

WHY ALL TARIFFS ARE AN EVIL

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THE question of a sound tariff policy for Canada has been more widely discussed in the press and on the platform than has any other in Canadian politics since Confederation, and no other issue has had anything like as great influence with the electorate. Notwithstanding all this discussion and widespread interest, divergence of opinion is as marked as ever. Yet the effect of tariffs on national welfare is a subject that can be studied scientifically, and signs are not wanting that there are an increasing number of citizens of independent minds to whom such a method of approach appeals. This article is an attempt to prove that free trade is the ideal tariff policy for Canada, and that its adoption at an early date should be the aim of constructive statesmanship.

A fact that will immediately appeal as significant to the thoughtful student is the tendency towards a sectional or class alignment invariably found on this issue, and he will ask why this should be so. Why is it that in Canada the great majority of industrial leaders are ardent protectionists, while the western farmers are as strongly supporters of free trade? Why was it that, on the contrary, the attack on protection in England was led by the textile manufacturers, while the agriculturist fought to retain a tariff? Why is it that so many of the financial and business leaders in the United States to-day are weakening in their traditional support of high protection? How shall we explain the fact that the farmers of their wheat belt who, thirty years ago, held views exactly similar to those now so strongly advocated in western Canada, have just in recent years shifted their allegiance to protection?

The explanation of these most striking and peculiar facts would seem to lie in the varying conditions to be found in the cases cited. Any class or group to whom the foreign market is essential will usually be free traders; while those to whom the home market is all important, and who fear foreign competition, will be protectionists. Tendency to espouse causes which seem to coincide with personal interests is not to be viewed as just selfish disregard of the common good, but is to be understood as an expression of the tendency of the mind to generalize from personal experiences. The western farmer, for example, knows that he would not be there were it not for the opportunity which foreign markets afford. But what does his presence mean to Canada? What would become of the manufacturer, the labourer, and indeed of the entire urban population, if rural development were retarded and the farmer ruined? So, starting from personal interest, he reaches the conclusion that

the prosperity of Canada is irrevocably bound up with that on which his own prosperity depends. The manufacturer, on the contrary, finds his great market at home, and it seems to him that protection is the only thing to prevent the capture of a large part of that market by the foreign producer. Loss of markets means retarded business, failures, and industrial depression. Under these conditions, what is to become of the labourers, of the merchants and artisans? Is not the farmer himself in difficulties because of the loss of markets which a prosperous urban population would afford? To the manufacturers, therefore, protection is the policy on which the prosperity and progress of the country depends. Thus by exactly the same mental process, but starting from different personal experiences, the two groups reach contradictory conclusions, and each person becomes the uncompromising advocate of that policy which to him seems to lie at the foundation of national development as well as of personal advantage. Yet the mere fact that contradictory conclusions have been reached is proof positive of the inadequacy of the method by which these conclusions were formed. The personal approach must be abandoned, if the requirements for scientific accuracy are to be fulfilled.

Popular discussions of the tariff furnish little aid in accurate analysis, for these are largely specious attempts to recommend conclusions previously formed. Much of the reasoning is tainted by fallacies concerning the nature and functions of money. It should be remembered that practically all the currency used in business transactions consists of pieces of paper, mere promises to pay. While these perform a function of the greatest importance, they are of little intrinsic worth, and neither an increase nor a decrease in their quantity is in itself indicative of gain or loss. Our real question is always one about the volume of goods. The entire process of production should be viewed as man's co-operative effort to transform Nature's store into the things which satisfy desires. Does free trade or does protection contribute more to that end? That, and nothing else, is the point at issue. To be of any value, the argument must penetrate through the monetary phenomena by means of which transactions are mediated, back to the services and commodities which constitute the real income of society.

In developing our case, we must consider the nature of international trade, why such trade takes place, and wherein its advantage lies. Some of the arguments for protection most strongly urged by the advocates of that system will then be critically examined.

