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FIRST ANNUAL REPORT  
OF THE  
UNITED STATES  
TARIFF COMMISSION

FOR THE

FISCAL YEAR ENDED JUNE 30, 1917



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1917

UNITED STATES TARIFF COMMISSION.

1322 New York Avenue.

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F. W. TAUSSIG, *Chairman.*

—————, *Vice Chairman.*

DAVID J. LEWIS.

WILLIAM KENT.

WILLIAM S. CULBERTSON.

EDWARD P. COSTIGAN.

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WILLIAM M. STEUART, *Acting Secretary.*

## FIRST ANNUAL REPORT OF THE UNITED STATES TARIFF COMMISSION.

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WASHINGTON, D. C., *November 15, 1917.*

TO THE CONGRESS:

The United States Tariff Commission, in conformity with section 703 of the act of September 8, 1916, requiring the Commission to "report to Congress on the first Monday of December of each year hereafter a statement of the methods adopted and all expenses incurred and a summary of all reports made during the year," herewith submits its first annual report for the year 1916-17.

The United States Tariff Commission was created by Title VII of the act approved September 8, 1916, for increasing the revenue and for other purposes. The Commission is constituted of six members, appointed for overlapping terms. The first set of commissioners are appointed for terms of 2, 4, 6, 8, 10, and 12 years, respectively; thereafter appointments are to be for terms of 12 years. The duties of the Commission are specified in sections 702-704 of the act. In brief, they are the investigation of the administration and the fiscal and industrial effects of the customs laws of this country, and in general of the operation of the customs laws, including their relation not only to the Federal revenues but to the industries of the country. The Commission is required to put at the disposal of the President of the United States and of the appropriate committees of Congress all information at its command and to make such additional investigations and reports as may be requested by the President or by the committees. It has power further, under section 704, to investigate the tariff relations between the United States and foreign countries, commercial treaties, preferential provisions, and economic alliances, and the conditions and causes relating to the competition of foreign industries with those of the United States. For convenience of reference the text of the title establishing the Commission and defining its duties is printed in the appendix to the present report.

The President on March 21, 1917, appointed as commissioners the following: Frank W. Taussig, Daniel C. Roper, David J. Lewis, William Kent, William S. Culbertson, and Edward P. Costigan. These appointees duly took their oaths of office and entered on duty

March 26, 1917. Congress was not then in session and the appointments were made under the authority vested in the President by Article II, section 2, clause 3, of the Constitution of the United States. The appointments were confirmed by the Senate on April 12, 1917.

On March 30 the President designated Frank W. Taussig as chairman and Daniel C. Roper as vice chairman, each for a period of one year. The personnel of the Commission having been established, it was formally organized, effective at the close of business March 31, 1917.

Vice Chairman Roper was appointed Commissioner of Internal Revenue by the President on September 26, 1917, and accordingly resigned from the Commission. His services had been invaluable to the Commission; yet the need for services such as he was able to render was great in the Bureau of Internal Revenue, and the Commission could not do otherwise than accede at once to the suggestion that his conspicuous abilities be utilized in the important post to which he was transferred.

A nucleus for the administrative and clerical staff of the Commission was created by section 705 of the act of 1916, which directed that the clerks and employees of the Cost of Production Division in the Bureau of Foreign and Domestic Commerce in the Department of Commerce be transferred to the Commission. All of the employees and equipment of this division were accordingly transferred to the Tariff Commission, the transfer being effective April 1, 1917.

The first fiscal year during which the Commission has been in existence includes, therefore, a period of three months, from April 1 to July 1, 1917. The Commission was compelled to remain in temporary quarters until the close of the fiscal year. During this period arrangements were made for permanent quarters, which have been secured with convenient and ample accommodations at moderate cost, at 1322 New York Avenue; and attention was given to the needed equipment and to the selection of suitable persons for administrative and additional clerical assistance. Mr. William M. Steuart, for many years in charge of the Division of Manufactures in the Bureau of the Census, experienced both in administrative work and in statistical inquiry, was appointed chief statistician of the Commission, and also acting secretary.

During these three months the Commission also arranged for conferences with representatives of other Federal departments and bureaus, in order to inform them of the work of the Commission and to secure their cooperation. Section 708 of the act provides specifically that the Commission "shall in appropriate matters act in conjunction and cooperation with the Treasury Department, the Department of Commerce, the Federal Trade Commission, or any other

departments or independent establishments of the Government, and such departments and independent establishments of the Government shall cooperate fully with the Commission for the purposes of aiding and assisting in its work." A considerable portion of the information which the Commission will gather and codify can be secured from other departments of the Government, and for some sorts of information the cooperation of other departments is indispensable. This cooperation has been assured in gratifying measure, and the Commission has every confidence that it will have the unstinted aid of other departments in securing for Congress all desired information on the subjects for which they can join in service.

### INTERIM LEGISLATION.

On April 16, 1917, sixteen days after formal organization, the Commission submitted to the Committee on Ways and Means of the House of Representatives a report on interim legislation. On April 5, 1917, Hon. Claude Kitchin, chairman of the Ways and Means Committee of the House of Representatives, by letter had requested that the Commission "furnish suggestions \* \* \* in connection with any possible revenue measures which this committee or the House may consider at this special session of the Congress."

