The Cost of Living and the Tariff.

Address of A. B. Farquhar, Before the Academy of Political Science, at Columbia University, April 18, 1910.

It has been suggested that the general question of the Cost of Living, as we find it here and now, could receive some valuable light from a consideration of the relation of the protective tariff to prices. Neither the pertinence nor the high importance of this auxiliary inquiry can be successfully denied.

The nature of the effect of protective tariffs on prices can be stated easily, unhesitatingly, universally. It is and must be to increase the price of the protected article within the protected area. This is nothing more, in fact, than saying that Protection is one of the words that mean their definitions. An article is protected by preventing the purchase of a similar article elsewhere. If the article is not to be had at a lower price elsewhere, the purchase is not prevented by an import duty, and therefore there is no ground for claiming that such duty protects. Any tariff that did not increase prices would be useless; as has been again and again admitted. This working of a restrictive policy was happily called by Frederic Bastiat, some 60 years ago, a "negative railroad"; for it places obstructions to commerce just where, and as, railroads tend to remove obstructions.

It is when we pass from the quality to the quantity of this necessary effect, and try to estimate the amount by which prices and cost of living are increased by protective tariffs, that we encounter difficulties. The source of these difficulties is mainly in the coincidence of several factors, all working in the same direction, and the lack of means for distinguishing the work of any factor separately. Many causes have been assigned for the high prices now prevailing, and among them are several good ones. For example, the following have probably all contributed in some measure:

The formation of powerful and close associations of producers, each controlling the greater part, or a large part, of some necessary. This factor I place first, only because it seems to be most often named, and not because I would deny that combinations of capital may have done more, on the whole, to reduce than increase prices. In fact, a successful business combination is usually successful because it is of real service to the public by saving expense. However, those who perform that service are too often overpaid for it. But "that is another story." The cases in which the price of a "trust"-made article is unduly high occur, as a rule, where the article has a high protective duty. A great economic truth was announced by Havemeyer, when he said that "the wet-nurse of Trusts is the Protection tariff." It is proper, I believe, to regard the tariff as the true cause of the increased price in such cases.

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Second: the demands of workingmen, through strikes, and shorter hours, causing scarcity of labor. A universal 8-hour day would materially increase the cost of living.

More important than either of the foregoing factors is the relative increase in urban population, and the higher standard of living, or rather say, extravagance, bringing what once were luxuries more and more into the class of accepted necessaries. This is true of agricultural communities as well as of cities, due partly to increase in intercourse between city and country from improved means of communication. In rural districts 60 years ago many a cultivated woman could be found, who received her friends or attended functions in a calico or muslin dress of her own make, costing 6 to 10 cents a yard; who could not understand how any one could spend $100 a year on dresses; for whom a carriage-drive was a rare treat, reserved for great occasions; and who spent less money in a year than do her granddaughters now in a month. The young man of the family seldom possessed a buggy; now he sports an automobile, and may have borrowed money to pay for it which he cannot return because of the $500 or more it costs him annually to keep his machine running. It is claimed that 200,000 automobiles have been ordered for the year 1910, at a cost of $237,000,000, and it will cost many millions more to keep them going. Tens of thousands of men are employed in making these automobiles who might otherwise be raising foodstuffs or manufacturing clothing or furniture. The automobile is, therefore, an important factor in the cost of living. Thousands are engaged in the manufacture of frills, furbelows, and the lingerie demanded by the fashion of today, who might be more productively occupied, and those who wear these bonnets and gowns can no longer make them for themselves as they did in the days of the "simple life." Thus great numbers of the class who were once contributing producers are now only consumers. In a rural town of Pennsylvania there are 10 moving-picture machine shows, that take in $15 each on an average per day, amounting to $47,000 a year,—enough to pay the interest on a loan for parks, sewers and improved streets which the town claims it cannot afford.

Extravagance in eating and drinking is a most important cause of high cost of living. We waste enormously in our kitchens—enough, we have often been reminded, to support a large additional population,—and our national bill for liquors and tobacco, with men buying cigars for 10 to 25 cents apiece, when before the Civil war a cent apiece used to be regarded a fair price, is a serious concern. It takes 10 to 12 pounds of grain to make a pound of meat, that contains hardly more nutriment than an equal weight of grain; and we know by the example of other countries that life can be comfortably sustained on a far less proportion of meat than is here eaten. Add to all this our waste of our forest heritage,—of our coal,—of our watercourses,—and does it not seem that we are squandering our patrimony? And yet it is quite common in this country to boast of this prodigal waste as a "high standard of living,"—making an excellence of what is really a vice.

