that protectionism demoralizes and miseducates a people (§§ 89, 153, 155). It deprives them of individual self-reliance and energy, and teaches them to seek crafty and unjust advantages. It breaks down the skill of great merchants and captains of industry, and develops the skill of lobbyists. It gives faith in monopoly, combinations, jobbery, and restriction, instead of giving faith in energy, free enterprise, public purity and freedom. Illustrations of this occur all the time. Objection has been made to the introduction of machines to stop the smoke nuisance because they would interfere in the competition of anthracite and bituminous coal. People have resisted the execution of ordinances against gambling-houses because said houses "make trade" for their neighbors. The theater men recently made an attempt to get regulations adopted against skating rinks,—purely on moral grounds. The industries of the country all run to the form of combinations.* Our wisdom is developed, not in the great art of production, but in

* See an interesting collection of illustrations in an article on "Lords of Industry" in the *North American Review* for June, 1884. The futile criticisms at the end of the article do not affect the value of the facts collected.

the tactics of managing a combination, and while we sustain all the causes and all the great principles of this system of business we denounce "monopoly" and "corporations."

(S.) *That a "worker may gain more by having his industry protected than he will lose by having to pay dearly for what he consumes. A system which raises prices all round—like that in the United States at present—is oppressive to consumers, but is most disadvantageous to those who consume without producing any thing, and does little, if any, injury to those who produce more than they consume."*

140. This is an English contribution to the subject dropped in passing by a writer on economic history.* It is a note-worthy fact that the "historical economists" and others who deride political economy as a science do not desist from it, but at once set to work to make very bad political economy of the "abstract" or "deductive" sort. The passage quoted involves three or four fallacies already

* Cunningham, *Growth of English Industry and Commerce*, 316, note 2. (See also §§ 114, 134.)

noticed, and an assumption of the truth of protectionism as a philosophy. As we have abundantly established, "workers" gain nothing by protection in their production (§ 48.) Also, "a system which raises prices all around" must either lessen the demand and requirement for money, *i. e.*, restrict business and the supply of goods (§ 112), or it must increase the amount of money. In the former case it could not but injure "workers;" in the latter case we should find ourselves dealing with a greenback fallacy. But passing by that, who are they who consume more than they produce? I can think only of 1) princes, pensioners, sinecurists, protected persons, and paupers, who draw support from taxes, and 2) swindlers, confidence men and others who live by their wits on the produce of others. Those under 1), if they receive fixed money grants or subsidies, find an advance in price most disadvantageous. So the protected, of course, as consumers of others' products, when they spend what they have received by protection, suffer. Who are they who produce more than they consume? I can think only of 1) tax-payers, and 2) victims of fraud and of those economic

errors which give one man's earnings to another's use. Rise in price is just as advantageous to this class as it was disadvantageous to the other, on the same hypothesis, viz., if they pay fixed money taxes to the parasites, and can sell their products for more money. Evidently the writer did not understand correctly what his two classes consisted of, and he put the protected "workers" in the wrong one. If in industry a person should produce more than he consumes, he could give it away, or it would decay on his hands. If he should consume more than he produced, he would run in debt and become bankrupt.* Protection has nothing to do with that.

(T.) That "*a duty may at once protect the native manufacturer adequately, and recoup the country for the expense of protecting him.*"

141. This is Professor Sidgwick's doctrine.† It has given great comfort to our protectionists because it is put forward by an Englishman and a Cambridge professor. It is offered under the "art" of political economy. It is a new thing;

* Mill's Political Economy, bk. I, ch. 5, § 5. Cairnes, Leading Principles, chap. I, § 5.

† Political Economy, 491-2.

an *à priori* art. The "may" in it deprives it of the character of a doctrine or dogma such as our less cultivated protectionists give us: "Protective taxes come out of the foreigner," but it is not a maxim of art. It has the air of a very astute contrivance (see § 3), and is therefore very captivating to many people, and it is very difficult to dissect and to expose in a simple and popular way. It has therefore given great trouble and done great mischief. It is, however, a complete error. It is not possible in any way or in any degree to use duties so as to make the foreigner pay for protection.

