

Why Canada Needs a Protective Tariff

A FEW REASONS

Why Canada should retain the present fiscal policy of adequate protection for Canadian agriculture, industry, labor and business.

- 1. Canada has shown wonderful growth in agriculture, manufacturing, forest production, mineral production, transportation, banking, insurance, and other business since the adoption in 1878 of the National Policy of adequate protection for all classes.
2. Because Canada was strong in all departments of national activity, she made a great record in the war.
3. Since the war practically all civilized countries have retained or increased their protective tariffs.
4. Over 2,000,000 Canadians are supported by wages paid by Canadian factories.
5. Over 80 per cent. of all the produce of Canadian farms is consumed in Canada.
6. The tariff has caused over 600 branches of United States factories to locate in Canada.
7. The tariff provides a great portion of the revenue of the Dominion Government.
8. The present tariff of Canada is very moderate; the average rate of duty on all dutiable importations is 22 1/2 per cent.; the average rate of duty on all importations, free and dutiable, is only 14 2/3 per cent.
9. Canadian products should not be exported in the raw state but should be manufactured in Canada in order to create business, provide employment and add to the national wealth.
10. Canada has maintained a protective tariff for 42 years. The United States, our greatest competitor, has maintained a protective tariff for 131 years. Their manufacturers have a home market of 105 million people. Our manufacturers have a home market of about 8 million people. Last year each inhabitant of the United States bought, on the average, \$4.41 worth of Canadian goods, while each Canadian, on the average, bought \$100.26 worth of United States goods. United States purchases from Canada were largely raw materials. Canadian purchases from the United States were largely manufactured goods. Is it surprising that the rate of exchange is against Canada and that our dollar is at a heavy discount in the United States? This is the situation with a Canadian tariff. What would it be if the tariff were removed? Remove the tariff, and in the words of ex-President Taft, Canada will become "an adjunct of the United States."
11. The destiny of Canada is a fully developed nation within the British Empire.

Summary of statement submitted to the Committee of Cabinet Ministers at Winnipeg, September 14, by the Canadian Manufacturers' Association.

According to the Dominion Census, about 700,000 people are employed in the factories of Canada. Including their families the number of people who depend for their living on the wage rolls of Canadian factories number 2,000,000. In addition there are probably half as many more who are indirectly supported by the wages of the factory workers.

Any civilized country that aspires to greatness must be strong in the following departments of national activity: agriculture, manufacturing, transportation and finance. Purely agrarian countries have never reached any degree of greatness; purely industrial countries cannot exist; both manufacturing and agriculture are helpless without the machinery of finance and transportation systems to carry produce.

What part does the factory play? Remove the factories and imagine the effect on the wholesale and retail trade, on the banks, on the financial and brokerage houses, on real estate, on the professional men, on the tax-collecting departments? In the majority of Canadian cities and towns the factories are the direct or indirect cause of a very considerable part of business transacted because the welfare of many allied activities depends on the ebb and flow of the factory output, the buying capacity of the factory purchasing department and the spending of the factory payroll.

The Principal of Protection. As the Canadian Customs Tariff has not been revised since 1907, revision is now overdue. After careful investigation it may be found that the rates of duty on some articles are too high and will consequently be lowered; or, in certain other cases, where the tariff is too low and will consequently be raised; or, in other cases, that the rates of duty will be considered fair and remain unchanged.

Definition of Protection. The objects of the protective system in Canada have been and should continue to be: (1) To diminish, as far as possible, the importation of goods from foreign countries which can be produced at home. (2) To facilitate the importation of raw materials for manufacturing processes, which cannot be produced at home.

The tariff protects domestic industry by increasing the difficulty of importing competing products; in the second place, it secures revenue for the Government; and in the third place, it can be used either as a weapon against any foreign country that is using discriminatory methods, or to bargain with a foreign country for tariff concessions that will open desirable markets for Canadian products. Consequently, the tariff, being the chief instrument which maintains the protective system in operation, cannot be suddenly changed or abolished without at the same time changing or abolishing the protective system.

Support of the protective principle should not be confused with advocacy of a high tariff. The Canadian Manufacturers' Association has never advocated a high tariff; and does not advocate a high tariff now; but it is a conservative statement of fact to say that the Canadian customs tariff as it stands today is not a high tariff and that in comparison with tariffs of other countries it is very moderate.