Conforming to this request, the Commission, in its report, called attention to possible methods of protecting the Public Treasury against loss and securing what is in effect an increase of revenue during the periods when Congress has under consideration legislation for raising customs duties and internal-revenue taxes. During such periods of legislative deliberation, entitled in this report for brevity of reference "interim periods," loss of revenue has been repeatedly incurred. In anticipation of the impending advances in duties there are unusual importations—both direct importations and active withdrawal of goods from bonded warehouses. Similarly there are large withdrawals from warehouse of distilled spirits, and there is an accelerated movement of other taxable commodities, such as tobacco. The Commission suggested that Congress should take steps analogous to those which other countries have taken and which go by the name "padlock laws" in some parts of continental Europe. Increases in duties and taxes could be made to go in effect provisionally, as they do in other countries, subject to the definitive enactment of the pending measures and to ultimate adjustment under the provisions of the measures as enacted. More specifically, it was suggested by the Commission that where a bill proposing increases of such taxes was introduced in the House of Representatives by the Committee on Ways and Means, the date of such introduction might be fixed as that on which liability for the new or increased

taxes should begin. In view, however, of the difference between American and European legislative and constitutional systems it was suggested that no actual collection of taxes should take place in advance of the enactment of legislation, but that bonds should be given the Secretary of the Treasury by importers and others liable for the tax, collection to be made eventually at the increased rates as settled on enactment. The constitutional power to deal with the matter in this way is not open to serious dispute. Congress has the power to make its taxes effective at such dates as it deems expedient.

The Commission in its report called attention to the length of time—usually several months—which elapses between the first stage of the legislative consideration of revenue laws and their final enactment, and to the probability that interims of this sort are likely to recur in the future. The course of events during the extra session of 1917 has indicated that the same conditions will continue to be experienced whenever important revenue legislation is pending. The war-tax act of 1917 was reported to the House of Representatives by its Ways and Means Committee on May 9, 1917; it became a law on October 3. Nearly five months elapsed between its introduction in the House and its enactment—approximately the same period which had been required for deliberation upon the revenue laws of 1897 and 1913. During these months of 1917 increased customs duties as well as increased internal-revenue taxes were seriously considered. As it happened, no changes in customs duties were finally made; but large increases were made in the internal-revenue taxes. As regards both, the expediency of a permanent system for dealing with interim conditions was again apparent.

The most striking evidence of the desirability of some change appears, as before, in the internal-revenue records. A great increase took place in the withdrawals of spirits from bonded warehouses. Whereas during the six months from April 1 to September 30, 1916, the total withdrawals of distilled spirits had been, in round numbers, 64,000,000,000 gallons, they were during the same period of 1917 not less than 93,500,000,000 gallons. During the single month of July the withdrawals of 1916 had been, in round numbers, 9,000,000,000 gallons; and in 1917 they were 27,000,000,000 gallons. The heavy withdrawals, it is obvious, were made in anticipation of additional taxes, and with a design of evading them so far as possible.

That some means of protecting the revenue under conditions of this sort is desirable has been recognized by Congress in earlier legislation, and has again been recognized in the legislation of the current year. Certain provisions incorporated in the Spanish War revenue act of 1898 provided for the partial collection of increased taxes on goods which had been withdrawn from warehouse under the old rates, but had not yet been completely removed from the

channels of trade—the so-called “floor tax.” The war-tax act of the present year contains provisions for the same purpose and by the same method. Section 303 of that act provides for the application of the additional tax rates, on the day of the enactment of the law, to distilled spirits wherever held for sale in any quantity by anyone other than a retailer, and to distilled spirits held by any retailer in excess of 50 gallons. Section 310 deals similarly with wines. Section 403 levies an added tax upon tobacco, wherever held for sale on the day after the enactment of the law in quantities in excess of specified amounts. In the revenue bill as submitted to the Senate by the Committee on Finance similar provisions had been inserted as regards the proposed excise taxes on coffee, tea, cocoa, and sugar. These taxes were to be collected not only from importers, but also from all retailers holding the articles in specified quantities, and from all other persons of any sort holding them for sale. The circumstance that the excise taxes then proposed (which were virtually import duties as regards tea and coffee and cocoa) were not finally incorporated in the act as passed, prevented the application to them of the floor tax in this case; but it may be fairly assumed that the same provision would have been made had they been retained in the revenue act. Congress has thus acted upon the principle that it is proper to collect revenue at rates specifically adjusted in view of interim conditions and irrespective of the expectations and commercial calculations of the holders of goods.

