

# 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 22½ per cent.; the average rate of duty on all importations, free and dutiable, is only 14.23 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. Canada's purchases from the United States were largely manufactured goods. It is 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 would 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 on September 14th, 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 persons 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 wholesale and retail traders, professional business men, and others who derive the chief part of their incomes indirectly from industrial establishments. Moreover, as about 20 per cent of the total annual produce of Canadian farms is consumed in Canada, the people living in towns and cities, farmers are also vitally concerned with industrial conditions.

For a 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 their products.

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, the 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. Strike at the factory and you strike at nearly every one in the city or town. Strike at the city or town and you strike at the agricultural population surrounding the city or town, for cities and towns use the products of the farms, while the cities and towns in their turn supply the farms with most of those luxuries, comforts and necessities which are part of civilized existence.

Nearly every family in Canada, directly or indirectly, is benefited by industrial prosperity and injured by industrial depression.

The Principle 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, that the rates of duty are too low and will consequently be raised; or, in other cases, that the rates of duty will be considered fair and remain unchanged. But all tariff revisions are governed by a guiding principle, and this guiding principle must be either the policy of protection or the policy of free trade. The tariff for revenue is misleading because a tariff of even 10 per cent on an article produced in Canada yields revenue and also affords a small degree of incidental protection.

In presenting this statement, therefore, the Canadian Manufacturers' Association respectfully begs to re-affirm its advocacy and support of the policy of adequate protection for Canadian industry.

The policy which has been maintained since 1878 in Canada by all political parties that have held power.

Moreover, the Association pledges its support to any measure which will hasten the adoption, throughout the British Empire, of a tariff system designed for Empire products, corresponding

to the preferences now provided in the Customs tariff in Canada.

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.

(3) To encourage the exportation of Canadian goods as finished products.

(4) To make Canada self-contained by developing and encouraging within her boundaries all legitimate activities that will give occupation to Canadian citizens.

The protective system is above all things, a national system. The country is the unit. It aims to make the individual country strong in all vital departments of activity. If it were founded on any other basis it could not survive, and the only reason that the protective system has been in operation in practically all civilized countries for several centuries, with a few intermittent exceptions, is that the system safeguards and develops the resources and maintains the prosperity of the great majority of the citizens of each country.

The Tariff.

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 by which 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 be confused with advocacy of a high tariff. The Canadian Manufacturers' Association has never advocated a high tariff; it 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 22½ per cent.

The average rate of duty on all importations, free and dutiable, after deducting the customs war tariff collections was 14.23 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 22½ per cent. on all dutiable importations and the average rate of duty of 14½ 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 interrelated and swing together like a pendulum towards protection at 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 find employment in their own countries. The United Kingdom, withstanding statements to the contrary is not a free trade country. She now applies various protective duties, and has a tariff on nearly every article imported.

The business men of Great Britain realized early in the war that steps must be taken upon the cessation of hostilities to protect British industries and various committees have reported to these British Chambers recommending a measure of protection for British industries.

France increased her tariff duties 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 general increases in their tariffs. Recent despatches show that all higher protection is being provided in 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 is, on the average, 25 per cent. for which statistics are obtainable as follows:

Countries Average ad valorem rate of duty on imports per cent.

Argentina ..... 20.8  
Brazil ..... 25.9  
Bolivia ..... 17.1  
Chile ..... 19.9  
Ecuador ..... 26.6  
Paraguay ..... 31.1  
Uruguay (1912) ..... 32.2  
Venezuela ..... 46.7

The following clause was adopted by the National Republican Convention of the Republican Party 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 a year hence. But 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 countries, 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 today one country making any pretensions to industrial development that is without a protective tariff. This Dominion's tariff system is designed for national development, must be

affected by the fact that every great industrial nation today throughout the world has erected protective barriers against the exploitation of its markets by other nations. Were our customs tariff removed whilst other countries maintain and strengthen theirs, our markets would be filled with the overflow goods from protected foreign countries, while our goods would be largely shut out of foreign markets.

This would so reduce the markets of our factories as to raise Canadian productive costs above a competitive basis; and many of them would be compelled to cease operations.

