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TARIFF BARRIERS AND BUSINESS DEPRESSION

JOHN H. FAHEY

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IT seems to me that no fair-minded business man or student of public affairs can fail to realize that the tariff changes which have taken place in the United States and in most of the countries of Europe during the last two years have had a very considerable influence upon the development of the depression through which we have been passing; that they have served to prolong it and make it more difficult; that they will tend to make the revival less rapid than it should be. Finally, if we are to make, during the next decade, the progress which we have a right to expect, we must find some basis for international understanding with reference to the tariff problem.

As we all, I think, appreciate, the United States after all is the greatest free-trade country in the world. Here in fact we have forty-eight separate nations with no tariff boundaries between them. If conditions in this country were similar to those which exist in Europe, merchandise transported between Boston and Philadelphia—a distance of not over 350 miles—would have to pass through five separate customs houses at the boundaries of five different states. If such barriers existed throughout the country, mass production would be impossible. The development of such a great fundamental industry as the automotive industry on its present scale would have been absolutely impossible. The development of most of the large business corporations as we know them today would, in my judgment, have been impossible. Until a basis is found for changing the tariff situation on the other side of the Atlantic, Europe will fail to go forward at the speed which should prevail.

Of course, the tariff changes which we made in 1930 had their very serious reactions abroad. If in our own country each state had its tariff barrier as against its sister states, and for any reason the industrial states of the Northeast, including

New York, New Jersey and New England, simultaneously raised their tariff rates substantially, other sections of the country would promptly react and raise their rates correspondingly against the group of states in the Northeast. In exactly the same fashion Europe has reacted to our action in raising our tariff levels.

We all know that in the period immediately after the war business men everywhere were greatly concerned over the new barriers to trade which were raised in every direction. One country after another adopted higher tariffs. There were interferences with transportation, and many other difficulties of similar character were encountered. In their international meetings business men were in general agreement as to the need for stopping these tendencies and for bringing about reforms, which would reduce the handicaps to the free exchange of merchandise. In one biennial meeting after another the business men and bankers represented in the International Chamber of Commerce went on record emphatically in opposition to these policies.

As you know, there was then called the International Economic Conference, which was held at Geneva, and there, through our official delegation, we joined with the others in the declaration that the time had come when further increases in tariff rates should stop, and that the movement should be in the other direction.

In the several leading commercial countries of Europe there followed rather vigorous efforts to bring about tariff changes and understandings. They encountered strong opposition, of course, in many directions, but nevertheless substantial progress was being made when the proposal developed in this country for an increase in our rates. Neither here nor in Europe, when that demand first arose, was any general tariff revision anticipated, in my opinion. Certainly American business men discussing the question with business men on the other side of the Atlantic, while the new American tariff was under discussion in Congress, had no hesitation in giving assurances that the general revision would not take place to any such extent as that which was anticipated in Europe; also a very large number of business leaders in the United States did not believe that the tariff bill which we finally adopted would ever

become a law. Business leaders in many sections of the country, and representing many different trades, had no sympathy whatever with many of the upward changes which took place. I know, personally, that in various trades representatives appeared at Washington and under the pressure of demand from some of the marginal producers advocated upward tariff revisions with which they did not sympathize.

The effect of these changes on the other side is well known to all of us. There can be no question but that they have stimulated many measures of reprisal. The consequence is seen in the tremendous decline in our exports during the last year and a half. We must, of course, agree that there have been other causes for that drop in our export trade, but that the tariff has been an influence of no little importance cannot be denied. Not only has it interfered with the splendid foreign trade which we enjoyed, not only does it promise to be a cause of difficulty for some time to come, but I think we must recognize that probably to an unprecedented extent it is generating an ill will toward our country that is far from encouraging.

In one of his articles the other day former President Coolidge remarked that peace and friendship were the "foundations of human progress;" that "Trade is increased and common interests are developed on these foundations." "Friendship between people is the important thing," he continued. "If that is on a sound basis, economic relations will adjust themselves."

Every intelligent business man strives so to conduct his affairs as to create the least possible friction with those with whom he is doing business. No sane business man deliberately adopts a policy the effect of which is to affront his customers and arouse irritation. How can this nation, or any other nation, expect to continue on the road to progress if it adopts a policy different from that of the average successful business man in his relations with his customers?

Is ill will a real disadvantage, a real barrier to the development of business? It seems to me we need only to consider the fact that in the last twelve months alone as a result of the Indian boycott something like \$650,000,000 of trade has been destroyed. That misfortune has its effect not only on Great

Britain but on the United States and on every other important commercial nation, for to the extent that Great Britain's buying power is impaired the thing reacts on us and on every other country.

Of course, respecting many of the changes and increases that have been made in other countries the explanation is offered that these steps are not taken as retaliatory measures; that they are taken merely to protect unemployment within the country itself. However, despite these excuses we all know perfectly well that a very large proportion of the changes are the result of resentment against action taken by other countries.

Let us consider the situation in Canada. The Prime Minister of Canada, Mr. Bennett, was quite frank in explaining the Canadian attitude a few months ago, after the adoption of their new policy. He said: "Those who raise prohibitive barriers against our products entering their markets must expect that we will extend favors to our own good customers rather than to them. I speak in no spirit of retaliation. I would rather extend lower tariff favors to those who extend them to us than to impose prohibitive tariffs in return for like treatment. Other countries who may buy from and sell to us have it in their power by reciprocal action on their part to enable us to reduce duties to the level of the rates stated in our tariff."