Yet provisions like those of the act of 1917 and of the Spanish War revenue act of 1898 would seem but partially to meet the situation. It is certain that much potential revenue collectible under a general statute such as suggested by the Commission will fail to be collected by the process of following the goods into the channels of trade. No attempt at all is made to reach smaller retail stocks; indeed, the accruing revenue from these would not compensate for the expense of collection. Even as regards the stocks of large retailers and of wholesalers the process of collection by this method is both uncertain and expensive. Investigation by this Commission, as set forth in detail in its report on the subject, indicates that the endeavor to collect the floor tax on tobacco in 1898 secured about one-half of the revenue that would have accrued with complete and unfailing collection. Moreover, the process of thus following the commodity into the channels of trade suddenly imposes great burdens and responsibilities on the Bureau of Internal Revenue. It calls for the organization of a force for gathering and investigating an enormous number of returns, many of them involving small amounts, and this for a temporary purpose only.

The Commission, therefore, renews its recommendation for the early enactment of a law dealing with this problem systematically

and providing in some way for the safeguarding of the revenue during interim periods. The precise mode in which this may best be accomplished is doubtless a matter for careful consideration. The Commission has suggested that bonds shall be required for the payment of such increased duties as may be eventually levied, and that these bonds be required from some fixed date preceding final enactment. The examples, reviewed in the Commission's special report, from England, France, Italy, and other foreign countries, where such changes in taxes when proposed by the Government became almost instantly effective; the evidence available as to the loss of revenue in times past during interim periods; the possibility that large demands for new revenue may be made at an early date; and the certainty that in the more or less distant future increases in tax rates will again be made—all these considerations lead the Commission to ask once more the attention of Congress to the desirability of some systematic method of dealing with the problem.

The Commission further desires to call attention to another aspect of the problem, and to a possible difficulty concerning which it has gathered additional evidence. It may be objected to the whole proposal that any provisional collection of duty or any requirement of bonds for the final payment of duties proposed but not yet enacted, will lead to uncertainty and disturbance in business conditions. It appears, however, that uncertainty of this sort is inevitable under any system; and, moreover, that the business community finds it possible to adapt itself without serious embarrassment to such uncertainty. During several months of 1917, from May until August, increases of customs duties were under consideration in Congress on a considerable scale under the revenue bill as passed by the House, and also, though not so comprehensive, in the bill as considered in the Senate. During this time importers and other business men had to face the possibility of changes in duties and had to accommodate their sales and purchases to that possibility. Inquiry by the commission among leading importers disclosed a widespread adoption of protecting clauses in contracts for future delivery. These contracts provided that all increases in duties pending delivery should be borne by the purchasers. The Commission has in its files forms of contracts containing clauses which were thus inserted, providing for the modification of contracts as regards such commodities as coffee, wool, silk and silk goods, and sugar. The insertion of such clauses in future contracts will doubtless become an established practice. Their use became customary with little friction between customers and importers and with trifling disturbance of business, if any. It appears also that for several years clauses of this sort have been inserted in contracts affecting rubber, tea, and some miscellaneous articles. The uncertainty as to final prices which was necessarily occasioned by

pending changes in tariff legislation, appears to have caused no substantial business complications. The signatures of vendees on contracts protecting vendors against possible customs increases were for the most part obtained without difficulty. It may be fairly inferred that if importers or other vendors had to give bond for the final collection of pending duties and taxes, clauses providing for corresponding advances in prices by vendors, in case the duties or taxes were definitely enacted, could be carried into execution with no great difficulty.

Still a further question arising in connection with increases of duties relates to outstanding contracts. The Commission, in its interim report, suggested that persons who before the date fixed for the coming into effect of the new legislation, in good faith had made contracts for the delivery of goods, should be in some way safeguarded. This could be done either by placing on the vendee the burden of unanticipated increases of duties or taxes, or by allowing refunds to the vendors from the Treasury on satisfactory proof of contracts made in good faith before the prescribed date. The former method obviously is the more advantageous for revenue purposes. It is the method which was adopted long ago by Congress, in the revenue act of 1864; then vendors were allowed to collect from vendees whatever increased taxes the vendors had been unexpectedly called upon to pay. The same method has been adopted by Congress in the war-revenue act of the present year. Section 1007 of that act provides:

That (a) if any person, corporation, partnership, or association has prior to May ninth, nineteen hundred and seventeen, made a bona fide contract with a dealer for the sale, after the tax takes effect, of any article (or in the case of moving-picture films such a contract with a dealer, exchange, or exhibitor, for the sale or lease thereof), upon which a tax is imposed under Title III, IV, or VI, or under subdivision thirteen of Schedule A of Title VIII, or under this section, and (b) if such contract does not permit the adding of the whole of such tax to the amount to be paid under such contract, then the vendee or lessee shall in lieu of the vendor or lessor pay so much of such tax as is not so permitted to be added to the contract price.

The taxes payable by the vendee or lessee under this section shall be paid to the vendor or lessor at the time the sale or lease is consummated, and collected, returned, and paid to the United States by such vendor or lessor in the same manner as provided in section five hundred and three.

Title III of the act, it may be explained, contains the sections levying taxes upon distilled spirits, beer and wine, and so-called soft drinks; Title IV on cigars and tobacco; Title VI on automobiles, mechanical musical instruments, moving-picture films, sporting goods, and a considerable variety of other articles; Title VIII (in the subdivision mentioned) on playing cards. To this now established practice of calling upon vendees to pay newly levied and unexpected taxes, the objection might be raised that it causes uncer-

tainty and disturbance of current business operations; nevertheless, Congress has not hesitated to provide in this way for outstanding contracts made in good faith at an earlier date.