It is important always to keep in mind that international trade

and internal trade are essentially similar business transactions. Both refer to buying and selling by individuals and firms, inspired by similar motives, carried on through similar mechanisms, and producing similar results—the mutual gain of the contracting parties. If international buying and selling be analyzed carefully, it will appear that the individual transactions are in sum merely the means by which economic goods (commodities and services) produced in Canada are exchanged for economic goods produced in other countries. The purchases by Canadians are covered by some form of a promise to pay to the order of the foreign exporter. Sales by Canadians are represented by promises of the foreigner to pay to the order of the Canadian exporter. The typical credit instrument used in these transactions is the bill of exchange. This is negotiated through banking houses specializing in that function; and by means of a complex series of operations carried on by these institutions the credit instruments due to Canadians, which represent exports from Canada, are used to cancel the credit instruments owed by Canadians, which represent imports into Canada. The fact that these operations are divided into several steps and are carried on through the medium of money and credit instruments tends to obscure the real nature of the transactions. Nevertheless, it will be clear to any one who follows the entire process that what really happens is a payment for imports by exports. Canada's international trade in the last analysis is simply the exchange of the products of Canadian labour for the products of the labour of other countries.

It is not to be inferred that no departure from this balancing of imports and exports is possible. Quite the contrary is the case for short periods of time. Various devices are adopted by the banks to adjust temporary fluctuations; and in case an excess of imports persists, gold flows out of the country to adjust the balance. These gold movements are relatively small, and in the long run inflow equals outflow, except in gold-producing countries like South Africa where gold is a staple commodity export. The consequences of an outflow of gold are too complicated and technical to be traced in detail here. It may be said, however, that the resulting decrease in gold reserves in one country and increase in those reserves of the other country will react on price levels in such a way as to encourage exports and to discourage imports, and thus to restore equilibrium. Behind these fluctuations, therefore, is the fundamental fact of the balance of exports and imports, including all items in international dealings.

Why does this international exchange of economic goods take

place, and wherein lies the gain from it? It is one phase of the division of labour, a phenomenon which is fundamental in all economic progress. Geographic division of labour arises from the fact that human effort is most efficient in producing different things in different localities. Thus the greatest total product is procured when each specializes in producing that in which its labour is most efficient, and interchanges surplus products. The causes of superiority are varied. Some are fixed in nature, such as mineral resources, water power, natural harbours, etc. Others, such as financial institutions, transportation facilities, etc., have been acquired. In discovering and developing these possibilities of specialization the business man performs one of his most important functions. Canada's foreign trade is to be interpreted, therefore, as the production and exportation of those things in which business men have discovered that the labour of Canadians will have the greatest efficiency, while they import in exchange those commodities in which the labour of other countries is relatively most productive. The basic advantage from international trade lies in increase in the quantity of those things which satisfy our desires; and the measure of gain is the excess resulting from the application of labour in the most efficient way, producing economic goods for export, over what would be realized were that labour turned into the less efficient channels producing the goods received in exchange.

The core of the argument against protection is that it limits by law the area within which free buying and selling may take place. It thus decreases materially the great advantages arising from geographic specialization. The amount of the loss in each case depends upon the way in which the policy is applied. It is a familiar fact that the determination of the particular commodities to be protected, and the rate of duty in each case, have been largely influenced in every country by personal interests, log-rolling, wire pulling, lobbying, etc. Obviously all such pernicious influences are detrimental to the best interests of the country, and political history amply illustrates the grave dangers involved. An attempt has been made in recent years to provide a scientific method for applying the principle of protection which shall eliminate these serious social evils. This is known as the "Equalization of Cost" method. It proposes to place a duty on each commodity such as shall equalize cost of production at home and abroad, in order that there may be the fullest development of home industry on an equitable basis. Determination of relative costs is to be by a commission of experts, not by the statements of interested persons.

The apparent fairness and mathematical accuracy which characterizes this proposal has led to its widespread acceptance by protectionists. But the free trader still remains sceptical.

