CHAPTER XXVIII.

FREE TRADE AND PROTECTION.

293. PROTECTION to home industries has for its object the employment of labor and capital within a country in the production of commodities which would otherwise be imported from abroad. The "protection" is obtained by levying a duty on goods when they are brought into the country. This tends to keep them out, and, if it does not keep them out, it is necessary for the importer to charge a price so high that the same goods can then be produced by home producers at a profit. Protectionists argue that each country should form an independent, self-sustaining unit, able to produce everything which it consumes. They appeal to the **national feeling** in man which sets his own country above every other. They feel that legislation and the powers of the State should be used to encourage manufactures at home, believing that when goods are imported from abroad a country thereby encourages foreign, and discourages home, industry. If any economic losses result from restricting international exchange, they argue that these are fully compensated for, or even outweighed, by the moral and political gains of protection.

294. Free-traders, on the other hand, urge that by **division of labor** more can be produced than is possible when each man tries to produce everything he consumes; and they claim that all exchange is based on this principle.

One man produces shoes and buys bread, because he can produce more wealth in the form of shoes than in any other way, and thus has more purchasing power to buy bread. So he satisfies his wants by producing the particular thing which satisfies the desires of many other men, who exchange what they produce for his shoes (see sections 103 and 113). People when left to themselves exchange goods because they benefit from it. No one would think of forbidding the exchange of wheat for cloth in Ohio, and, since the exchange of goods between two countries goes on for exactly the same reasons as between two persons within the same country (see section 112), free-traders do not see why international exchange should be interfered with by the State. They assert that by international trade some goods can be got at a less expenditure of labor and capital than when they are produced at home. Referring to the trade stated in section 112, they say that, if there were free trade, the United States might get 100 bushels of wheat and 25 yards of silk by 200 days' labor (in growing wheat), and France might get the 100 bushels of wheat and 25 yards of silk by 180 days' labor (in making silk). While, if free exchange were prevented, and each country produced both commodities at home, the wheat and silk would cost the United States 220 days' labor, and France 210 days' labor. Under free exchange, both countries together supplied themselves by 380 (200 + 180) days' labor; while, under protection, they got exactly the same articles by 430 (220 + 210) days' labor. By protection the two countries spent 50 days' labor unnecessarily, which by free exchange might have been used to produce additional wealth to be divided between labor and capital. Thus free-traders stand upon the ground of benefits to both countries arising from a larger production of wealth. Foreign exchange, they urge, is only an extension of the principle of division of labor.

295. Protectionists argue that, when a foreign country can sell goods to us cheaper than we can make them, a customs duty should be put on in order to prevent **foreign competition.** By manufacturing goods within the United States, they argue that wages of American laborers are kept at a higher level, and also that more laborers can find employment, than if the goods were bought abroad. If any industry in the United States should cease to exist because of the withdrawal of protection, they say that it would be a great misfortune to both capital and labor. The laborers would be thrown out of employment, and the capital could not find satisfactory investment. Every industry, therefore, which feels the influence of foreign competition should receive attention from Congress, and be protected by sufficiently high duties to keep the foreigners from underselling.

296. The free-traders, on the other hand, say that, in order to participate in the gains of international trade, it is absolutely **necessary that foreign goods of some kind should be imported.** Unless foreign countries send us the goods in the production of which they possess a relative advantage, and we send them goods in which we have a relative advantage, there can be no gain in international exchange, and the world will get its goods with more exertion and cost than is really necessary. They point out, too, that goods are really exchanged for goods, and that money is only a convenient medium for the purpose. The imported goods are not offered us for nothing: goods which foreigners want are given to them in exchange. If a home industry ceased to exist because protection had been withdrawn from it, and if we thereby imported the articles from abroad, free-traders would say that it would be necessary to produce goods to give for the new imports, and consequently the displaced **labor and capital would find just as much employment as before.** If we could not produce any thing foreigners wanted, they would

not send us the imports; and then the old industry could go on as before.