### CUSTOMS ADMINISTRATIVE LAWS.

The act creating the Commission imposes upon it the duty, among other things, of investigating the administration of the customs laws. It has appeared at once that new legislative enactment dealing comprehensively with this subject is desirable. Some of our administrative laws and regulations go back to the latter part of the eighteenth century. Except for the codification of 1874, and a limited revision undertaken in 1890, nothing has been done to bring the methods of collecting and controlling the customs revenue into conformity with the changed needs of modern times. The present statutes contain frequent duplications and contradictions, much awkward phraseology, and antiquated and unnecessary provisions. Government officials, familiar with the present involved procedure, have long united with importers, merchants, and the general public in favor of a revision and reconstruction. This task the Commission has undertaken. It has invited aid from the Treasury officials and from others in the public service, and from business men and attorneys familiar with existing practice.

The Commission has prepared a tentative draft of a proposed revision, which has been submitted to the various persons interested. This draft has been scrutinized from many standpoints, and has been framed with due consideration of the rulings of the Treasury Department, of the Board of General Appraisers, and of the United States Court of Customs Appeals. Hearings have been held and are being held by the Commission, at which every opportunity is given for criticism and advice. As a result of its labors in this field, the Commission hopes to present to Congress in the immediate future a formulated code so arranged that the existing statutes and the suggested alterations can be conveniently compared. It is confidently expected that, if a revision of this kind be approved and enacted into law, clearness and simplification in the form and substance of the customs administrative laws will be combined with increased efficiency, greater convenience for the public, and a substantial saving in Government expenditures.

### FREE PORTS OR FREE ZONES.

The administration of bonded warehouses and the system of granting drawbacks, in connection with reexport of foreign goods, at once suggests the alternative of free ports, or, more accurately, free zones in ports.

In briefest outline, a free zone in a port is an inclosed and guarded area where imported goods may be landed and held without custom-house inspection or charge. They may there be stored, mingled, repacked, manipulated, and even manufactured. Such goods as are reexported may be loaded and shipped without payment of duties or customhouse interference. Goods having a destination in the country in which the free zone is located pass through the customhouse to their destination, subject to all checking inspection and custom charges, just as if passing through the regular present channels. Thus the free zone, while practically a warehouse duly guarded to protect the customs revenues of the home country, affords an open trade route for foreign commerce.

There are obvious advantages in a system which by eliminating the delay necessarily incident to checking and accounting in the customhouse shortens the demurrage of foreign-bound cargoes and ships and evades the complications of the bonded warehouse and drawback systems. In some foreign countries, notably in the experience of Hamburg and Copenhagen, the free-zone system has proven of great value.

A careful survey must be made before it would be safe to assume that the plan would be successful or workable in the United States. In this connection the Commission is endeavoring to ascertain in detail, first, foreign methods, practices, and results and the specific advantages which merchants and carriers would expect to accrue from the privilege; second, the requirements that should precede the granting of the privilege, such as present and prospective commerce, trade routes, natural advantages, connecting transportation, the facilities that should be furnished by the local communities, the benefits that might be expected to accrue to the aggregate of the national commerce, and also the objections that might be urged.

To the end of securing such information, investigations are under way in three large importing cities situated, respectively, on the Atlantic, the Gulf, and the Pacific.

### TARIFF INFORMATION CATALOGUE.

The appointment of this Commission by Congress on a permanent basis is evidence of a desire for the procuring and arranging of information regarding tariff subjects in such manner as to be continuously on file for consultation. While the Commission is giving immediate attention to problems connected with the war, other problems will demand attention after the close of the war and after the resumption of more normal industrial conditions. The most important permanent function of the Commission is that of having at the command of Congress, on all phases of the tariff question, information which will facilitate careful and well-devised legislation.

The Commission accordingly has undertaken to establish a catalogue of tariff information, somewhat in the nature of an encyclopedia. It is planned to secure for every article enumerated in our tariff acts the available pertinent information. For each article there will be, so far as possible, data concerning importation and exportation, domestic production, prices and cost of production, the conditions of competition between the domestic and imported quotas of supply, and references to sources from which further and more extended information can be obtained. A separate file or file holder will be set apart for every article, and in this will be placed the information as secured. A part of the general plan will be the establishment of a tariff library. In this will be kept books, pamphlets, articles and clippings from periodicals, letters from producers and importers and other manuscript material, classified and arranged for ready consultation in connection with the catalogue.

It is hardly necessary to say that this is a task of great magnitude, and one which can not be completed in a short time. A considerable staff must be trained in the systematic and accurate collection of the desired information. At best, on some subjects it will not prove feasible to get everything that would be pertinent, more particularly as regards conditions in foreign countries. But whatever can be got together will be so arranged as to be at the ready disposal of Congress and its committees. It is the intention of the Commission not only to construct this catalogue or encyclopedia but to keep it continuously up to date.

