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Our Protective Tariff Policy

BY A. L. TINSLEY

Much has been written of late concerning the complete failure of the "old order," the leading feature of which is assumed to have been the practical freedom of business from governmental supervision and interference. In other words, a system under which individual initiative and enterprise—the so-called and much-derided "rugged individualism"—was given full and practically unlimited sway. This is an astonishing assumption, and its very general acceptance is even more amazing. One must wonder what Adam Smith would say were he asked his opinion on this point.

Nothing, however, could be further from the truth. The nearest approach we have ever had to such a system came to an abrupt end more than seventy years ago, not as the result of an economic breakdown due to its shortcomings, but owing to the commencement of the civil war. It was this catastrophe that brought to a close the period of low tariffs that had been in effect for fifteen years, or since 1846, during which it is safe to say that the country was never more generally prosperous nor the people more generally contented.

Not the least of the evils resulting from that conflict is that it was made the occasion and excuse for the imposition of tariff rates far higher than any that had ever been dreamed of before. These rates, followed by others even higher, defended and justified first on one ground and then on another, have ever since continued in effect, except for short intermissions during the administrations of Grover Cleveland and Woodrow Wilson, until today we have the highest tariff rates in our history.

It is to the cumulative effects—world-wide in their extent—of this disastrous policy of governmental interference with the ordinary and otherwise perfectly normal and legitimate business affairs of the individual citizen, that the present economic distress and unparalleled unemployment may be chiefly attributed. When in some respects at least, the greatest nation on earth has set such a pernicious example of unsocial behavior

and strait-jacketing of trade, is it any wonder that the economic machinery of the world has gotten out of gear?

The Republicans dug the pit: the Democrats have deepened it. Instead of utterly repudiating the policy so largely responsible for our present tragic condition, the Democrats have seemingly approved of it in principle, besides making the application of the principle of governmental interference far more sweeping in character. Many of them, however, seek to justify their actions on the ground that the legislation they have enacted is purely "emergency" in character.

Reciprocal trade agreements have recently been executed with several countries, and more or less relief of our economic ills is expected from the general adoption of this plan. These agreements are in the nature of emergency measures, and are entered into under the authority conferred on the president by the amendment of the tariff act of 1930, approved on June 13, 1934. Such agreements may not increase or decrease existing duties by more than fifty per cent. Apparently the principle of protection is not brought into question, but broader powers are allowed the president in adjusting duties than those granted under the so-called flexible provision of the tariff act of 1930, for equalizing costs of production at home and abroad on imported articles.

No attempt is made here to discuss the latter provision in detail. Even were it possible to obtain satisfactory costs of production for the purpose intended, the fact remains that as we live in a changing world, the costs of today, by reason of changes in prices of raw and other materials, in rates of wages, in methods of production, in the personnel of labor and management, etc., may not be the costs of tomorrow. For a number of other reasons, however, it is considered as wholly impracticable to determine such costs, for example—

(a) How can trustworthy costs be ascertained in the numerous cases in which access to the books of the foreign producer is denied to the representatives of our government?

(b) Based upon what sound principles of accounting can an average cost per unit of production be determined, as between the high and low-cost producers of a given article in our own country?

Apparently relatively few people consider what serious restrictions our protective tariff policy, by confining business transactions practically within the limits of a closed market, has placed upon business initiative and enterprise. Many of our people, and

these by no means the least intelligent, fail to understand that this virtual denial of the right to engage in foreign trade—of the right to do business in a field incomparably larger, and one offering possibilities of greater rewards eventually, than our own country—results in shutting the door of opportunity to a large proportion of our population.

Not very many of us appear to realize what a great injustice and wrong is done the majority of our people—the great body of consumers—by compelling them to pay artificially increased prices for many of the necessities of life, and how surely such a policy leads to their eventual impoverishment and loss of purchasing power.

Until comparatively recently, perhaps, not a great deal of importance would appear to have been attached to the part played by our protective tariff in bringing about a major decline in our foreign trade. This has now become so staggering, however, due to our refusal to engage in two-way trading transactions with other countries, as to lead to the fear that much of this trade has been lost to us permanently, by reason of the competition it has invited and made necessary.