During the year ending March 31st, 1920, the average rate of duty on all dutiable importations, less the customs war tariff collections, was 22 1/2 per cent. The average rate of duty on all importations, free and dutiable, after deducting the customs war tariff collections, was 14 per cent. On the 18th day of May, 1920, the customs war tariff rates were completely removed by Parliament. Surely it is reasonable to say that the average rate of duty of 22 1/2 per cent on all dutiable

importations and the average rate of duty of 14 2/3 per cent on all importations, dutiable and free, now imposed by the Canadian Customs Tariff, constitute a moderate tariff.

The World Tendency Towards Protection. Fiscal policies of countries are inter-related and swing together like a pendulum towards protection in one period and towards free trade at another period. This fact is significant because the present swing of the world pendulum is strongly towards protection.

Following the armistice, industrial countries, especially those that had been engaged in the war, took precautions to safeguard their home markets against a deluge of foreign goods, in order that their demobilized soldiers and war workers could secure employment in their own countries. The United Kingdom, notwithstanding statements to the contrary, is not a free trade country. She now applies various protective duties, and has a measure before Parliament designed to prevent dumping, arising from exchange depreciation or other causes.

France increased her tariff rates during the past year, on most goods, by amounts varying from ten to three hundred per cent.; and as late as April 28th, 1920, she announced a new and extensive list of prohibited imports. Italy, Switzerland, Austria, Spain, Roumania and the Balkan States have made marked increases in their tariffs. Recent dispatches show that still higher protection is being provided in most of these countries, and especially in France, Italy and Spain. Japan has now in operation a high protective tariff.

In South America, all countries have tariffs designed not only for the purpose of producing revenue, but also to provide for a reasonable measure of protection for home industry. The average rate of duty on all importations, both free and dutiable, for these countries, for 1918, the latest year for which statistics are obtainable, follows:—

Table with 2 columns: Countries and Average rate of duty on all imports. Argentina 20.0, Brazil 63.9, Bolivia 17.1, Chile 20.0, Ecuador 19.9, Paraguay 61.1, Peru 21.9, Uruguay (1918) 35.2, Venezuela 26.7.

The following clause was adopted by the National Republic Convention of the United States at Chicago, June 10th, 1920: "The uncertain and unsettled conditions of international balances, the abnormal economic and trade situation of the world, and the impossibility of forecasting accurately even the near future, preclude the formulation of a definite programme to meet conditions year by year. The Republican Party reaffirms its belief in the protective principle and pledges itself to a revision of the tariff as soon as conditions shall make it necessary for the preservation of the home market for American Labor, agriculture and industry."

A tariff was introduced in Australia on March 24th, 1920, which is highly protective in character. All British colonies outside the United Kingdom, have tariffs that are protective in character, with the exception of certain Eastern countries, such as India and the Straits Settlements, which impose duties on certain imports for revenue.

Official records show that there is not in the world to-day one country making any pretensions to industrial development that is without a protective tariff. This Dominion's tariff legislation, designed for national development, must be affected by the fact that every great industrial nation to-day throughout the world has erected protective tariff barriers against the exportation of its products by other nations. Were our customs tariff removed whilst other countries maintain and strengthen theirs, our markets would be filled with the flow goods from protected foreign countries, while our goods would be largely shut out of foreign markets. This would reduce the resources and prosperity of the great majority of the citizens of each country.

The tariff protects domestic industry by increasing the difficulty of importing competing products; in the second place, it secures revenue for the Government; and in the third place, it can be used either as a weapon against any foreign country that is using discriminatory methods, or to bargain with a foreign country for tariff concessions that will open desirable markets for Canadian products.

have shown the following great increase in values under the National Policy:

FOREST PRODUCTION.

Table with 2 columns: Year and Log Products and Wood Pulp and Resin. 1881 \$ 29,546,570, 1919 \$ 140,981,584.

MINERAL PRODUCTION.

Table with 2 columns: Year and Value. 1889 \$ 14,018,118, 1919 \$ 178,075,913.

FISHERY PRODUCTION.

Table with 2 columns: Year and Value. 1879 \$ 13,629,254, 1918 \$ 60,243,429.