This scientific principle of protection may be questioned on several grounds, but only one will be mentioned here. It admits that in any country some commodities cost more to produce than others, and it proposes to induce home production of the more costly things by guaranteeing to the producer the opportunity to shift his extra cost to the consumer in the form of higher prices. In other words, it attempts to prevent international division of labour, and by implication denies its advantage. Pressed to its logical limit this policy would prevent all international trading. While possibly no one would press the policy to that point, it is significant that the leading exponents of protection in the United States have given their unqualified support to duties reaching 100% or more. To the free trader this seems equivalent to the contention that it is advantageous to a nation to employ two days' labour at home in providing that which could just as well be secured by one day's labour through exchange. The plausible argument for "scientific" or "adequate" protection will no more stand careful analysis than will the haphazard methods of the past.

Striking vindication of the contentions in support of free trade is found in the assumption of protectionists as well as of free traders that absolute freedom of exchange, and the most highly developed geographic specialization within a country, are of unquestioned advantage. By what logical process can one who maintains that this is true, no matter how wide the area covered, at the same time contend that trade beyond its borders is disadvantageous no matter how small in area the nation may be? Must not one who contends that the fullest and richest economic development of each country results from tariff isolation, also believe that the fullest and richest development of each province, and of each county, would likewise be achieved by the same method? Yet any public man who would advance such a contention would be laughed out of public life.

The case for free trade will be strengthened by a brief analysis of a few of the arguments most frequently advanced to prove the necessity for protection in Canada.

First may be mentioned the so-called "unfavourable balance of trade" argument. The fallacy of this old contention of the Mercantilists has been so frequently exposed that it might be neglected, were it not for the fact that it still has a large place alike in popular discussions and in the minds of leading financiers

and statesmen. In its simplest form the argument is that if our imports from any one country exceed our exports to that country there is a trade balance decidedly unfavourable to Canada. More accurately stated, it assumes the disadvantage only when imports from *all* countries exceed exports to *all* countries. The loss is supposed to consist in the money sent out of the country to pay for this balance. Protection, by reducing imports, prevents that loss. But the answer is clear and convincing. The "money" by means of which imports are purchased consists of mere promises to pay. How fortunate we should be if these pieces of paper could serve as full and final settlement of purchases abroad! We might all grow rich on an "unfavourable balance of trade." But it was shown in the analysis of international trade that there cannot be a permanent excess on either side; imports are merely the payment for exports. If protection causes a decrease of imports, it must cause a corresponding decrease of exports. The explanation of this fallacious idea lies in the fact that it takes account only of the exports and imports tabulated in government statistics, and overlooks all those "invisible items" which constitute such a large total. Such things as loans, interest payments, charges for shipping, insurance and banking, tourists' expenses, etc., etc., are just as truly items in Canada's trading as are cottons or iron or steel. When all items are included, the balance disappears.

A second argument, frequently heard, maintains that too great specializing is injurious, and that protection promotes diversity of production. As applied to Canada, the development attributable to protection is in manufacturing. The argument apparently is based on a misunderstanding of what is implied in the geographic division of labour. In a pioneer community the extractive occupations will of necessity absorb attention. But coincident with increase in population will come the development of manufacturing and commerce. Any country with Canada's richness and variety of resources, inhabited by a progressive people, must eventually become a great manufacturing nation. Nevertheless, it is true that there always are, and always will be, some applications of labour more productive than others. The free trader contends that it is always advantageous to select the most productive opportunities existing at any given time, and that every departure from this rule is a waste of energy. Under free business initiative production will spread over the entire range of advantageous opportunities so as to equalize results in each. Desirable diversification results from suitable specialization.