142. Professor Sidgwick states the hypothetical case which he sets up to prove by illustration that there "may" be such a case, as follows: "Suppose that a five per cent. duty is imposed on foreign silks, and that, in consequence, after a certain interval, half the silks consumed are the product of native industry, and that the price of the whole has risen $2\frac{1}{2}$ per cent. It is obvious that, under these circumstances, the other half which comes from abroad yields the State five per cent., while the tax levied from the consumers on the whole, is only $2\frac{1}{2}$ per cent.; so that the nation,

in the aggregate, is at this time losing nothing by protection, except the cost of collecting the tax, while a loss equivalent to the whole tax falls on the foreign producer."

143. It is necessary, in the first place, to complete the hypothesis which is included in this case. Let us assume that the consumption of silk, when all was imported, was 100 yards and that the price was \$1.00 per yard. Then the following points are taken for granted although not stated in the case as it is put: 1) That the state needs \$5 revenue; 2) that it has determined to get this out of *the consumers of silk*; 3) that the advance in price does not diminish the consumption; 4) that the tax forces a reduction of price for the silk in the whole outside market; 5) that the "*silk*" in question is the same thing after the tax is laid as before. Of these assumptions, 3, 4, and 5 are totally inadmissible, but, if they be admitted in the first instance, and if the doctrine of the case which is put be deduced, it is this: If the part imported multiplied by the tax is equal to the total consumption multiplied by the advance in price, the consumers can pay the latter in protection, for it is equal to the

former, and the former, which is paid to the government by the foreigner, is what the consumers of silk must otherwise have paid.

144. Obviously this deduction is arithmetically incorrect, even on the hypothesis. In the first place, the government has not obtained \$5 revenue which it needed, but \$2.50 (5 cts. on 50 yards). In the second place, the foreigner sells at \$1.02½ (net 97½) the silk which he used to sell for \$1.00. He therefore gets back from the consumers 2½ cts. per yard on 50 yards, or \$1.25 out of the \$2.50 which he has paid to the government. Also, the domestic silk to compete must be equal to the dollar imported silk which now sells for \$1.02½. Hence, the consumers really pay in protection only 2½ cts. on 50 yards, *i. e.* \$1.25. This case then is, that the foreigner pays \$1.25 revenue, and the consumers pay \$1.25 revenue and \$1.25 protection. Hence the result is not at all what is asserted, and there is no such operation of the contrivance as was expected. But the government needs \$2.50 more revenue, the operation of its tax having been interfered with by protection. As there is no equivalence or compensation in the case as it already stands, it

is evident that the effect of any further tax, instead of bringing about equivalence or compensation, will be to depart from such a result still further.

145. It is, however, impossible to admit assumptions 3, 4, and 5 above, or to deal with any economic problem by any arithmetical process. The result above reached is totally incorrect and only serves to clear the ground for a correct analysis. The producer may have to bear part of a tax, if he is under the tax jurisdiction, or if he has a monopoly. If he has no monopoly, and is not under the tax jurisdiction, and works for the world's market, he can not lower his price in order to assume part of the tax. What he does is that he differentiates his commodity. This is the fact in the art of production which is established by abundant experience. It is the explanation of the constant complaint, under the protective system, of "fraud" and of the constant demand for sub-classification in the tariff schedules. The protected product never is, at least at first, as good in quality as the imported article which it aims to supersede. Hence the foreigner, if he desires to retain the

protected market, can prepare a special quality for that market. The "silk" after the tax is laid is not the same silk as before. It nets to the foreign producer $97\frac{1}{2}$ cents, and pays him business profits at that price. Therefore when he sells it at $\$1.02\frac{1}{2}$ he gets back the whole tax from the consumers. The domestic silk sold at $\$1.02\frac{1}{2}$ is no better than might have been obtained for $97\frac{1}{2}$ cents. Hence the consumers are paying a tax for protection which is full and equal to the revenue rate. The fact that the price has fallen to $\$1.02\frac{1}{2}$, and is not $\$1.05$, evidently proves that instead of disproving it, as many believe.