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Governmental extravagance must be added, along with private extravagance. The cost of government, if we regard merely its necessary functions, may perhaps not have increased unduly since the Civil war, but the cost of our so-called "defenses," of war past and war imagined for the future, has grown enormously. We are paying every year, for pensions, more than the entire cost of government before the war, and are piling up the bills for fortifications and military preparations and war-vessels at a rate suggestive of urgent terror, altho it is notorious that our country has not been threatened with attack from any quarter for more than 40 years, and the danger from attack grows less as civilization advances. The cost of butchering our fellow-beings has so grown, that nations may soon be forced to find some rational way of settling their differences. The consequent burden of high national taxation we have thus far patiently borne, but there is no doubt that it has helped to increase the cost of living.

Higher land values and rents, with exhaustion of the once unbounded supply of fertile farms to be had for the trouble of occupying them, are also contributing factors; increasing the capital on which dividends have to be earned, and the cost of supplying food-animals and crops. Thus is turned in other directions much of the force that used to be applied to food production. There is not time for a satisfactory discussion of the extent to which prices are influenced by rents, but this may be assumed: that while differences in the rental value of land employed in production may not appear in prices, the rent of the cheapest land necessarily so employed does appear, and that the practical exhaustion of "no-rent" lands in our country is showing itself in the price of its products. The real cause here at work is our rapidly increasing population. It now doubles every 30 years, the average life considerably lengthening and infant mortality diminishing as hygienic conditions improve. This undoubtedly sharpens the demand for food, while the destruction of forests makes timber dear, and turning into farms millions of acres of free ranges has reduced the numbers, as well as increased the price, of beef-cattle. It is said that the country has 2,000,000 less cattle than 2 years ago, with 2,000,000 more to eat beef. This would advance the price of beef were there no trusts, since demand and supply ultimately fix prices.

Yet another cause for the worldwide increased cost of living, perhaps more important than any, is the reduced purchasing power of the dollar, resulting from the greatly increased production of dollars from the mines. The "cyanide process" for extracting gold, bringing within the range of profitable treatment countless tons of ore which the older and more expensive methods had rejected, the several years earlier introduced, first made itself felt in commerce some 14 years ago. Then it was that the general level of prices, as calculated by statisticians from the average of a number of articles largely bought and sold, reached a minimum and began to ascend. In popular language, and in popular thought, the accepted unit of value has something of the same unchanging

character as the Tower yardstick and Winchester bushel; yet it is very plain that when, under the free action of supply and demand, the prices of the majority of commodities move in one direction, the actual change of value is more probably in the unit of reckoning than in the concert of commodities. So the general rise in prices, which began to replace the gradual fall that ended in 1896, was essentially an expression of the fact that dollars had grown more numerous and easier to manufacture. Prof. Seligman has reminded us that our condition is a repetition of that in France about 1578. Then there was great excitement and finally riots, over the great rise in prices. Then, as now, there were many people who found numbers of causes, such as monopolies, the conditions of foreign exchange, the extravagance of courts and people, agricultural movements, etc. But a certain Jean Bodin properly ascribed it to "the abundance of gold and silver brought by the Spaniards from America." Prof. S. N. Patten, whose ingenuity seems unfailing, now writes a learned and interesting essay on prices, ignoring the definition of a price as a ratio. Following Adam Smith, he finds in the price of commodities three elements: price of labor, rate of profit, and amount of rent. Be it so; but these three elements are in reality six, each working in one direction for the commodity considered, and in the other for the money metal.

Thus we have a number of causes, each tending to produce higher cost of living, and all at once active; and our problem is to separate the effects of one from those due to the others. The experimenter in physical science has a decided advantage over the observer of social phenomena, in the facility with which he can change the conditions of his observations, and show the true factor at work by continued presence of an effect in the absence of all other factors; to the social student, depriver of the power of modifying conditions at will, it is necessary to discover the presence and absence of individual factors as he can, and deal with them as he finds them. Now with regard to most of the causes of high prices we have been considering, it seems evident that their action is not affected in any important degree by crossing international boundary lines. The monopolizing power of great corporations of producers or distirbutors, except as aided by a protective tariff, and the influence of workingmen on whose toil there is no protection, are not confined within such lines; nor is the growing appetite for luxuries controlled by them. The depreciation of the unit of values is something that affects the whole commercial world, and shows itself for purchasable commodities everywhere. Such inequalities as appear in its working, result from varying degrees of sensibility to its operation; sales in great metropolitan markets showing it first, those in country neighborhoods afterwards, and wages of labor last. Land values are increasing in the Canadian Northwest, and in other countries to which settlers are attracted, as they are here. But the action of the tariff on imports stops short at the national boundary; a mile from that impalpable line is the same as a thousand miles. Tho the in-

creased taxation brought upon us by our lavish governmental expenditure may be negligible in comparison, and other factors may be practically identical for neighboring places between which the boundary line runs, the tariff has full force on one side and no force on the other.