### THE CHEMICAL INDUSTRY.

Among the most important of the tariff problems both in times of war and of peace are those which relate to the chemical industry. By the tariff act of 1913 a considerable revision had been made of the chemical schedule (Schedule A). Some important classes of dyestuffs, such as indigo and alizarin and anthracene dyes, were admitted free; coal-tar dyes not specially provided for were subjected to a duty of 30 per cent ad valorem. The shortage of dyestuffs which was experienced in the year 1916, when the interruption to trade caused by the European war reached its acute stage, led Congress to undertake, in the act of September 8, 1916, Title V, a considerable revision of the duties on important chemicals, especially coal-tar products. The text of that title is printed in Appendix 3 of this report. In general, the crude forms of coal-tar products (Group I) are admitted free. The semimanufactured articles (Group II) are admitted at a duty of 15 per cent; the fully manufactured forms (Group III), including colors, dyes, and medicinals (and perhaps explosives also—the construction of the act on this point is in doubt), are subjected to a duty of 30 per cent. A further important section

provides that an additional specific duty of 2½ cents per pound shall be levied upon the semimanufactured articles of the second group, and an additional specific duty of 5 cents per pound upon the fully manufactured articles in the third group. Provision is made, however, for the eventual abolition of these additional duties. They are to remain in force for a period of five years, and thereafter are to be annually reduced by 20 per cent, so that at the end of the tenth year from the enactment of the law they shall entirely disappear; with a further proviso that if at the expiration of the first five years it shall appear that less than 60 per cent of the domestic consumption is then produced in the United States, they shall be abolished at once. Certain important articles of the third group, however, are not subjected at all to the additional duty of 5 cents per pound, applicable in general to that group. The excepted articles are alizarin and dyes obtained from alizarin and anthracene; natural and synthetic indigo and all indigoids, and medicinals and flavors. These are dutiable at the 30 per cent rate only.

The provision in the act of 1916 for a possible abolition of the additional specific duties at the close of the first quinquennial period will necessitate a census of the domestic production of the commodities enumerated in the second and third groups defined in the act. The President of the United States has designated the Tariff Commission as the agent for the collection of the needed statistical information regarding these commodities, and the Commission is preparing for a systematic census of their domestic production. In order to insure the proper organization for this task, the Commission will make a first enumeration at the beginning of the year 1918. This enumeration is expected also to throw light upon the feasibility of carrying out the plan of comparison between domestic production and total consumption which is provided for in the act of 1916. Certain ambiguities are latent in the language of the act and the enumeration for 1918 may indicate the need of explanatory or amendatory legislation.

The European war has caused revolutionary changes in the chemical industries. Nearly all branches of chemical manufacture which at the beginning of the war were already well established in the United States, including such staple industries as the manufacture of soda ash, caustic soda ash, and bleaching powder, have greatly expanded. Many articles not made at all before the war, or made only on a small scale, are now being produced in substantial amounts. The manufacture of dyes, medicinals, and other products obtained from coal tar has had a great development in the United States as well as in England, France, and Japan. The most striking advances have been made in the production of explosives and all related commodities, such as sulphuric, nitric, and picric acids,

benzol, toluol, and acetone. The potash industry has considerably expanded. Marked advances have been made with projects for the fixation of atmospheric nitrogen; these will be of great importance from a military point of view as well as for agriculture.

The industry as a whole, and especially those branches of it which have been most stimulated by the war, will have to face new conditions on the conclusion of peace. In some branches there will be surplus capacity and the probability of sharp international competition. The military problem will necessarily be considered from new points of view, and military and political considerations, as well as those of a strictly economic sort, will have to be borne in mind in any legislative readjustment.

The Commission is undertaking an extended survey of the chemical industry, and expects to present to Congress a detailed report showing the development of the various branches of the industry. The report will contain also a discussion of the industrial consequences of the provisions of the act of 1916 bearing on coal-tar products, and of the administrative problems arising under this act. The attention of Congress may be called further to the need for some changes in the chemical schedule at large such as will make it clearer, more consistent, and more easily administered. This schedule, like others in the existing tariff system, has been little changed in its general plan and construction during the last thirty-five years, although during that period great changes have taken place in the chemical industries. Many provisions in the legislative phraseology and in the classification are now obsolete and call for revision.

### HANDBOOKS ON TARIFF SCHEDULES.

On certain of the schedules of the tariff the Commission is publishing summary statistical handbooks showing the rates of duty under the various tariff acts from 1894 to the present time and also the importations of the several dutiable articles in typical years under each tariff act. Appendices give also the decisions of the Treasury Department, the Board of General Appraisers, and the United States Court of Customs Appeals under the tariff act of October 3, 1913, now in effect, relating to the several schedules taken in hand. These statistical compilations are now well advanced for Schedule A (chemicals), Schedule L (silks), and Schedule M (books and papers.) It is believed that they will be of assistance to the persons directly interested in these industries as well as to Congress.