To the claim that the laborers would not find employment if some protected industries ceased to exist, free-traders reply that hundreds of millions of home and foreign capital are being constantly invested in the United States; and it can not be said that we have as yet reached the stationary state when interest on capital has no-existence. So long as capital can find an investment, of course laborers can be employed, since production can not go on without labor. And, as will be seen later (section 301), free-traders believe that the new industries taken up will be more productive than the old ones abandoned, and that wages and interest for labor and capital will be larger.

297. Protectionists assert that industries can not be established in a new country in the teeth of foreign competition, and that **infant industries** should be protected until they can get on their feet and go alone. Protection is like the scaffolding around a building—only necessary for its erection, and to be taken down when the building is finished. It is claimed that, in many instances, industries in the United States have been ruined by foreigners who have temporarily lowered prices until the home market was entirely in their control, and then raised them again; so that a tariff which keeps out foreign goods allows the young industries to get a foothold.

To this it is replied that no case has ever been known where industries once protected have been willing to have the tariff reduced on the ground that they could go on alone; that, because of leaning on the protection of the State, they do not exert themselves to produce as efficiently as they might when exposed to free competition; that, in the history of the tariff of the United States, it is shown that the cotton, woolen, and iron industries had got well started with little or no aid from protection, but that only when industries became strong and influential were manufacturers able to control legislation in their favor. Unless the industry shall be able to establish itself, it is said, it ought not to be established by the State, any more than the State should require people to employ a young lawyer or doctor who had not yet been able to secure clients or patients. It is further added that the protected lawyer or doctor will never think he has a large enough practice to be willing to give up the State aid by which he is helped. On this ground, it is claimed that protection is an interference of the State to an extent which is **dangerously socialistic**; that it is socialism for the rich manufacturer, while socialistic schemes coming from the poor workman are heartily opposed. Free-traders, moreover, deny that any case has been fully shown where foreigners have actually destroyed industries by lowering prices temporarily. Shortly after 1833, when English iron was so largely imported under lower duties, it appears that our own production was also enormously increased. But even if industries were to disappear under foreign competition, the consumers of the United States would be great gainers by the lowered prices.

298. The advocates of a protective tariff say that the tariff which keeps out foreign goods while an industry is being established does not in the end raise the price of these goods by the amount of the duty. After the home industry is established, and is able to supply a demand large enough to warrant "large production" (in which advantage is taken of division of labor), the **price will fall** to the home consumer. The undoubted fall in the prices of iron and steel, of cotton goods, etc., since the heavy duties of the war were imposed in 1864, are pointed to us as proofs of this general principle.

To this the free-traders reply that the tariff does raise the prices of goods to the American consumer. No comparison should be made of prices now and in the past *in the same country* to show that the tariff causes a fall in prices in that country; the comparison should be made between the prices of iron, cotton goods, etc., to-day in the United States with the prices of the same goods to-day abroad.* Of course, no one will deny that in all the protected industries, if the duties were taken off, prices here would fall; else why do the protected industries oppose the reduction of the duties? Free-traders admit that prices have fallen in the United States since 1864, but declare that, in the same period of time, prices have fallen in as great a degree in other countries which have had no tariff. Inasmuch as the fall of prices has been general in all countries, whether these countries have tariffs or not, the fall can not be ascribed to the tariff in any one country. In fact, the fall has been largely due to the **progress of improvements**, which has been much the same in all commercial countries.

299. The most common argument urged by protectionists is that the **tariff protects the workingman.** By this they mean that the employment of laborers depends upon the existence of the tariff. For to the tariff is due the existence of manufactures which, if unprotected, would cease to exist, and thus laborers would be thrown out of employment. They prophesy the distress and misery which would follow the stoppage of great factories which now employ thousands of operatives, and ask where these men and women are to find a place to work. Wages,

* The following table, taken from the fifteenth annual report of the Massachusetts Bureau of Statistics of Labor, 1884, shows how our prices actually compare with those in England:

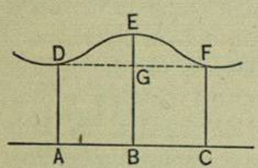
Classes of articles.	Higher in U. S. Per cent.	Lower in U. S. Per cent.
Groceries	16	..
Provisions, including meat, eggs, butter, and potatoes	..	23
Dry goods (all grades)	13	..
Boots, shoes, and slippers	62	..
Clothing	45	..

they say, are higher in the United States than in England, which has no tariff, and the investment of capital in manufactures increases the demand for laborers; consequently, wages are kept at a higher level because of protection. Moreover, in the United States, at the beginning of the century, wages were very low, but they have risen since, so that the laborer is vastly better off than he ever was before in the history of the country. Now, since we have had tariffs for protection for nearly the whole of this century, it is clear that the rise in wages is due to the existence of the tariffs. They add that, if the duties were taken off, the wages of workingmen would be lowered to the level of the "pauper labor" of Europe.

300. Free-traders admit that wages in the United States are higher than in England, and that wages are now higher than they were in 1800; but they deny that the tariff keeps wages as high as they would be under free exchange. It is usual for them to call attention to the well-known fact that wages in free-trade England are higher than in protectionist Germany or France; so that, clearly, a tariff has not been the cause of high wages in Germany and France. To reason that a tariff (which is taxation) can have caused the industrial progress of the United States is to **overlook the thousand things which have affected the production of wealth in this country**: our wonderfully rich natural resources; the high civilization of our population from the start in a new country; the energy, intelligence, ingenuity, and power of invention of American laborers; the stimulating forces of our democratic institutions; and the enormous growth of capital which has outstripped even the growth of population. They add that wages have risen in Great Britain in a similar way since the establishment of free trade in that country in 1846.

301. To the claim that wages would fall if foreign

competition were to force some mills and factories to stop, free-traders reply, What is it that governs the rate of wages? Taxation by the Government can not increase wages, of course; for to take away a portion from the product does not increase the amount which can go to wages. Moreover, if, under free trade, an industry ceases to exist, what does that mean? It does not mean the destruction of the labor or of the capital (unless the change comes very suddenly, which no one proposes), and so the elementary forces exist for other production. But what production? If the goods are now imported instead of being made here, goods must be produced to pay for the new imports. If, when left to itself, capital gives up one industry and goes into another, under any system, that is evidence that the **abandoned industry is the less productive** of the two; and if the new industry is more productive, then there will be more wealth produced to be divided between labor and capital, and wages and interest will be higher. Their meaning can be shown by the accompanying diagram. Let the length of A D represent the productiveness of one set of industries as compared with another set represented by B E, which is greater by E G. Now, if A D is given up and resort is had to B E, there will be more to divide between labor and capital, and so wages and interest will be greater.



302. Protectionists, however, here claim that the diversion of so much capital and labor from A D to B E will soon cause the **exhaustion of the richest resources,** and that, by the law of diminishing returns, the industries of the country will become less and less productive, until they are no greater than is indicated by C F. They then declare that the country is just where it was before, and will again be taking up the old industries A D,

which were equal in productiveness to C F, and wages will fall to their old level.

The free-traders admit this; but they say that, during the years before the productiveness of B E was forced down to C F, the country would be the richer by the excess of B E over A D and C F, and there would be no reason for giving up this gain, because in the future they might not be able to retain it forever. It is also claimed that the vast demands of this country for laborers in **employments not affected by the tariff** is greater than is supposed. The chief protected industries are those connected with the manufacture of woolen goods, iron, and steel, and cotton; and yet in 1880 less than 450,000 laborers were employed in all these employments taken together. In 1890 the United States Census reports the number of persons engaged in gainful occupations as 22,735,661. Now, even if all the cotton, woolen, and iron and steel industries wholly disappeared (which is not believed) under free exchange, certainly 450,000 laborers could be absorbed in a country employing 22,735,661 persons. The census makes the following division of occupations (see p. 104):

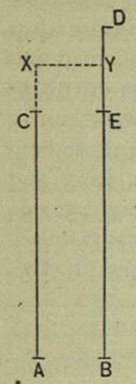
1. Agriculture, fisheries, and mining	9,013,201
2. Professional and personal	5,304,829
3. Trade and transportation	3,325,962
4. Manufactures and mechanics	5,091,669
Total	22,735,661