Within a few short months after the new Canadian tariff was adopted, 130 American manufacturers established branch plants in Canada, and scores have followed their example since. Does anyone believe, irrespective of the changes which may now take place, that those American plants will ever move back across the border again? Is there any escape from the fact that every branch American plant unnecessarily established in Canada means just so many less workers employed on this side of the line? I do not for a moment intend to say that in numerous instances, in the natural course of events, American producers would not have to establish branch plants in foreign countries, but in every case where that is forced by tariff changes it is certainly a misfortune for us.

It is quite possible that, so far as our very important automobile export is concerned, in the course of time we would

under any circumstances be forced to develop American plants abroad; but nevertheless some of those branch plants would not have been opened if it had not been for recent European tariff legislation against our automobile exports.

It is worth while realizing that the half-billion dollars of automobile exports which we have lost would represent the full-time output of all of the automobile plants in the United States running for one month. Think of that loss of wages. Not only that, but the reaction of that loss so far as the automobile industry is concerned on the hundreds of industries all over the country that are so closely related to it is a matter of very great importance.

It is unnecessary to go into any detail illustrative of the losses which we have incurred as a result of the tariff changes which have taken place. It is said in partial apology for the policy which we have followed that after all during this world-wide depression our losses have been no more proportionately than those of other countries. But can we find any great encouragement in that fact? Is it a real consolation to know that if we have lost, others have likewise lost in equal proportion?

What are we going to do about it all? Well, it is not so difficult to get tariffs up under some circumstances; but it is much more difficult to get them down, and if we agree that some world-wide policy of gradual tariff reductions is not only desirable but necessary, then certainly we must at the same time realize that it is far from being an easily achieved objective. Yet if business is soon to resume its healthy, upward development, we must attack this problem, and a real beginning must be made toward the gradual reduction of tariffs.

What business needs most is greater stability in development from year to year and escape from the violent upward swings which are always followed by dizzy and disastrous declines. Reasonable competition—that which is kept within the bounds of fair play—is one of the most valuable factors in maintaining economic balance.

Of course, the United States is not the only offender in the enactment of extreme and unwise tariff rates. There are some far worse than we are. There is, of course, no doubt that con-

certed action on the part of the leading countries of the world to reduce tariffs would be of great advantage. It is to be feared, however, that the influence of various private interests which are the beneficiaries of special tariff favors in all countries will be able to prevent general action on any considerable scale.

The situation is so serious, that every attempt in this direction should be encouraged and we of the United States should join whole-heartedly in the effort.

Whether we can contribute largely to it in the United States without another general revision remains to be seen. We are between the devil and the deep sea when we consider that proposition. If we undertake another general revision, business will say that will prolong our disturbance; but on the other hand unless we do something really worth while about tariff we must speculate as to whether maintenance of present conditions may not have the same effect in prolonging the business depression.

We are trying to deal with the tariff problem anew through the medium of a Tariff Commission. As you all know, the business men of the United States agitated for the establishment of a Tariff Commission for a great many years and were very influential in bringing about the legislation which established the first Tariff Commission. Unfortunately, that experiment was not as successful as we hoped it would be. Possibly its failure was partly due to the fact that people conceived the Tariff Commission not as a body approaching the problem from a truly scientific standpoint, but as one committed to a particular kind of tariff.

Whether we shall be any more successful in setting out upon our new adventure with a Tariff Commission remains to be seen. In any event, there surely is the prospect that substantial changes as a result of recommendations of the Tariff Commission will take a very long time, and there is a good deal of reason to believe that public sentiment with reference to the tariff is now developing in such a way that within the next year and a half we may face a demand for a very general revision. Certainly, so far as Europe is concerned, the conditions prevailing at present are such as to create a situation which will demand a realistic reconsideration of the whole tariff question.

As the nation which under normal circumstances has the largest export business of any in the world, we bear a peculiar responsibility to contribute at least our share, and indeed a little more than our share, in the leadership of a general movement for a better international adjustment of this very annoying and disturbing tariff problem.

REMARKS BY THE CHAIRMAN

CHAIRMAN LEFFINGWELL: We are all very grateful to Mr. Fahey for his clear exposition of the problem of world trade and its relation to the tariff. He has brought out rather briefly and clearly one of the most striking things about American economic history, and that is the two-sidedness of our conduct in relation to the tariff.

The cardinal point in American economic life, is that by the Constitution of the United States some forty-eight independent, sovereign states have agreed with each other that their people shall have free trade with each other. That, I suppose, is the situation to which Mr. Fahey refers when he states that the United States is the greatest free-trade nation in the world. Yet we have led the world in the erection of economic barriers against world trade, and wonder why world trade is stagnant.

It takes no nice discrimination to accept Mr. Snyder's view which rejects, if I understand him correctly, the theory of overproduction in general as a cause of depression in general, and at the same time to recognize such simple facts as that there is overproduction in this or that industry. The greatest of all industries, still, in this mechanical age, is the industry of agriculture, and we are very fortunate to have with us today Dr. Lewis C. Gray, of the Division of Land Economics, in the Department of Agriculture of the United States. I have great honor in introducing him to you—Dr. Gray.

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