146. Thus this case falls to pieces. It gains a momentary plausibility from the erroneous assumptions which are implicit in it. The foreign producer may suffer a narrowing of his market and a reduction of his aggregate profits, but there is no way to make him tributary (unless he has a monopoly) either to the treasury or the protected interests of the taxing country.* If it was true in general, or in any limited number of cases, that

* I published a criticism of this case in the *London Economist*, Dec. 1, 1883.

a country which lays protective taxes can make foreigners pay those taxes, then England, which has had no protective taxes since (say) 1850, and has been surrounded by countries which have had more or less protective taxes, must have been paying tribute to them all this time and must have been steadily impoverished accordingly.

CHAPTER V.

SUMMARY AND CONCLUSION.

147. I have now examined protectionism impartially on its own grounds, assuming them to be true, and adversely from ground taken against it, and have reviewed a series of the commonest arguments put forward in its favor. If now we return, with all the light we have obtained, to test the assumptions which we found in protectionism, that the people would not organize their industry wisely under liberty, and that protective taxes are the correct device for bringing about a better organization, we find that those two assumptions are totally false and have no semblance of claim upon our confidence. At every step the dogmas of protectionism, its claims, its apparatus, have proved fallacious, absurd, and impracticable. We can now group together some general criticisms of protectionism which our investigation suggests.

148. We have taken the protectionist's own definition of a protective duty, and have found that such a duty, instead of increasing national wealth, must, at every step, and by every incident of its operation, waste labor and capital, lower the efficiency of the national industry, weaken the country in trade, and consequently lower the standard of comfort of the whole population. We have found that protected industries, according to the statement of the protectionists, do not produce, but consume. If then these industries are *the* ones which make us rich, *consumption is production and destruction produces*. The object of a protective duty is "to effect the diversion of a part of the capital and labor of the people out of the channels in which it would run otherwise, into channels favored or created by law" (§ 13). We have seen that the channels *into* which the labor and capital of the people are to be diverted are offered by *the industries which do not pay*. Hence protectionism is found to mean that national prosperity is to be produced by forcing labor and capital into employments where the capital can not be reproduced with the same increase which could be won by it elsewhere. If that is so, then

capital in those employments will be wasted, and the final outcome of our investigation, which must be made the primary maxim of the art of national prosperity under protectionism, is that *Waste makes Wealth.* Such is its outcome when regarded as an economic philosophy.

149. As regards the social and jural relations which are established between citizen and citizen, protectionism is proved by a half-dozen independent analyses of it to be simply a device for forcing us to levy tribute on each other. If the law brings a cent to A it must have taken it from B, or else it must have produced it out of nothing, that is, it must be magic. Every soul pays protective taxes. If then any body gets any thing from them, he needs to remember what they cost him, and *he should insist on casting up both sides of the account.* If any body gets nothing from them, then *he pays the taxes and gets no equivalent.*

150. During the anti-corn-law campaign in England, a writer in the Westminster Review illustrated protectionism by the story of the monkeys in a cage, each of whom received for his dinner a piece of bread. Each monkey dropped his own

piece of bread and grabbed his neighbor's. The consequence was that soon the floor of the cage was strewn with fragments, and each monkey had to make the best dinner he could from these. It is a good and fair illustration. I saw a story recently in a protectionist newspaper about the peasants in the Soudan. Each owns pigeons, and at evening, when the pigeons come home, each tries to entice as many of his neighbor's pigeons as he can into his own pigeon-house. "All of them do the same thing, and therefore each gets caught in his turn. They know this perfectly well, but no Egyptian fellah could resist the temptation of cheating his neighbor." They ought to *tax* each other's pigeons all around. Then they would put themselves at once on the level of free and enlightened Americans. The protectionist assures me that it is for the good of the community and for my good that he should tax me. I reply that, in his language, "these are fine theories," but that whether it is good for the community or not, and whether it is good for me or not, that he should tax me, I can see that it is for his good that he should tax me. Then he says: "Now you are abusive."