Growth of Canada Under Protection

The best way to determine whether or not Canada has flourished under the policy of adequate protection for Canadian industry is to study the statistics, not for one industry, but for all the great basic industries, and see how they have developed since 1878. Consider first the total trade of Canada. The following table shows that since the introduction of the National Policy, our total trade has multiplied by sixteen times:

Fiscal Year

1879 ..... \$ 149,489,188

1920 ..... 2,351,174,886

Agricultural production in Canada has flourished as the following statistics indicate:

Year Field Crops. 1900 ..... \$ 194,953,420

1919 ..... 1,452,437,000

The national output of wheat has grown as follows:

Year Bushels

1870 ..... 16,732,873

1919 ..... 193,260,400

Manufacturing has shown a similar extraordinary advance.

Manufacturing Industries

Year Capital Invested Employees Value of Products

1881 ..... \$165,302,623 254,935 \$ 309,676,068

1917 ..... 2,786,649,727 692,067 3,015,577,940

The products of the forests, of the mines and of the fisheries and the volume of banking and insurance business have shown the following great increase in values under the National Policy:

FOREST PRODUCTION

Year Log Products and Wood Pulp

1878 ..... \$8,559,570

1919 ..... 140,381,584

MINERAL PRODUCTION

Year 1889 ..... \$14,013,113

1919 ..... 173,075,913

FISHERY PRODUCTION

Fiscal Year. 1879 ..... \$13,529,254

1918 ..... 60,243,129

CHARTERED BANKS

Year Paid-up Capital and Reserve

1881 ..... \$9,215,665

1919 ..... 243,912,111

Total Bank Deposits by the Public in Canada

1878 ..... \$1,900,195

1919 ..... 1,841,478,895

AMOUNT OF LIFE INSURANCE POLICIES IN FORCE

Year, Dec. 31st. Amount

1878 ..... 409,897,701

1919 ..... 1,904,296,461

AMOUNT OF FIRE INSURANCE POLICIES IN FORCE

Year, Dec. 31st. Amount

1878 ..... 409,897,701

1919 ..... 1,904,296,461

Since 1878 the composition of our population has changed. The 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 the above industries were forced to emigrate, with the result that some millions of Canadians are living in the United States today who would never have left Canada if opportunities for employment had been available. After 1878 the industrial system of Canada began to develop until 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 mileage, in the amount of freight carried, and gross earnings:

1879 1889

Miles in operation 6,484 12,628

Tons of freight 8,343,310 17,928,626

Gross earnings \$19,925,066 \$42,149,615

The railways opposed the reciprocity agreement in 1911 with the United States on the ground that such an agreement would build up north and south traffic at the expense of east and west traffic, and would depreciate the value of the huge investments in our transportation systems.

This is even a more important question than it was in 1911, because the Government now owns two out of the three transcontinental railways, and will have to pay deficits of general taxation.

The organization of the Canadian Government Merchant Marine marks a new period in the history of the country's development. The first vessel was commenced in May, 1919, and by the end of the year, twenty-two ships ordered by the Government were completed. It is expected that by the end of 1920, sixty ships will be in commission. These ships were built in Canadian shipyards, largely from Canadian material, and by Canadian workmen. The outfit of such a vessel is done in Canadian ports and with Canadian goods. They are manned chiefly by Canadian seamen, and are now carrying Canadian goods abroad.

British and Foreign Capital Invested in Canada.

One of the most remarkable developments attributable directly to the adoption of the protective system in Canada, is the investment of British and foreign capital in this country. At the present time there are over 600 branches of United States factories in Canada, employing about 87,000 people and representing invested capital of about \$300,000,000. 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 to Canada because the Canadian Customs Tariff acted 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 \$1,360,000,000 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, Trade and Commerce department gives interesting statistics in regard to Canadian agriculture. On page 218 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 \$2,792,225,000, for buildings, \$927,548,000 for implements, \$387,079,000 and for live stock \$1,022,261,000 the total estimated agricultural wealth of the Dominion of Canada for 1917 amounts to \$6,830,145,000."

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 the intention of providing better facilities for the agricultural community, and possibly no commodity carried by the railways of Canada enjoys a better rate than farm grains.

All these measures are sound, and

consistent with the doctrine of protection, because they are designed to stimulate and safeguard the great basic industry of agriculture.

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. Many of those 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. Then the speaker 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 produce were valued at approximately \$315,000,000, or if butter and cheese be included, at a little over \$301,000,000. In other words, only between 16 and 15 per cent. of all the produce of Canadian farms was exported in the unmanufactured state while between 85 and 84 per cent. was marketed in Canada.

