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## THE RELATION OF THE PROTECTIVE TARIFF TO THE TRUSTS.

ALBERT CLARKE.

In the small town where I was raised lived an innocent old farmer called Pappy Huse. He was such a strong partisan that he thought all the ills that flesh is heir to proceeded from the opposite party. When the steamer "Henry Clay" was burned on the Hudson and many lives were lost, after hearing the report read he exclaimed, "Wal, wal, wal! What won't the Whigs do next!" In the same spirit, a few years since, nearly every man who had become habituated to thinking, or to believing without thinking, that the protective tariff is a Pandora's box of evils, readily indorsed the statement of Mr. H. O. Havemeyer that "the tariff is the mother of trusts". It is one of the ironies of fate that the trust of which he is the chief magnate should be held up on this occasion as one of the greatest offenders and that the party which was elected to reform such abuses favored his company above all others in the United States Senate.

Before long, however, the more intellectual of the opponents of protection began to realize that trusts are not wholly evil and that if they were they cannot be charged to protection, because they exist equally under free trade. Professor W. G. Sumner, of Yale University, one of the most eminent free trade writers in this country, evidently came to this conclusion three or four years ago, when he said:

"Trusts, department stores, railroad consolidations, bank unions, are cases of a general development in the

mode of industrial organization. All branches of industry fall into it. . . . It was the discoveries and inventions of the nineteenth century, especially in the fields of transportation and the transmission of intelligence, which made it possible, and then profitable, to organize industry on a more comprehensive scale."

More recently, in fact this very month, the Honorable Richard Olney, who was at different times Attorney-General and Secretary of State in Mr. Cleveland's cabinet, has made public his views upon the trusts and the causes of them as follows :

"We are living in an era of materialism—in which physical comfort and well-being, the acquisition of wealth, the promotion and expansion of trade and commerce, are of absorbing interest in all civilized states. The rivalry between them and their respective peoples is intense, and the United States and the American people join in it with a keenness and fervor not exceeded in any quarter. Among the weapons which the industrial competition has developed is what is popularly known as the "trust". It is a weapon of great potency, since in its essence and final analysis it is such a concentration of capital upon an industry as minimizes, or tends to minimize, the cost of production. Its merits in that respect are indubitable. In the industrial race for the control of the markets of the world it is difficult to conceive of any more important factor than cheapness of production of the commodities that are the subjects of traffic. The 'trust' has the further merit—one of great importance to the wage-earner—that it tends to make work and wages steadier and less liable to wide and sudden fluctuations than is possible under any other conditions. It should be added that the 'trust' has earned the right to be regarded as an economic evolution. That it is such there could be no stronger proof than that the 'trust' not only continues to exist, but to actually grow and flourish. It has encountered such a degree of popular prejudice, has been so bitterly condemned by the press and from the platform, has been such a favorite theme for denunciation by political dema-

gogues, and has been so unrelentingly harried by legislatures and by courts, that its unimpaired and even increased vitality must be deemed to be another signal instance of the ineffectiveness of artificial restraints when opposed to the operation of natural laws."

It will be observed that neither of these illustrious opponents of protection speaks of it as bearing any relation to trusts, except that Professor Sumner says, after the words quoted, that if a trust becomes a monopoly, protection may aggravate it, which I am not disposed to deny while the monopoly continues. But one great object and effect of protection is to promote domestic competition. No sooner does a business become very profitable than it invites competition. There are men and capital enough for opportunities that look promising. Theoretically, free trade would seem to offer more competition than protection, but practically it sometimes destroys a domestic industry by giving a foreign combination, which employs cheaper labor, or is aided by bounties or favored freight rates on exports, the trade which protection would reserve for the people of its own country. Thus British agriculture has been sacrificed to British manufactures, and now manufactures are suffering from similar foreign aggression. The literature of the present tariff reform movement, known as the Chamberlain policy, abounds in proofs of the destruction of British industries by the policy of free imports.

On the contrary, the United States, Germany, and France are conspicuous examples of the preservation, the growth, and the diversification of industries under the policy of protection. When companies began to consolidate the fear of monopoly led many hastily to conclude that foreign competition would become necessary to save the people from excessive prices, but the rapid growth of domestic competition soon relieved their anxiety. A

prominent illustration is found in the iron and steel trade. Not only did numerous large establishments fail to join the United States Steel Corporation, but they have enlarged their works, some of them have formed new combinations for greater strength and economy, and every year lengthens the list of new and independent concerns. The representatives of some of them have appealed to the Government not to reduce protection, for while the trusts might possibly endure, the domestic competitors of the trusts would be ground to powder. Since the tariff cannot discriminate between large and small concerns, it cannot be used as a corrective of trusts without destroying the best corrective, domestic competition. It is not apparent what consumers would gain by playing into the hands of foreign trusts in order to curb or punish or destroy the trusts at home.