✓ 151. *If Protectionism is any thing else than mutual tribute, then it is magic.* The whole philosophy of it comes down to questions like this: How much can I afford to pay a man for hiring me? How much can I afford to pay a man for trading with me? How much can I afford to pay a man to cease to compete with me in my production? How much can I afford to pay a man to go and compete with those who supply me my consumption? It is only *an expensive way to get what we could get for nothing if it was worth having* (§ 89). It is admitted that one man can not lift himself by his boot-straps. Suppose that a thousand men stand in a ring and each takes hold of the other's boot-straps reciprocally and they all lift, can the whole group lift itself as a group? That is what protection comes to just as soon as we have drawn out into light the other side, the *cost side* of it. Whatever we win on one side, we must pay for by at least equal cost on another. The losses will all be distributed as net pure injury to the community. The harm of protection lies here. It is not measured by the tax. *It is measured by the total crippling of the national industry.* We might as well say that it would be a good thing to put snags in the rivers,

to fell trees across the roads, to dull all our tools, as to say that unnecessary taxation could work a blessing. Men have argued that to destroy machines was to do a beneficial thing, and I have recently read an article in a Boston paper, quoting a Massachusetts man who thinks that what we need is another war in the United States. Such men may believe that protective taxes work a blessing, but to those who will see the truth, it is plain that, when the whole effect of the protective system is distributed, it benefits nobody. It is a dead weight and loss upon everybody, and those who think that they win by it would be far better off in a community where no such system existed, but where each man earned what he could and kept what he earned.

152. There is a school of political science in this country in whose deed of foundation it is provided that the professors shall teach how "by suitable tariff legislation, a nation may keep its productive industry alive, cheapen the cost of commodities, and oblige foreigners to sell to it at low prices, while contributing largely toward defraying the expenses of the government."* Is not

* Quoted by Taussig: *History of the Existing Tariff*, 73.

that a fine thing? Those professors ought to likewise provide us a panacea, the philosopher's stone, a formula for squaring the circle, and all the other desiderata of universal happiness. It would be only a trifle for them. The only fear is that they may write the secret which they are to teach in books, and that other nations to whom we are "foreigners," may learn it. Then while Englishmen, Frenchmen, and Germans work for us at low prices and pay our taxes, we shall be forced to work for them at low prices and pay their taxes, and the old somber misery will settle down upon the world again the same as ever.

153. Some years ago we were told that protection was necessary because we had a big debt to pay. Well, we have paid the debt until we have reduced it from \$78.25 per head to \$28.41 per head. We, the people, have also raised our credit until the annual debt charge has been reduced from \$4.29 per head to 95 cents per head. Now it is necessary to keep up the debt in order to keep up the taxes, and protectionism is now most efficient in forcing wasteful and corrupting expenditures to get rid of revenue, lest a surplus should furnish an argument for reducing taxation.

This is right on the doctrine that waste makes wealth.

154. They tell us that protection has produced prosperity, and when we ask them to account for hard times in spite of the tariff, they say that hard times are caused by the free traders who will not keep still. Therefore *the prosperity produced by protection is so precarious that it can be overthrown by only talking about free trade.* They denounce *laissez faire*, or "let alone," but the only question is *when* to let alone, *when* to keep still. They do not let the tariff alone if they want to revise it to suit them, or want to make it "equitable." When they get it "equitable" they will let it alone, but that insures agitation, and makes sure that they will cause it, for an indefinite time to come. On the other hand the victims of the tariff will not keep still. Their time to "let alone" is when it is repealed. If the tariff did not hurt somebody somewhere it would not do any good to any body any where, and the victims will resist.* Mr. Lincoln used to tell a

* Illustrations of this are presented without number. Here is the most recent one: "The [silk] masters [of Lyons, France], look to the government for relief by a reduction of the duty on cotton yarn, or the right to import all numbers duty free for ex-

story about hearing a noise in the next room. He looked in and found Bob and Tad scuffling. "What is the matter, boys?" said he. "It is Tad," replied Bob, "who is trying to get my knife." "Oh, let him have it, Bob," said Mr. Lincoln, "just to keep him quiet." "No!" said Bob, "it is my knife and I need it to keep me quiet." Mr. Lincoln used the story to prove that there is no foundation for peace save truth and justice. Now, in this case, *the man whose earnings are being taken from him needs them to keep him quiet.* Our fathers fought for free soil, and if we are worthy to be their sons we shall fight for free trade, which is the necessary complement of free soil. If a man goes to Kansas to-day and raises corn on "free soil," how does he get the good of it, unless he can exchange that corn for any product of the earth that he chooses on the best terms that the arts and commerce of to-day can give him?

port after manufacture. With the present tariffs, they maintained, which is no doubt true, that they cannot compete with the Swiss and German makers. But the Rouen cotton spinners oppose the demand of the Lyons silk manufacturers, and protest that they will be ruined if the latter are allowed to procure their material from abroad. The Lyons weavers assert that they are being ruined because they cannot."—(*Economist*, 1885, p. 815.) The cotton men won in the Chamber of Deputies, July 23, 1885.