CHARTERED BANKS.

Table with 2 columns: Year and Paid-up Capital. 1888 \$ 79,213,565, 1919 \$ 218,912,111.

Public Bank Deposits.

Table with 2 columns: Year and Value. 1878 \$ 71,900,195, 1919 \$ 1,941,478,895.

AMOUNT OF FIRE INSURANCE POLICIES IN FORCE.

Table with 2 columns: Year, Dec. 31st and Amount. 1878 \$ 84,751,937, 1919 \$ 1,867,833,596.

AMOUNT OF FIRE INSURANCE POLICIES IN FORCE.

Table with 2 columns: Year, Dec. 31st and Amount. 1878 \$ 409,899,701, 1919 \$ 4,904,396,461.

Since 1878 the composition of our population has changed. Then the great majority of the people were engaged in farming, lumbering and fishing. There was comparatively little business activity and those who could not be employed in these industries were forced to emigrate, with the result that some millions of Canadians are living in the United States and today it directly supports Canada if opportunities for employment had been available. After 1878 the industrial system of Canada began to develop and today it directly supports 2,000,000 Canadians, and in addition, yields indirect opportunities to several millions more.

Transportation. In 1878, the year after the adoption of the National Policy, there were only 6,484 miles of steam railways in Canada. A glance at the following table will show a great increase in the number and the amount of freight carried, and gross earnings:—

Table with 3 columns: Year, Miles in operation and Gross earnings. 1879 8,484, \$1,925,056, 1889 12,628, \$3,431,010, 1919 27,629, \$19,925,056.

time there are over 600 branches of United States' factories in Canada, employing about 87,000 people and representing invested capital of about \$400,000,000. While a few of these concerns might have come to Canada if there had been free trade, it is an absolute fact that the great majority came, as against the Canadian Customs Tariff stood as a partial barrier to the importation of products manufactured by the parent concerns in the United States. Although the number of branches of British factories established in Canada is small in comparison with the number of United States' branches, as against this, according to Sir George Paish's estimate in 1911, the sum of \$1,860,000,000 of British capital was invested in Canada at that time, a considerable proportion of which was invested in manufacturing enterprises.

Growth of Canadian Agriculture.

The Canada Year Book of 1918, published by the Dominion Bureau of Statistics, and the Dominion Department of Agriculture, gives interesting statistics in regard to Canadian agriculture. On page 219 of this volume, the following extract appears:—"If to the estimated value of agricultural production in 1917, viz., \$1,621,028,000, be added for land, \$2,922,229,000, for buildings, \$27,548,000, for implements, \$387,079,000 and for live stock \$1,102,261,000 the total estimated agricultural wealth of the Dominion of Canada for 1917 amounts to \$8,330,145,000."

That was Canada's agricultural capital in 1917. Realizing the importance of agriculture, the Dominion and provincial governments have given special attention and substantial financial assistance to this basic industry. Of recent years the money appropriated for railway extension has been spent almost entirely with a view to the provision of better facilities for the agricultural communities, and possibly no commodity carried by the railways of Canada enjoys a better rate than farm products.

Replies to Free Trade Arguments.

Free trade arguments are being used today as the spear head of the attack against the protective system in Canada. It may be that many who use the free trade arguments do not believe in them, and are merely trying to create a diversion from which they may profit. But, since these free trade arguments are being used to attack the National Policy, it is necessary to show why they cannot be applied profitably to Canada.

One of the chief free trade arguments is to belittle the value of the home market, especially for farmers. It is stated that Canadian farmers sell their products in an open market where the prices are fixed by international competition, and that they buy what they need in Canada, which is described as a closed market. For 1919 the gross value of the agricultural production of Canada has been officially estimated at \$1,975,841,000. During the same year, exports of unmanufactured farm products were valued at approximately \$313,000,000, or if butter and cheese included, at a little over \$361,000,000. In other words, only between sixteen and 18 1/2 per cent. of all the produce of Canadian farms was exported in the unmanufactured state while between 81 1/2 and 84 per cent. was marketed in Canada.