It is naturally inferred, therefore, that the best evidence that can be found for the actual relation of the tariff to prices is by comparing places near together, so as to be equally accessible to sources of supply,—and otherwise circumstanced as nearly alike as possible, but one within the United States and the other just across the Canadian border. It is this natural inference that gives especial interest to a comparison recently published, between prices of common necessaries in Detroit, Mich., and Windsor, Ontario, "separated by a half mile of river and a thousand miles of tariff." The figures show that agricultural staples (wheat, corn, hay) are 11 to 30 per cent. higher in Detroit, while eggs, butter and cheese are 24 to 43 per cent higher, pork and beef-cuts 54 to 60 per cent., and clothing 67 per cent. in excess,—the difference being considerable all along the line, but significantly greatest for necessaries whose production in the United States the most care has been taken to "protect." If this little table were all the information we had on the subject, we might perhaps be suspicious of it; but similar parallels could be drawn for other points along our 3,500-mile northern frontier. The people seems to be imprest that they indicate something wrong; for we are assured that in the recent bye-election for Representative from the Plymouth Rock and Cape Cod Congressional district, the winner made reciprocity with Canada his leading issue, and created a revolution in the vote.

Do such comparisons of prices as that just summarized, between Detroit and Windsor, indicating an average about 40 per cent. higher for the commonest necessaries of life in the former city, show what the mass of our people have to pay for the precious privilege of pampering favorite industries and "interests"? I do not see that there is any escape from that conclusion. It is impossible that any such differences as those reported could be maintained if there were free communication between the two cities compared. There, certainly, we have a case in which the one factor of tariff is dissociated from the others working to raise prices, and we have thus a chance to estimate its effect numerically. From studies of this kind, but much more extensive, Mr. Byron Holt estimated that in 1903 the cost of living was nearly 12 per cent. higher than it would have been without a tariff. Hence calculating that the average family consumed $941 worth per annum, its increased payment on account of tariff was $111; $16.50 to the government in collections, $94.50 to the Trusts in higher prices. Of this $94.50, $9.25 was on wollens, more than $17 on other clothing, $6.25 on furniture, $4.25 on beef and mutton and pork, $10.25 on building materials and tools, and so on. In 1910, the cost of living being 15 per cent. higher, the average family pays $1,080, of which 10 per cent., $108, is tribute to the Trusts and other protected interests.

Since the scale of average prices, according to Bradstreet's index numbers, rose 62 per cent. between 1896 and 1910, while according to the Economist and to Sauerbeck the rise in England was but 27 or 29 per cent. in the same time, Mr. Holt finds the work of our protective tariff, which must be accountable for the largest share of this difference, quite significant.

This is no suitable occasion to strike the balance of good and evil, as affected by our provisional and tentative conclusion that protective tariffs in the United States increase the cost of living to the south of the Canadian border by 40 per cent. above what it is to the north. Detroit, for instance, is and will probably always continue to be a more prosperous settlement than Windsor. Probably the opportunities for remunerative employment are greater in the former city,—possibly enough greater to balance the higher cost. Whatever evidence there is for the view that all sacrificed in import taxation is recovered in industrial well-being, should assuredly not be overlooked. Nor should we disregard the testimony of Andrew Carnegie, who was 20 years ago the stoutest and perhaps the ablest advocate of a protective policy, but who has lately, in his testimony before the Ways and Means Committee, given cogent reasons for a reduction of duties on iron and steel. He reminds the Committee and the country that the success of Protection is never fully attained until a point is reached at which the protective duty can be finally removed, and that that point should be kept always in view as the final goal of Protection. Mr. Carnegie has always held firmly to the opinion of John Stuart Mill, that there are conditions incidental to an undeveloped country, when a protective duty may be the best way in which that country can tax itself to promote its industrial growth. It follows necessarily that the tax is to disappear when the growth has been attained. But it is no part of the object of this essay either to espouse or to controvert the theories of Messrs. Mill and Carnegie. The points on which I insist are that, whether for good or for ill, the tariff tax is actually a tax, and that it is treating the people unfairly to deny, disguise, or conceal its actual effect in increasing the living expenses of the great mass of our citizens, the consumers of protected goods.