A third argument, closely related to the above, maintains

that industries developed under protection are so much net addition to the national wealth. They constitute an additional demand for labour of all kinds, and an additional market for the farmers' produce. These claimed additions constitute the strongest positive argument for protection, and deserve careful study. Consider a concrete case. During the last thirty years many United States manufacturers have established branch factories in Canada involving an investment of millions of dollars and employing thousands of workmen. Here, it is urged, is a case to the point,—a clear instance of the advantages of protection. Nevertheless, the thoughtful student will refuse to give the full credit to protection, knowing that all progress results from varied causes, and will find many substantial reasons for discounting the claim. In so far as these branches represent an efficient application of Canadian labour, they would have taken place irrespective of tariffs, in response to sound business procedure. Proof of this contention is found in the fact that in the United States many eastern manufacturers have established western branches because it was sound business policy to do so. The same cause largely explains the Canadian expansions. In so far as these branches were, in reality, caused by the tariff, and are dependent on it, they are to be regarded as substitute developments, not as real additions to the total wealth. Labour and capital were employed where tariff aid was needed, instead of where aid was unnecessary; in the inefficient ways, instead of in the efficient ways. One slight modification to this statement should be made. In so far as these plants were financed and manned from abroad, which doubtless occurred to some extent, they must be rated as real additions, even though inefficient. But any possible gain from that source was far more than counterbalanced by the labour and capital lost to Canada through protection. During the quarter of a century preceding the war many billions of savings were invested in international loans, and many millions of immigrants came to this continent. The principal influence governing the movement of both was economic opportunity. Hence anything which decreased the average productiveness of Canadian labour tended to turn both away from Canada. As shown above, that is just what protection did. Who knows what billions of additional savings might have been invested in Canada, and how many hundreds of thousands of additional immigrants might have been ours, had a different policy been pursued here during the last forty years? How many hundreds of thousands of our sons and daughters, now lost to us, would have remained contented at home? Who, acquainted with the real effects of pro-

tection, will question the statement that had Canada since Confederation held steadfastly to free trade as the ideal tariff policy, our population would not still be lingering below the ten million mark?

Another contention, strongly urged by the manufacturers, is that the maintenance of our present high standard of living is dependent on protection. Competition with the cheap labour of Europe and Asia could be met only by a drop in prices, costs and wages to a level much lower than now prevails. This contention, properly dressed, makes a very effective scarecrow for election campaigns. But that is not all. It expresses a genuine fear widely felt. However, a mere glance at the statistics will show that those countries with the highest standards of living are also the greatest international traders. High standards, therefore, can be maintained under free competition in everything in which a country is an efficient producer. Moreover, ability to compete is a matter of relative money costs. The introduction of free trade would materially reduce costs, prices and incomes in terms of money; it would, therefore, create ability to compete in cases which now seem hopeless to the manufacturer. More important still is the fact that the standard of living does not depend on the general range of money incomes. The real income of society consists in the commodities and services which satisfy our wants, and the quantity of these things depends on the efficiency with which labour is applied in production. Since free trade would increase average efficiency, it would result in greater real incomes, and a higher standard of living instead of the contrary, even though money returns should be materially decreased. Canadian initiative and ingenuity, applied to the splendid opportunities that are ours, need ask favours from no one.

Many further economic arguments will suggest themselves to the reader. Those already considered are the most weighty. It may be added that to many thoughtful students the effect of tariff on international good-will constitutes a more powerful argument against that policy than the strictly economic objections, and some of the ablest sociologists do not hesitate to say that there can be no guarantee of permanent peace so long as protective tariffs remain. But that argument is entirely beyond the scope of this article. The case must rest with the contention that, on strictly economic grounds, free trade is the only sound principle on which to base a truly National Tariff Policy for Canada.

For years to come a tariff for revenue, its original and primary purpose, will doubtless be necessary. But such a tariff, scientifically

constructed, without a single item influenced by the desire to protect, would differ materially from those to which we are accustomed. Many perplexing questions would arise in connection with its adoption; but a wide knowledge of affairs, sound common sense and intensive study would be able to solve all difficulties. A tariff for revenue only in its true sense, with complete free trade as the ultimate objective, should be the task of constructive statesmanship in Canada as soon as a majority of the people are ready to give it their support.