The home market under normal conditions is a constant market. In a country where the population is steadily increasing it is a growing market. The foreign market or open market is an uncertain market. It may be lost entirely through war. It may be restricted through legislation or economic causes. Not so many years ago wheat was sold through legislation or economic causes. Not so many years ago wheat was sold through legislation or economic causes. Not so many years ago wheat was sold through legislation or economic causes.

progress of the Prairie Provinces away from the wheat growing stage to the mixed farming stage has already reached extensive proportions.

The increase in farm live stock between 1911 and 1916 in the Prairie Provinces is set forth in Table 18, page 193 of the Canada Year Book, 1918.

Prairie Provinces: Increase per cent.

Table with 2 columns: Product and Increase per cent. Horses 59, Milch Cows 64, Other Cattle 45, Total Cattle 58, Sheep 73, Swine 91, Poultry 22.

The growth of industry in Manitoba, Saskatchewan, and Alberta is also extraordinary. In 1909 the value of goods manufactured in these three provinces was a negligible quantity. For the present year a very conservative estimate would place the value of the goods manufactured in the three Prairie Provinces at \$800,000,000. In 1900 there was not a single member of the Canadian Manufacturers' Association located west of the Great Lakes. At the present time there are seven hundred—five hundred of these in the Provinces of Manitoba, Saskatchewan and Alberta. In fact Western Canada is becoming rapidly industrialized—the industries which have made the greatest strides being milling, building, steel and iron, clothing, textiles, and paper.

The Canadian home market that absorbs farm produce is the population of cities, towns and villages. Analyze city, town and village, and it will be found that a considerable part of the activities of their inhabitants has its origin in the existence of factories. Manufacturing is the life blood of wholesale and retail trade, transportation, professional practice, and commercial enterprises. Business clusters around the factory. Close or restrict the factory and business dwindles and the home market declines.

Another free trade argument is that under the protective system industry is developed at the expense of agriculture. Taking the Canada Year Book's estimate of the agricultural capital of Canada in 1917 of \$8,330,145,000, and dividing this sum by the number of farms in Canada, given by Government statistics as 780,000, we find that the average capital per farm was \$9,856. Moreover, our industrial development has not caused any undue depopulation of the rural areas. In 1911 the rural population of Canada was 54.47 per cent. of the total population. This was a marked contrast to Great Britain, where the rural population was 49.8 per cent. of the whole when free trade was adopted in 1846 and had fallen to 21.9 per cent. in 1918.

It is also argued that Canadian manufacturers during the war produced munitions which compared favorably with those produced by other countries; they do not need protection now. This argument ignores the extraordinary conditions governing the munition industry. There was no competition. The price of munitions was fixed and calculated to yield a reasonable margin of profit where the business was efficiently conducted. The work was done to standard specifications. No selling force was required; because the market took all the supply. More important still, Canadian manufacturers secured the opportunity to manufacture in large quantities. This is the pressing need today, and the home market is necessary to supply it.

It is also argued that protection causes proper trade organizations produce greater efficiency, better quality and lower prices. Improper organizations can be prosecuted under existing laws. In any case, industrial combination has not reached undue proportions to date in Canada. The census places the number of manufacturing establishments at about 85,000 although this includes concerns which can scarcely be called factories. As the number of factory employees is estimated to be about 700,000, the average number of employees per industrial establishment in Canada is about twenty.

A more serious charge is that Canadian manufacturers are not protected against the tariff, for example, by adding freight and duty to selling price of competing products in fixing their own selling prices. We do not defend such practice, but we submit that specific charges should be made against the tariff, rather than general statements against all manufacturers, or against the protective system.

We beg to draw attention to an entirely new method of attacking manufacturers, and through them, the protective system. A few manufacturers who have enjoyed marked prosperity are singled out. They are attacked in a sensational manner in the press and on the platform. Their profits for particularly successful years are advertised. Their financial statements are analyzed unfairly. No attempt is made to average the lean years with the good years. No tribute is admitted to efficiency, economical management, or unusual business ability. These outstanding examples of prosperity are held up to the public as a general condition of entire industries. This method of argument is as unfair as it would be to hold up some phenomenal case of profitable farming, or a lucky strike in mining, as an example of how agriculture or mining pays generally.