The question of public benefit and harm, from the general rise in prices, deserves a careful and dispassionate consideration, for it has two sides. The first effects of increasing prices are agreeable to so many different classes of people that they are quite apt to be regarded as "good times',, or "prosperity." Production is stimulated, particularly of the articles for which the higher price is first to be had; there is an increased demand for labor in those lines, which before long communicates itself to other lines, leading more or less promptly to advances in rates of wages; there is increased demand for capital, grateful to those who have it to invest; while the great number who have nothing directly to gain from this "prosperity," but have to pay for it in higher prices, may share in it indirectly by partaking in the diffused blessing of general confidence. But

after this first stage, even when it is not followed by an immediate reaction, there come effects less agreeable. There is a wider sense that the "prosperity" is not universal, naturally keenest among those who discover that they are not having their share. There are labor troubles; workingmen believe that their wages are not advancing so fast as the cost of what they have to buy, and seek to correct the maladjustment; while those employed in industries that have not been favored by increased prices, who therefore cannot expect higher wages to offset their higher expenses, become discontented and frequently turbulent. And there is a large class dependent upon fixt incomes. It is manifest that a general higher level of prices is not an unmixed good, and that the impossibility of its working equitably makes it a serious evil. While the prices of most salable goods are comparatively easy to adjust to the general scale, those of newspapers (for example) are practically much more difficult, being like street car fares, and all railway fares generally, so fixedly connected in the public mind with one definite amount that to increase them would at once cause a dangerous loss of custom.

Assuming, then, that a correction of the evils of higher cost of living is highly desirable, what can be done and how can we do it? To reduce the production of gold from the mines might be an effective measure if it were practicable, but it is not. To restore the "simple life," to cure the extravagant habits into which our country has fallen, and instead of waste establish economy, would be a practical and a noble work, and would do much to relieve the situation, but such a change must be slow. Whilst urging our fellow-citizens to the full measure of our power, to raise "the standard of living" intellectually and morally rather than sumptuarily, and pass down our bounteous inheritance to posterity none the worse for our having held it, we must look for effective relief in some other direction.

To suppress, or curb the "Trusts," is a specific quite attractive to some minds. The country has been trying for a number of years to reduce those organizations to some sort of subordination, but the right way to do this has not yet been applied. The truth appears to be that the evil they do is so mixed with good, that their interests are on so many points bound up with those of the public, as to make it impossible to suppress them, or greatly curb their power, without hurting the public more than the trusts are hurt. Little or nothing has the country gained from the suits to which it has subjected them. In truth, the whole campaign against corporations under present laws seems an absurdity. If they are fined, they make the suits cost the people many times what is ever realized from the defendants; if they should be outlawed and dissolved under one name, it will always be easy for them to unite again under another.

The true fight for us is not against the existence of corporations, but against their abuses. Let them serve the people, but not cheat the people. Let them keep their legitimate profits, but take away the exorbitant profits we pour into their

laps, by a tariff tax for their benefit; in a word, remove or greatly reduce the import duties on trust-made articles. The true method would be as easy to apply as the false method has been difficult and costly. If eggs are unduly dear, or butter, because a "cold-storage trust" controls them, bring the price here and in Canada to a level by abolishing the tariff at the frontier. If the "beef trust" makes meat costly, admit in competition the product of other countries. In this country the number of people is less than double that of cattle, while in the Argentine there are 6 cattle for every human inhabitant; but our laws tells us that every advantage of that food-wealth must go elsewhere, and our own people be left at the mercy of the "beef trust."

But the most flagrant robbery of our people by the Custom House, for the benefit of favored "interests," is in the operation of Section K, Wool and Woolens, which President Taft pronounced indefensible. It is full of "jokers" and other iniquities, and has much to do with the high cost of living, to all who wear woolens, or who would wear them if not forced to the use of shoddy. The schedule was made by an association of manufacturers in combination with wool-growers, and put thru our Congress in the usual way. It was originally given out as being a compensation for an internal-revenue war tax on woolen manufactures; but when the internal-revenue tax was removed, after the war, the import duties were only increased, and now those who feed on them hold the country by the throat.

The moderation with which the Steel Corporation has used its enormous power, has been generally confessed, and we are glad to know that that great corporation recognizes fair dealing as in accordance with its best interests. For the reductions of duty allowed by it, in the tariff enacted last summer, we are grateful, but we ought to have free steel, and Mr. Carnegie, who knows, says we ought to have it. It can hardly be seriously claimed that this great Trust, with its large exports, really "needs" Protection.

Clearly, then, further reforms of our Tariff are needed, and, if they resulted in abolishing all Custom Houses whose collections were less than the cost of collecting, they would prove a noteworthy saving to the public.

As an optimist, I would call attention, in closing, to the essential things of life that are less costly than formerly. That is a more grateful task. Safe, comfortable and rapid carriage on railroads—on trolley roads one may sometimes ride 20 miles for a 5-cent fare; superb libraries, museums of science and arts, richly stored, and free of cost; free public schools, and high schools better than colleges used to be; good newspapers at a cent a copy, and periodicals at a dollar a year; improved hospitals and sanitary construction; all the progress of a rapidly progressive age, to help make life better worth living. There is no increased cost on "living upward." God's world is a good world, after all, and growing better.

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