155. The history of civil liberty is made up of campaigns against abuses of taxation. Protectionism is the great modern abuse of taxation; the abuse of taxation which is adapted to a republican form of government. (*Protectionism is now corrupting our political institutions just as slavery used to do, viz., it allies itself with every other abuse which comes up. Most recently it has allied itself with the silver coinage, and it is now responsible, in a great measure, for that calamity. The silver coinage law would have been repealed three years ago, if the silver mining interest had not served notice on the protectionists that that was their share of protection, and the price of their coöperation. The silver coinage is the chief cause of the "hard times" of the last two or three years. In a well ordered state it is the function of government to repress every selfish interest which arises and endeavors to encroach upon the rights of others. The state thus maintains justice. (Under protectionism the government gives a license to certain interests to go out and encroach on others.* It is an iniquity as to the victims of it, a delusion as to its supposed bene-

ficiaries, and a waste of the public wealth. There is only one reasonable question now to be raised about it, and that is, How can we most easily get rid of it?

THE END.

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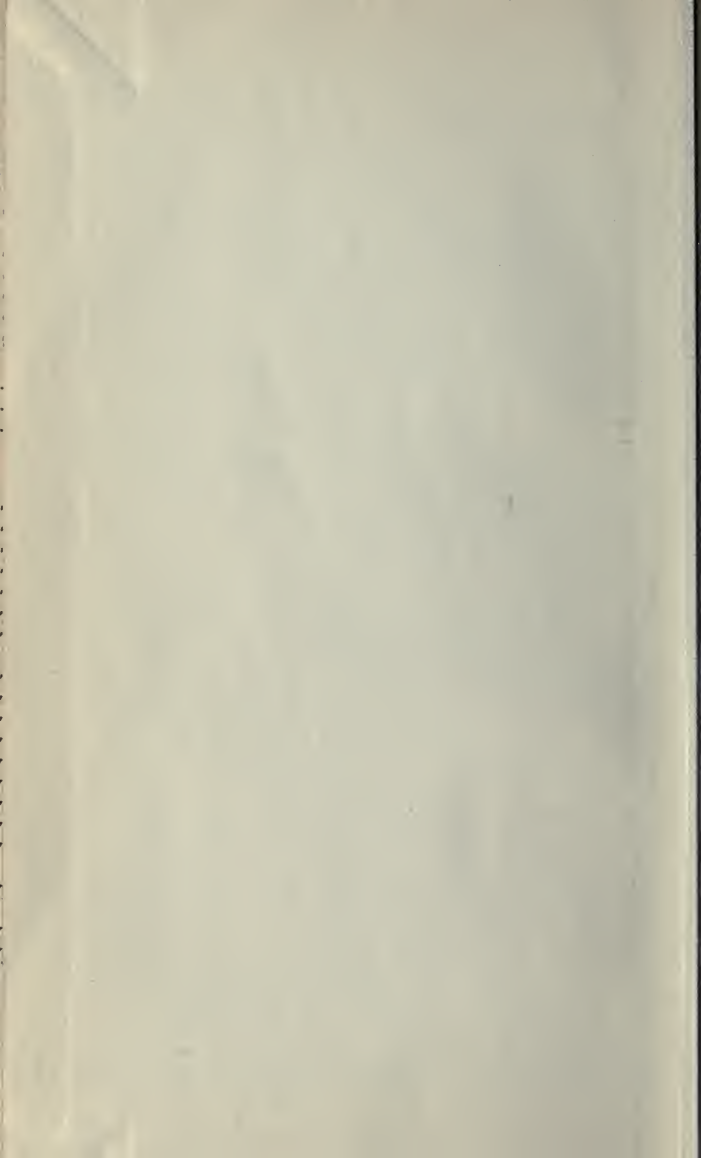
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