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A recent survey of the shoe manufacturing industry shows, first, that a very considerable number of firms have tried to succeed in this industry but have become bankrupt, and second, that the average return on the capital invested in the shoe industry was 5.29 per cent. per annum. Dun's estimate of failures of Canadian manufacturing firms for the years indicated are as follows:

Table with 2 columns: Year and No. Failures of Mfg. Firms. 1911 222, 1915 655, 1908 426.

This is the other side of the story. For the year ending March 31st, 1921, the Minister of Finance, in his budget speech, estimated that Canada's balance sheet will be:—

Table with 2 columns: Item and Amount. Estimated expenditure (including capital outlays) \$549,649,428, Estimate revenue \$51,600,000, Estimated deficit \$498,049,428.

Adopt free trade, lose the customs revenue, which he estimated at \$167,000,000, and the deficit will be \$331,049,428. Those who would abolish the Canadian customs tariff and thus lose the revenue which it produces, suggest that this revenue should be replaced by the imposition of the following taxes—a direct tax on unimproved land values and natural resources, increased taxation on personal incomes, increased inheritance taxes, and increased taxation on corporations. As to taxing unearned increments as such, no objection is offered, but it must be remembered that vacant land now pays taxes to the municipalities and in some provinces additional taxes to the provincial government. In fact, much vacant land has been given up by the owners in preference to paying the taxes now imposed. Income taxes are now paid by individuals to the municipalities and also the Dominion Government. Inheritance taxes are now imposed by all the provinces. Corporations are taxed as persons by municipal governments, provincial governments and the Dominion Government. It is submitted that the suggested forms of direct taxation, while capable of some extension, cannot produce in one year the huge sum of \$331,000,000 (or almost the present entire revenue of Canada).

The fact that the per capita amount of revenue raised by the tariff is greater in Canada than in the United States is often used as an argument against the Canadian tariff. It is too high. The explanation is that the rate is simple. The United States imposes a high tariff on imports which compete with domestic products. But, because the United States has built up home industry by constantly adhering to the protective principle for 181 years, comparatively little is imported. Consequently, the amount of duty collected is smaller per capita than in Canada, not because the United States duties are lower, but because the volume of imports is comparatively much smaller.

United States Competition.

The United States, with a population of 105,000,000, buys from this country 8,000,000 people only about one-half the value of the goods which it sells us. Our exports to the United States and imports from the United States for various years since 1907 follow:

Table with 2 columns: Year and Amount. Value of Imports from United States. 1907 (9 mos.) \$15,943,029, 1912 356,354,478, 1917 67,631,616, 1920 809,096,817.

Value of Exports to United States.

Table with 2 columns: Year and Amount. 1907 (9 mos.) \$ 79,021,480, 1912 120,534,634, 1917 486,870,890, 1920 464,029,273.

Last year each inhabitant of the United States bought \$4.41 worth of Canadian goods, while each Canadian bought \$100.26 worth of United States goods. Significant also is the fact that our purchases from the United States were largely in manufactured goods while their purchases from Canada were chiefly raw material. It is not surprising that the rate of exchange is against Canada and that our money is at a heavy discount in the United States. This is the situation with a Canadian tariff. What would it be if the tariff were abolished? Canada, in competing with the United States, operates at present under certain disadvantages which may be summarized as follows:

- 1. The United States has maintained a protective tariff for 131 years; Canada for forty-two years.
2. The United States has a more highly organized industrial system, supported by immense wealth.
3. The United States manufacturers are guaranteed their home market of 105,000,000 people, guaranteeing a large output and specialization. The Canadian home market of 8,000,000 has already been seriously invaded.
4. The United States has comparatively a greater labor supply.
5. The Customs regulations of the United States discourage Canadian imports while the Customs regulations of Canada encourage United States imports.

Briefly, we cannot manufacture extensively in Canada at the present age and stage of our industries, unless these industries are given protection against the United States. We have two choices. We can abolish our tariff and allow the United States to continue to develop as a manufacturing country for us, while we produce raw materials for them, or we can persevere in our determination that Canada shall continue to develop as a manufacturing country as well as an agricultural country. In Europe there is a well-known phrase "peaceful penetration." Trans-

lated, this means the domination of a small country by a big country. The small country, if it is true, often keeps the forms of national independence, freedom has departed, and remains bound in fetters of financial and commercial subservience. During the reciprocity campaign of 1911, ex-President Taft and the late ex-President Roosevelt were agreed that reciprocity would be a good thing for the United States. They wrote confidential letters to each other on the subject; then came the quarrel over the nomination of Taft as President. The correspondence was published in the Boston Herald on the 25th of April, 1912, at Boston, Mass.