The conferring of special tariff privileges has the effect of creating vested interests. Such interests do not voluntarily as a rule surrender their special privileges, and we thus have a government, no matter what smoke screens it may use to conceal the real facts, which plays favorites, and is thus at least, and to this extent, not a government "for the people". Such a policy leads naturally and logically to the control of natural resources and the concentration of wealth in fewer hands. That we are faced with such a condition today no one can successfully deny. Perhaps, one of the worst effects of this interference by the government with business is the loss of virility and self-reliance on the part of the people that it tends inevitably to produce. Like coddled children who run crying to their parents whenever they get into difficulties or imagine they are hurt, so we have acquired the habit of appealing to the federal government for aid in the solution of our business and other problems. If either mental, moral or physical growth and development can be acquired except through struggle and the overcoming of opposition, the history of mankind has not indicated it. In the field of economics, obedience to the inexorable though salutary law of supply and demand develops competent, self-reliant, and progressive business men. It is to the fact that

we have tried to evade or ignore this law, that many of the ills which now afflict us such as overproduction, or, rather, underconsumption may be directly traced.

Much might also be said as to the part greed plays in the enactment of tariff legislation, together with the mistaken ideas as to the nature and purpose of trade disclosed in such proceedings. Limitations of space prevent the going into details; suffice it to say that, all trade, whether national or international, is based on the motive of gain or satisfaction of wants. Men sell that which they produce either better or more cheaply than can the purchasers, and they buy in exchange those products in which the latter possess a corresponding advantage. Both sellers and buyers thus make worth-while contributions the one to the other. It does not follow in all cases, however, that the sellers can not make the goods they buy at less cost than the prices they have to pay for them. The reason they do not produce such goods is because they make a greater profit by confining their production to other things. For example: a brickmaker may be able to make shoes as cheaply as a shoemaker, but he makes a greater profit by restricting his activities to bricks. Thus specialization of labor and the principle of comparative costs are two fundamental laws of trade.

No extended argument should be necessary to prove that those countries possessing exceptional advantages in the quantity, quality or location of their raw materials, should be permitted to market them freely to the mutual benefit of all concerned. It should likewise be unnecessary to point out that low prices of goods stimulate and encourage their greater consumption and thus tend to improve standards of living: also, that the increased demand for such goods brings about a greater demand for the labor to produce them, thus leading naturally sooner or later to higher wages. The reactions between demand and supply are consequently the normal and most potent economic regulators of production, prices and wages.

There are two deeply rooted errors, however, held by many of the advocates of high tariffs, to which attention should be briefly directed. One of these errors consists in the belief that high wages, together with high standards of living, are associated necessarily with high costs of production and, conversely, that low wages are associated with low costs of production. Quite the reverse of this proposition, strange as it may seem, is believed to

be the case. Naturally, exceptions may be found at times, but as a rule and in the long run it is believed to be true, and the experience and records of the United States tariff commission, it is thought, will abundantly confirm this view, that well-paid labor produces proportionately more as well as better made goods than is the case with poorly paid labor. Thus the labor cost per unit of product, say, per pound, ton, yard or gallon, etc., for high paid labor is less than that for poor or underpaid labor.

The other commonly held error consists in the belief that the money paid for imports represents just so much that might have been expended for home-made goods and, to that extent, has the effect of decreasing production and thus lessening the demand for home labor. What the holders of this point of view fail to appreciate is that trade between the people of different countries, if it is to attain any magnitude, has in the long run to be carried on reciprocally or on a two-way basis. This is very largely for the reason that owing to the different currencies in use in the respective countries, it costs too much or is otherwise impracticable to remit for goods purchased in acceptable exchange or in gold. In the circumstances, therefore, if reasonably permanent trading relations on any scale are to be maintained between any two countries, the purchases by the one will have to be offset by its sales to the other, cash being used only in settlement of trading and other balances.