For be it known that there are trusts all over Europe, some of them longer established than those in this country, and others of an international character, formed to maintain prices and apportion traffic and to share the losses resulting from efforts to capture foreign markets. In 1901 the Industrial Commission sent Professor Jeremiah W. Jenks, of Cornell University, now the distinguished president of this Association, to Europe for the purpose of making a study of the various industrial combinations there, and his report, which constitutes volume eighteen of the Commission's reports, presents a mass of information not elsewhere obtainable and which I believe no economist or statesman can read thoroughly without coming to the conclusion, not only that trusts are not caused by protection, but that they are liable to destroy the industries of any country which does not maintain an adequate protective tariff. Among his conclusions were these:

“There is little or no belief that the protective tariff is responsible for their existence. It is known that they at times use the tariff to keep their prices higher than would otherwise be possible, and that their export prices are often lower than their home prices. The tariff should be guarded so as to prevent serious abuses, but there is practically no thought of its abolition.

“As in the United States so in Europe complaints are frequently heard that the combinations sell for export at rates lower than domestic prices. The combinations do not deny the charge. They claim that they must do so if they are to export at all, and that the export business is necessary to keep their works running full time and their laborers employed. When their governments grant export bounties and the government railroads grant special low rates on export goods, as appears fully in the chapters on Austria and Germany, we might expect that they would make no effort to conceal their low export prices. Indeed, some of the combinations themselves give premiums on their goods exported.”

What lines of fustian soldiers go down before the light of this knowledge! No longer can a man who would enjoy a reputation for intelligence and candor claim that our American tariffs are responsible for trusts. No longer can protective duties be charged with exploiting home consumers for the benefit of foreign consumers. No longer can any patriotic citizen wish to leave unguarded the industries, great and small, of his own country, when they are threatened with ruin by powerful combinations abroad, aided by their governments to make hostile incursions into the markets of nations with which they are at peace. No longer can even the occasional but rare abuses of privilege and power under protection be considered as sufficient cause for its repeal, especially when other and better remedies are now being enforced, and more especially when such repeal would invoke a

train of greater foreign evils which would be entirely beyond our control.

The practice of selling abroad at lower prices than are made at home is as old as commerce. A British royal commission reported upon it and justified it to Parliament within two or three years after that country had entered upon full free trade. In the U. S. Consular Reports of September, 1904, Consul Samuel M. Taylor, writing from Glasgow, says: "Manufactured steel for export is sold at from 5 to 10 per cent. less than for domestic use, and even at a greater reduction. . . . In Scotland a combination at present exists which fixes the price of steel plates for the whole of Scotland, but gives the members of the combination power to sell in other districts than Scotland at whatever prices they choose." Consul Rufus Fleming, stationed at Edinburgh, reports the managing director of an English metal working company as saying: "It is the policy of British manufacturers to maintain prices in the home market at the highest possible level and to make whatever concessions may be necessary in foreign markets." He also reports the British maker of an important machine as saying to him that he "quotes the machine to customers in Belgium and one or two other countries on the Continent at 15 per cent. less than the price made to the British." Moreover, he reports that he has "seen invoices of a British firm of steel wire manufacturers to German buyers, in which the prices were fully 20½ per cent. lower than the prices quoted to home consumers". Furthermore, he reports a well-known English writer on economic subjects, of the Manchester school, as saying to him that "the British manufacturer recognizes the inadvisability of flooding his own markets with cheap commodities, which they will require time to digest, thus deferring the period when he can supply them

again profitably, and therefore he sells the surplus to foreign countries at a loss." He added that "there is scarcely a tariff wall in existence that the British manufacturer will not climb over at such times".

The same reports contain much other evidence of the same purport, but I have no time to quote further. The conclusion from this evidence that every unprejudiced mind must draw is that the practices which have been held up to an indignant public in this country as due to protection are and long have been common under free trade in Great Britain and are there justified by the champions of that school. If our own teachers of economics will be a little more American they will save many an honest voter who has less time and opportunity for profound study from coming to conclusions which will miss the true remedies for abuses and endanger their country's prosperity, by exposing it to the rapacity of "special interests" abroad which are ever on the alert to pluck our fruits.

In conclusion I would state a few facts which are often ignored but cannot be successfully disputed: (1) It is no part of the purpose of protection to promote monopoly, but one of its greatest effects is to promote domestic competition. (2) There is no protected monopoly in this country unless it is an international trust, and such a trust can be broken or regulated by the enforcement of the anti-trust laws. (3) High prices are not caused by duties, but by the law of demand and supply. The present prices of lumber have outrun the duties by several hundred per cent., but repealing the duty would not reduce the price; it would only take revenue from our treasury and put it in the pockets of Canadian mill owners. (4) Protection existed here a century before any trusts were formed, and they were first formed abroad, where two of their chief

objects are to maintain prices at home and to invade foreign countries and break down their industries. (5) Protection is not responsible for inequalities of condition, for under it our country shows the greatest distribution of wealth ever seen. There may be abuses of it, but so there are of everything. Annually some 10,000 people are killed and 85,000 injured on the railroads, but nobody thinks of abolishing the railroads, although in many cases they are at fault. (6) With every country but one protecting its markets against our products, with combinations everywhere seeking to exploit us, with powerful governments aiding them by export bounties and low freight rates, with labor paid here from two to six times the wages paid in competing countries, with ocean freight rates now so much reduced that they no longer afford much protection, and with the same evils of combination under free trade that are so much complained of under protection, where is the economist who would advise throwing down or much reducing our tariff walls and exposing our country to the scrambles of what Thomas B. Reed called "a beaten world"?