### THE SUGAR INDUSTRY.

In view of the fiscal importance of the duties upon sugar and of the attention which Congress has recurrently been compelled to give the rates on this product, the Commission has thought it desirable

to bring together information regarding the industrial questions connected with the sugar industry. The collection of such information has been greatly facilitated for the Commission by two important reports which have been issued during the current year by other departments of the Government. The Bureau of Foreign and Domestic Commerce, of the Department of Commerce, issued a report upon cane sugar (The Cane Sugar Industry, Miscellaneous Series, No. 53); the Federal Trade Commission issued a report on beet sugar (Report on the Beet Sugar Industry in the United States). Both of these reports show conditions as they stood in the year 1914, just before the outbreak of the European war. They give exhaustive information concerning sources of supply, methods and costs of production, and geographical distribution. The Tariff Commission is fortunate in having at its disposal material gathered with such skill and care.

The sugar industry, like others, has been profoundly influenced by the war. Market conditions have greatly changed, prices have advanced, costs have become higher, and at the same time profits have become larger. The fiscal and industrial questions which arise in connection with the sugar industry and the sugar duty may call for the early attention of Congress. Accordingly, the Commission is proceeding with the procurement of pertinent information collected and tabulated on the same plan as the data gathered in the reports for 1914, already referred to.

#### WAR DISTURBANCES.

The act constituting this Commission was passed in September, 1916, when the European war had been in progress for two years, but when participation by this country was still uncertain. On April 6, 1917, however, six days after the Commission was organized, a state of war was declared by Congress to exist between the United States and Germany. At the time when the Commission was created the European war had already caused great disturbances in the industrial conditions of the United States and in its commercial relations with other countries. The entry of this country into the war has led to still further complications. In the very act constituting the Tariff Commission the possibilities of burdensome responsibilities on the United States were met by provisions for great increases in revenue; and industrial preparedness was also contemplated in the increased duties upon dyestuffs. Our entrance into the conflict brought the problems of the Commission, as those of every department of the Government, into an even closer relation to military problems and preparation therefor.

It has been the endeavor of the Commission to secure whatever information is available with regard to the disturbances as

caused by the war and the conditions likely to ensue at its close. Many industries in the United States are known to have adapted themselves to the exigencies of the immediate situation. Goods formerly imported no longer come in but are being largely supplanted by domestic substitutes. For other goods new sources of supply have been found in allied or neutral countries. In some cases plants have been established in this country which look to permanent and continuing production of commodities previously imported. In other cases, temporary arrangements have been made, with the expectation that something like the old state of affairs will be restored at the close of the war. The Commission is making inquiries concerning these industrial rearrangements, and hopes to have at the disposal of Congress information which will be serviceable when the business of the country is once more to be reorganized on a peace basis, and the new conditions of competition that occur in foreign countries have to be faced.

As a part of this task the Commission is endeavoring to ascertain also what stocks of goods now in European countries are being held for exportation to the United States on the conclusion of peace. It is also endeavoring to bring together whatever information is available, although it is impossible to ascertain the situation in hostile countries, and extremely difficult to get satisfactory information about the situation in neutral or allied countries.

#### INTERNATIONAL COMMERCIAL RELATIONS.

The European war, before April, 1917, had made it evident that the commercial treaties and tariff arrangements between the United States and foreign nations needed revision. Our entry into the war has made it certain beyond question that on the conclusion of peace the attention of the Government must be given to this important subject. Neither in the past nor under existing legislation has the United States Government had an established policy with regard to its commercial treaty relations. Since 1890 this country has had varied experiences with commercial treaties and reciprocity arrangements. In that year there was incorporated in the tariff act of October 1, 1890, a section authorizing the negotiation of special reciprocity agreements. A number of agreements were negotiated, but all were terminated by the act of August 27, 1894. The tariff act of 1897 contained two sections authorizing the negotiation of reciprocity treaties. Section 3 provided that treaty arrangements might be entered into by the President without ratification by the Senate, and under it a number of agreements were entered into. Section 4 provided for the negotiation of treaties which were not to become effective without ratification by the Senate, and under this the so-called Kasson treaties were negotiated. Had they not been rejected by the Senate, they

might have yielded substantial results and might have been a real test of the working of reciprocity. As events turned out they furnished no lessons. In 1903 the Cuban reciprocity treaty was entered into. It is the only reciprocity treaty now in force to which the United States is a party.

Section 2 of the tariff act of August 5, 1909, provided for the application of maximum rates against countries discriminating against the products of the United States. Some minor agreements were made under this section, and it led also, as a sequel to negotiations undertaken with Canada, to the proposed reciprocity arrangement of 1911 with that country proposed but never consummated. In the tariff act of October 3, 1913, now in force, the following provision is made for reciprocity treaties:

That for the purpose of readjusting the present duties on importations into the United States and at the same time to encourage the export trade of this country, the President of the United States is authorized and empowered to negotiate trade agreements with foreign nations wherein mutual concessions are made looking toward freer trade relations and further reciprocal expansion of trade and commerce: *Provided, however,* That said trade agreements before becoming operative shall be submitted to the Congress of the United States for ratification or rejection.

No agreements have yet been negotiated under this general authorization.