Among other reasons advanced in justification for high tariffs may be mentioned briefly:

(a) That without them we might find ourselves seriously crippled in time of war by failure to have on hand a sufficient supply of essential war-materials. These materials, however—and the number is not believed to be large—could be obtained by subsidizing the manufacturers of them. This procedure is considered far preferable to the imposition of tariff taxes with all the uncertainty of the amount of the burden thereby saddled upon the people. Another plan would be for the government itself to undertake the manufacture of such materials.

(b) That without prohibitory tariffs foreign nations might dump their surplus goods on us at ruinous prices and thus force many of our business men into bankruptcy. This peril is deemed an exaggerated one, and it is so considered by the United States tariff commission. Exceptional treatment, however, may be required at times in the case of goods produced by a socialistic state,

or of those which may be the subjects of export bounties of one kind or another and may come into competition with like goods produced in our country.

(c) That owing to the demands of labor at times, abnormal increases in costs of production may occur, which would materially handicap us in meeting foreign competition. Should such a situation arise at any time, it would seem that labor should be willing to modify its demands following the production of satisfactory evidence showing its necessity. It seems clear that if we are to survive as a free commercial and industrial nation, we must be able to meet competition in those lines of trade and fields of enterprise in which nature and our peculiar abilities and special training best fit us to excel. Poorly managed undertakings and those without economic justification are necessarily foredoomed to failure, and certainly have no grounds on which to be supported by the taxation of the main body of the people. Special privilege is merely disguised or indirect taxation, and no amount of specious argument can make it otherwise.

It may be said in conclusion that no economic system or trade agreements of any kind can of themselves guarantee permanent prosperity. The time will never come when the human element may be ignored, or when moral issues will not arise which will have to be met and solved in a spirit of justice and mutual consideration. One thing seems reasonably certain and that is that without freedom and the practical application of the golden rule, we may never expect to have anything approaching permanent prosperity. Protective tariffs embody neither of these principles. In consequence, they act not only as barriers to trade, but they give rise to feelings of suspicion and ill will among the nations of the world, the fruit of which is seen in widespread business stagnation and political unrest. Even purely retaliatory tariff measures may produce unforeseen and regrettable consequences.

To summarize: The "old order" or, more properly, the era or period of low tariffs, during which the country enjoyed a very general prosperity and contentment, passed out of existence at the outbreak of the civil war. Since then we have suffered from excessive interference by the government with business, as chiefly exemplified by our protective tariff policy. This policy is the product of a spirit of economic nationalism combined with a wholly mistaken view of the nature and purpose of trade and is

associated only too frequently with motives of greed and selfishness.

It has almost completely shackled our foreign trade and has virtually closed the door to that great and most attractive field of business enterprise; it has made our country a closed market for competitive goods, and by the resulting artificial enhancement of prices on many of the necessaries and comforts of life has done much to exhaust the purchasing power of the home market; it has prostrated agriculture and produced unparalleled unemployment; it has created vested interests and led to a great concentration of wealth; and it has weakened individual initiative and impaired the self-reliance of the people.

Finally, it is an abortive attempt to ignore or circumvent the law of supply and demand, a law the normal operations of which, although beneficent, are as fixed and immutable in the economic sphere as that of gravitation is in the physical sphere. The climax of the calamities consequent on the violations of this law is that they are well-known causes of war.

If for no other reason, therefore, than enlightened self-interest, it would seem that the recipients of special tariff privileges should make common cause with all those who are opposed on principle to protective tariffs and other trade barriers and work together with them for the final abolition of all such obstructions to trade. While it may be true that the removal of these barriers may have to be undertaken more or less gradually to avoid undue disturbance to business, it should be none the less thorough and with the ideal of such a goal kept constantly in mind. Naturally, the final solution of the problem is conditional on a reasonable adjustment of such pressing questions as world politics, armaments and currencies. Also the time will never come when the perversities of human nature will not have to be taken into account. It is considered, however, that from an economic standpoint, the revival of world trade will do more to pave the way for these other reforms than any other single remedy.

By taking the lead in this vitally important and urgent matter, our country will be merely discharging a long-neglected duty to right, as far as it is now possible, the great wrong which we have done, not only to our own people but to the world at large, and, besides, it will be adopting a very practical means of promoting our prosperity and contentment as well as that of mankind in general.