In a letter from ex-President Taft to the late ex-President Roosevelt, the following extract occurs:—"The amount of Canadian products we would take would produce a current of business between Western Canada and the United States that would make Canada only an adjunct of the United States. It would take all their important business to Chicago and New York, with their bank credits and everything else, and it would increase greatly the demand of Canada for our manufactures. I see this is the argument made against reciprocity in Canada, and I think it is a good one."

In his reply, the late ex-President Roosevelt stated:—"It seems to me what you propose to do with Canada is admirable from every standpoint. I firmly believe in free trade with Canada for both economic and political reasons."

Those who do not believe Canadians when they point out the dangers that free trade or a lowering of the tariff would bring to Canada, will perhaps be shocked to learn that ex-President Taft and the late ex-President Roosevelt. The above references to the United States are made in a purely general way. A certain amount of trade between the two countries is necessary and most desirable. But the people of the United States will appreciate the natural desire of Canadians to promote their own national development, while maintaining with the United States the most cordial relations.

Conservation.

There are two courses we can pursue in regard to our natural resources. We can plunder these resources and ship the raw or partly finished products to every country to other countries, which will take these materials, manufacture them and sell them back to us in the shape of finished articles at greatly enhanced prices. The other course is to conserve, to manufacture in Canada not only the preliminary processes, but also the succeeding processes and export the products in a finished state. Under the first plan, for example, we would export our timber, ores and pulp to other countries, and the second plan we would manufacture them into highly finished products for domestic and foreign consumption. Under the first plan the natural abundance of Canada is being squandered. Under the second plan we would conserve the resources of the country, and the proceeds of the business connected with the processes of further manufacturing, affecting banking, transportation and insurance, would go to enrich other countries, and part of our own population would be forced to emigrate in search of employment. Under the second plan we would carry these processes of manufacturing to the highest stage here, providing employment and creating the wealth of the first plan in free trade. The second plan is protection.

Preferential Tariffs Within the British Empire.

On the whole, prospects seem bright for the general extension of British preferential tariff systems to other British countries. Such an arrangement amongst British Overseas Dominions would correspond with the policy followed between the United States and various countries, including Cuba. A similar policy is followed toward their respective possessions by France, Italy, and was followed by Germany.

Canadian Factories in the War.

Shortly after the beginning of the war the Canadian factory system was practically put on a war basis, and munition making was organized. How Canadian factories succeeded in their task is illustrated by the following statement from the report issued by the War Cabinet and presented to the Imperial Government:—"The manufacturing resources in Canada have been mobilized for war production almost as completely as those of the British Isles. Munition work was done chiefly under the control of the Imperial Munitions Board—which placed orders in Canada amounting to \$1,200,000,000. At the peak of the war more than 250,000 and 275,000 workers were employed in making munitions including shells, parts, 64 wooden ships, 44 steel ships and 3,000 aeroplanes. At the same time Canadian factories largely supplied the Canadian army at home and the Canadian army abroad. About half the Canadian army came from the factories and half returned to the factories on demobilization. If we had not built up a factory system and allied business, if our manufacturing and business had been done for us largely by other countries, then Canada could not have sent as many men to the war, could not have supplied shells, ships and aeroplanes, could not have given large financial aid, and could not have absorbed her demobilized soldiers."

Conclusion.

In the course of this statement an effort has been made to show that manufacturing in Canada is inseparably connected with other industries of the million wage earners and dependents secure their living through manufacturing, and that the most of the remainder of the population derive indirect benefits; that his country as a whole has made remarkable progress under the National Policy of protection; that, with the entire world swinging towards protection, Canada cannot relinquish it; that the revision of the tariff should be scientific and take into consideration the requirements of all classes, that a stable fiscal policy of protection with some assurance of permanence is a vital need; and, finally, that the aim of the late policy determined as a result of this enquiry should be to advance Canada towards her destiny as a fully developed nation within the British Empire.