The home market under normal conditions is a vast 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 legislation or economic causes.

It is natural that the argument about selling in foreign markets and buying in protected markets should be most strongly urged by the United States, where grain is grown for export. But the conditions of agriculture are changing very rapidly in Western Canada. Not so many years ago wheat was the principle source of the farmer's income. What is the case now? Figures for the year 1917 show that wheat constituted 5 per cent. of the total value of the farm produce of Ontario.

Recently speaking a new country starts growing wheat and gradually develops into mixed farming, and the 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:

Percent.

Horses ..... 59

Milk Cows ..... 64

Other Cattle ..... 47

Sheep ..... 53

Swine ..... 91

Poultry ..... 23

The growth of industry in Manitoba, Saskatchewan, and Alberta is also extraordinary. 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 \$300,000,000. 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 and fifty hundred of these in the Province of Manitoba, Saskatchewan and Alberta. In fact Western Canada is becoming rapidly industrialized,—the industries which have drawn the greatest strides being milling, packing, steel and iron, clothing, textiles, building and paper.

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

Another free trade argument is that under the protective system industry is developed at the expense of agriculture. The Canada Year Book's estimate of the agricultural capital of Canada in 1917 of \$6,830,145,000, and dividing this sum by the number of farms in Canada, given by Government statistics as 730,000, we find that the average capital per farm was \$9,356. 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 is 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 1913.

It is also argued that, as 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 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. Moreover, the still in operation manufacturers secured the opportunity to manufacture in large quantities. That is the pressing need today, and the home market is necessary to supply it.

It is also argued that protection causes combines.

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 proportion to date in Canada. The census places the number of manufacturing establishments at about 35,000, although this includes concerns which can scarcely be called factories. As the number of factory employees is estimated at about 700,000, the average number of employees per industrial establishment in Canada is about twenty.

A more serious charge is that Canadian manufacturers take undue advantage of 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 offenders rather than general statements against all manufacturers, or against the protective system.

We beg to draw attention to an unfair method of attacking manufacturers, and through them, the protective system. A manufacturer's financial statement is analyzed unfairly. No attempt is made to average the lean years with the good years. No tribute is admitted to the economic management, or to the 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 would be to hold up a phenomenon in a case of profitable farming, or a lucky strike in mining as an example of how agriculture or mining pays generally.

A recent survey of the shoe manufacturing industry shows 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. annum. Dun's estimate of failures of Canadian manufacturing firms for the years indicated are as follows:

No. of Failures of Mfg. Firms.

Year. 1918 ..... 232

1915 ..... 655

1909 ..... 438

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 of trade will be as follows:

Estimated expenditure (including capital outlays) \$549,649,428

Estimated revenue ..... 311,000,000

Estimated deficit ..... \$188,649,428

Adopt free trade, lose the customs revenue which he estimated at \$387,000,000, and the deficit will be \$355,649,428.

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 a tax on the Dominion Government on unimproved land values and natural resources, increased taxation on personal incomes, increased inheritance taxes, and increased taxation on corporations.

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 governments. In fact, vacant land has been given up by the owners in preference to paying the taxes now imposed. Income taxes are now paid individually to the municipalities, and also to the Dominion Government. In addition, taxes are now imposed by all the provinces. Corporations are taxed as persons by municipal governments, provincial governments and the Dominion Government, and also pay special taxes to every province for the privilege of being corporations. It is submitted that the suggested forms of direct taxation, while capable of some extension, cannot produce in one year the huge sum of \$355,000,000 (or almost the present entire revenue of Canada).

The fact that the per capita amount of revenue raised by the tariff is greater than that raised by the Dominion Government is often used as an argument that the Canadian tariff is too high. The explanation of the fact is simple. The United States has a high tariff on imports which compete with domestic products. Because the United States has built up home industry by constantly adhering to the protective principle for 131 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 small.

United States Competition

The United States, with a population of 105,000,000 buys from this country of 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:

VALUE OF IMPORTS FROM UNITED STATES.

Fiscal year. Amount.

1907 (9 mos.) ..... \$155,944,029

1912 ..... 358,654,473

1917 ..... 677,631,616

1920 ..... 802,096,817

VALUE OF EXPORTS TO UNITED STATES.

Fiscal year. Amount.

1907 (9 mos.) ..... \$ 79,049,480

1912 ..... 1