While the United States has been making trial, in a somewhat tentative and perhaps vacillating manner, of different sorts of reciprocity arrangements, European countries have dealt with the problem more systematically and consistently. Generally speaking, two systems are distinguishable—that of a general and conventional tariff, of which the German example is typical, and that of a maximum and minimum tariff, of which the French is typical. In the former the general tariff is fixed by the legislative branch of the Government, and the conventional rates are fixed by conventions or treaties with other countries. In Germany the conventional rates are determined by bargaining, the only restriction being a few minimum rates on agricultural products. The conventional rates are granted for reciprocal concessions. By the operation of the most-favored-nation clause the conventional rates are extended to all countries entitled to most-favored-nation treatment. The other system, that of a maximum and minimum tariff, differs from the general and conventional tariff in two respects. In the first place, it has two rates on practically all articles enumerated in the tariff act; in the second place, the minimum rates are fixed not by the executive but by the legislative branch of the government. It is frequently referred to as the double or multiple tariff system. Under it the most-favored-nation clause in commercial treaties operates, as in the case

of the general and conventional tariff system, to extend the minimum rates to those countries entitled to most-favored-nation treatment.

The American interpretation of the most-favored-nation clause in commercial treaties has been very different from the European interpretation. This country has contended that special favors granted by one country to another do not inure to the benefit of a third country by virtue of the favored-treatment clause unless that country gives special equivalent concessions. The European interpretation, on the other hand, holds that concessions granted by treaty to one country are automatically and unconditionally extended to every other country entitled to most-favored-nation treatment. This interpretation has been of wide effect because of the treaty of Frankfurt, which terminated the War of 1870-71 between France and Germany. By that treaty the two countries guaranteed to each other, without limit of time, treatment on the most-favored-nation basis. The inevitable extension of the same most-favored-nation treatment to other countries, when once made in favor of any single country, rendered the Frankfurt provisions of fundamental importance in European commercial arrangements.

The war now has terminated the Frankfurt treaty, and has also brought possibilities of commercial alinements on an entirely different basis. Both our allies and our enemies are considering the possibilities of commercial warfare, commercial neutrality, and commercial alliance. The central powers are considering the establishment of an economic union for central Europe. Imperial preference has been actively discussed in England and in her self-governing colonies. On February 2, 1917, the committee on commercial and industrial policy of the House of Commons adopted a resolution advocating that preference be accorded in British markets to the products and manufactures of the British overseas dominions. At an imperial conference which sat from March 21 to April 27, 1917, resolutions were adopted favoring imperial preference and also reciprocity of treatment between India and the self-governing dominions. The Scandinavian countries held two conferences in 1916 for the purpose of considering measures to conserve the rights of neutrals and to safeguard their independence in the economic struggle which they anticipate will follow the war. Far-reaching possibilities are suggested by the resolutions of the Paris Economic Conference which met in June, 1916. It recommended (a) measures for the war period, (b) transitory measures for the period of commercial and industrial reconstruction of the allied countries, and (c) permanent measures of mutual assistance among the allies. The transitory measures carried provisions for a period of probation before the central powers could be given most-favored-nation treatment, for the conservation of natural resources for the allied countries primarily, and for safeguards against the dumping of goods by the present enemy powers.

In view of this new and perplexing situation and of the specific power, conferred upon this Commission by the act creating it, to investigate commercial treaties, foreign tariff arrangements and economic alliances, the Commission has thought it desirable to bring together the pertinent evidence bearing on the whole subject. Accordingly, it is preparing an extended report on bargaining tariffs, commercial treaties, and economic alliances. The report will cover the following points: (a) interpretations of the most-favored-nation clause in commercial treaties; (b) an historical and critical consideration of the commercial treaties of the United States, giving particular attention to the reciprocity experiences of the United States and to the bargaining features of American tariffs; (c) the bargaining tariffs and the commercial treaty systems of the countries of continental Europe; (d) commercial relations of Canada, particularly the reciprocal relations and arrangements between the United States and Canada; (e) preferential tariffs of Australia, New Zealand, the South African Union, and India, and the proposed programs of imperial preference within the British Empire; (f) commercial treaties and bargaining tariffs of the South American countries, with special reference to the preferential relations between the United States and Brazil; (g) situation of the Caribbean countries, with reference to treaty relations and commercial policy; (h) commercial treaty and tariff problems in the Far East.

In the act creating the Tariff Commission the Commission is specifically empowered "to investigate the Paris Economy Pact and similar organizations and arrangements in Europe" (section 708). Satisfactory information on the development during the war of the situation with reference to commercial treaties, economic alliances, and bargaining tariffs does not seem to be available in this country. The Commission has, therefore, proposed that some of its members make an investigation in foreign countries for the purpose of gathering information which will supplement and complete the investigation now being made in this country.

The Commission hopes that its report on the general subject of our external relations, when ready, will prove serviceable toward solving the commercial problems which will necessarily arise at the conclusion of the war and toward the establishment of an effective and permanent commercial policy.

Respectfully submitted,

F. W. TAUSSIG, *Chairman.*  
DAVID J. LEWIS.  
WILLIAM KENT.  
WILLIAM S. CULBERTSON.  
EDWARD P. COSTIGAN.

## APPENDIX 1.

The act to increase the revenue and for other purposes approved September 8, 1916, makes an appropriation of \$300,000 to defray the expenses of the establishment and maintenance of the Tariff Commission for the fiscal year ending June 30, 1917.