Classes 2 and 3 are not subject to foreign competition; in class 4, makers of agricultural implements, clocks, etc., bakers, butchers, carpenters, masons, etc., to the number of 3,400,000, are estimated to be unaffected by foreign competition. Of all the laborers reported, it is estimated that only 1,000,000 are affected by foreign competition.*

303. The free-trader claims, also, that the great number of laborers employed in ways not affected by the

* Report of Secretary of Treasury, 1886, lxiv.

tariff furnish the main part of the supply of labor, and the relation of this number to capital offered for employment, together with the productiveness of our industries, fixes the general rate of wages. Moreover, these are the **industries which are most productive**; for, by the mere fact of needing protection, other industries give a proof that they are less productive. In B D, the more productive industries, of course, the product to be divided is larger than in A C, the less productive industries. And, if the majority of industries are like B D, the general level of wages and interest will be high. Therefore, when men want to take up industries like A C, they find that they can not pay the same wages as in B D, and yet get as high a return for capital as is common in B D. They say that the high rate of wages prevents them from competing with foreigners, when, in reality, it is the low productiveness of their industry which, not yielding enough to pay both wages and "profits" as high as in B D, causes them to call on the State for "protection." Then, say the free-traders, what is really done is to raise the value of the product A C to a higher level, X Y, by taking D Y from B D and giving it to A C; that is, **protection takes from the more productive and adds to the less productive industries.** This is done by allowing A C to sell its product at a price as high as that of the foreign goods, plus the duty; or the price of goods in A C is raised relatively to those in B D, which means that the goods of A C exchange for more of the goods of B D; or, *vice versa*, that more of the goods of B D are given for the goods of A C than before; so that a part of B D goes to A C because of the tariff. Then, with this addition taken from B D, A C is able to pay the same wages and interest as B D, while B D must pay less in wages and



interest than without protection. Instead of laborers being protected by the tariff, it is also claimed that by the tariff the articles of common use, such as coats, hats, blankets, woolen goods, and shoes, are increased in price by the tariff, and the workingman must pay this increased price just because the manufacturer does not want to change his business. If the duties on wool and woolen goods were abolished, every man could get his clothing at about one half the present price. Without protection, not only would wages be larger, but the articles he buys would be cheaper.

304. Free-traders point to the evident inconsistency of the protectionists when they ask for protection because wages are high in the United States, and then claim that protection raises wages. They assert, moreover, that, productiveness remaining the same, wages depend on the number of laborers competing for employment (see section 214). If with existing capital laborers increase in number, a less proportion of the product will be assigned to them. When capital is rapidly increasing, laborers will receive a larger share, if their numbers are not at the same time increased. The United States, however, has permitted the immigration of foreign workmen to this country from all parts of the world (except China), who are added to the number of those who compete for employment by the capital of the United States. The free-traders hold, therefore, that the **Government does not protect the workingmen** in any way which really gives them better wages. The capital engaged in manufacturing is protected from the competition of foreign capital, but the laborer is not protected from the free immigration of foreign laborers. If it is not justifiable to keep out foreign laborers, then it is claimed to be equally unjustifiable to protect some manufacturers from foreign competition.

305. Protectionists, however, believe that, even if the country should gain in material wealth by free trade, there are other things which are of more value than increased wealth—that the free-traders leave out of account the **moral and political gains from protection.** A country sufficient unto itself in all things is at an advantage when war breaks out. It can produce its own vessels, cannons, rifles, clothing, and equipments in its own yards, factories, and shops. Apart from the advantages of protection for national defense, they claim that there are still greater advantages for the development of a well-rounded national life. By far the most important are the benefits arising from a **diversity of industries.** Under free trade, a nation seeks only to work those resources in which it has an advantage, and as a consequence it becomes one-sided. If the United States were to accept free trade, we should become almost wholly an agricultural people, and lose our industrial quickness and mechanical aptitudes. From this we should drop into a backward stage of civilization. Under protection, however, men can find that variety of occupations which will meet the varying capacities of mankind, and so be enabled to develop greater efficiency in production.

306. To this the free-traders answer by pointing out that the gain from free international trade is a practical fact; that this international trade will go on spontaneously, if not restricted. This is a clear practical gain of an increased amount of wealth to the country—it is nothing visionary and conjectural. This distinct and demonstrable gain the country is asked by the protectionists to give up for the sake of some indefinite and doubtful moral and political gains. The free-traders think it **better to hold on to the practical gain.** Moreover, they strongly assert that protection has corrupted legislative life in this country to such an extent that no needed legislation is now passed except by dire necessity or accident. To secure protection, interested men support lobbyists in Washington, which vitiates political morals. So the free-traders say that the political results of protection are very dangerous.

307. In regard to diversity of industries, free-traders hold that, in any civilized country, as soon as population becomes dense enough to allow any **division of labor** in the community, a diversity of industries necessarily follows, whether there is protection or not. In a very young colony even, besides the growers of food, there will inevitably be the carpenters, masons, butchers, bakers, shoemakers, hat-makers, blacksmiths, tool-makers, wagon-makers, coopers, fishermen, lumbermen, painters, plasterers, tailors, milliners, etc. Left to themselves, people will separate and choose the occupations in which they are most efficient, and for which the resources and climate of the country are best suited. In the United States we have a wide variety of climates and natural conditions, so that there must inevitably be some resort to industries of a very great variety. Even as things are now, we export, among other articles, breadstuffs, provisions, agricultural instruments, animals, books, carriages, clocks and watches, coal, copper, cotton raw and manufactured, fish, gunpowder, hides, fire-arms, locks, machinery, sewing-machines, manufactures of iron and steel, leather, naval stores, mineral and vegetable oils, seeds, spirits, sugar, tobacco, wood, and furniture.* These are the present facts of our trade, in spite of the high prices of materials caused by the tariff. If we can now export the articles just mentioned, it shows very conclusively that a variety of production exists great enough to "round out" most men. The total value of the exports in 1900 was $1,370,763,571, including over **350 different classes of articles.** Of course, if we can export these articles now, we can under free trade. Moreover, if the duties on "raw materials" entering into the manufacture of many goods, such as coal, wool, and ores, were abolished, many more goods could be made cheaply enough to be sent abroad. Many kinds of heavy and bulky iron manufactures also,

* See the values of domestic exports in the United States statistical abstract, 1900.

such as stoves, furnaces, pipes, hollow-ware, must necessarily be produced at home, because the transportation of such commodities is very costly. The iron and coal deposits of Alabama and Georgia, moreover, promise to give us natural resources superior to many of those now worked in the North. There would, therefore, be a great diversity of industries under a system of free trade.

CHAPTER XXIX.

BIMETALLISM.

308. NEXT to questions of taxation and the tariff, probably no other subjects deserve more attention in this country than those connected with **money.** These matters are practically settled by the ballot-box, since Congress generally reflects the opinions of those who elect its members. Consequently, there ought to be a wide-spread knowledge of the principles of money, and of the actual results of experiments which have been tried. The United States have been, in this respect, a fruitful source of information on monetary questions, for almost every kind of money has been tried here. Especially valuable is the experience of the United States in regard to bimetallism, by which is meant the legal use of both gold and silver in our coins at a fixed ratio to each other.

309. In a bimetallic system, two kinds of money are each a legal tender; and by legal tender is meant a money which when offered by a debtor in payment of an existing debt must be accepted by the creditor as satisfaction.*

* Some people think that, because a silver dollar is "legal tender," if they go into a store, ask for a pair of gloves for a dollar, and offer a silver dollar in payment, the shopkeeper must hand over the gloves. They overlook the fact that the dollar is a legal tender only for debts already existing; but that the buyers have not yet made a bargain, or created a debt. The shopkeeper can not be obliged to part with his goods against his will, no matter how much is offered him.