The following statement shows the expenditures of the Commission for three months ending June 30, 1917:

Salaries of Commissioners.....	\$12, 041. 68
Salaries of staff.....	16, 300. 58
Rent of offices.....	1, 215. 00
Furniture, equipment, and supplies.....	14, 532. 04
Total.....	<u>44, 089. 30</u>

## APPENDIX 2.

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### TITLE VII OF THE ACT OF 1916, CREATING THE TARIFF COMMISSION.

The act of Congress approved September 8, 1916, entitled "An act to increase the revenue, and for other purposes," contains the following provisions establishing the United States Tariff Commission, and imposing duties on dyestuffs and other coal-tar products.

#### TITLE VII.—TARIFF COMMISSION.

SEC. 700. That a commission is hereby created and established, to be known as the United States Tariff Commission (hereinafter in this title referred to as the commission), which shall be composed of six members, who shall be appointed by the President, by and with the advice and consent of the Senate, not more than three of whom shall be members of the same political party. In making said appointments members of different political parties shall alternate as nearly as may be practicable. The first members appointed shall continue in office for terms of two, four, six, eight, ten, and twelve years, respectively, from the date of the passage of this Act, the term of each to be designated by the President, but their successors shall be appointed for terms of twelve years, except that any person chosen to fill a vacancy shall be appointed only for the unexpired term of the member whom he shall succeed. The President shall designate annually the chairman and vice chairman of the commission. No member shall engage actively in any other business, function, or employment. Any member may be removed by the President for inefficiency, neglect of duty, or malfeasance in office. A vacancy shall not impair the right of the remaining members to exercise all the powers of the commission, but no vacancy shall extend beyond any session of Congress.

SEC. 701. That each commissioner shall receive a salary of \$7,500 per year, payable monthly. The commission shall appoint a secretary, who shall receive a salary of \$5,000 per year, payable in like manner, and it shall have authority to employ and fix the compensations of such special experts, examiners, clerks, and other employees as the commission may from time to time find necessary for the proper performance of its duties.

With the exception of the secretary, a clerk to each commissioner, and such special experts as the commission may from time to time find necessary for the conduct of its work, all employees of the commission shall be appointed from lists of eligibles to be supplied by the Civil Service Commission and in accordance with the civil-service law.

All of the expenses of the commission, including all necessary expenses for transportation incurred by the commissioners or by their employees under their orders in making any investigation or upon official business in any other places than at their respective headquarters, shall be allowed and paid on the presentation of itemized vouchers therefor approved by the commission.

Unless otherwise provided by law, the commission may rent suitable offices for its use, and purchase such furniture, equipment, and supplies as may be necessary.

The principal office of the commission shall be in the city of Washington, but it may meet and exercise all its powers at any other place. The commission may, by one or more of its members, or by such agents as it may designate, prosecute any inquiry necessary to its duties in any part of the United States or in any foreign country.

SEC. 702. That it shall be the duty of said commission to investigate the administration and fiscal and industrial effects of the customs laws of this country now in force or which may be hereafter enacted, the relations between the rates of duty on raw materials and finished or partly finished products, the effects of ad valorem and specific duties and of compound specific and ad valorem duties, all questions relative to the arrangement of schedules and classification of articles in the several schedules of the customs law, and, in general, to investigate the operation of customs laws, including their relation to the Federal revenues, their effect upon the industries and labor of the country, and to submit reports of its investigations as hereafter provided.

SEC. 703. That the commission shall put at the disposal of the President of the United States, the Committee on Ways and Means of the House of Representatives, and the Committee on Finance of the Senate, whenever requested, all information at its command, and shall make such investigations and reports as may be requested by the President or by either of said committees or by either branch of the Congress, and shall report to Congress on the first Monday of December of each year hereafter a statement of the methods adopted and all expenses incurred, and a summary of all reports made during the year.

SEC. 704. That the commission shall have power to investigate the tariff relations between the United States and foreign countries, commercial treaties, preferential provisions, economic alliances, the effect of export bounties and preferential transportation rates, the volume of importations compared with domestic production and consumption, and conditions, causes, and effects relating to competition of foreign industries with those of the United States, including dumping and cost of production.

SEC. 705. That upon the organization of the commission, the Cost of Production Division in the Bureau of Foreign and Domestic Commerce in the Department of Commerce shall be transferred to said commission, and the clerks and employees of said division shall be transferred to and become clerks and employees of the commission, and all records, papers, and property of the said division and of the former tariff board shall be transferred to and become the records, papers, and property of the commission.

SEC. 706. That for the purposes of carrying this title into effect the commission or its duly authorized agent or agents shall have access to and the right to copy any document, paper, or record, pertinent to the subject matter under investigation, in the possession of any person, firm, copartnership, corporation or association engaged in the production, importation, or distribution of any article under investigation, and shall have power to summon witnesses, take testimony, administer oaths, and to require any person, firm, copartnership, corporation, or association to produce books or papers relating to any matter pertaining to such investigation. Any member of the commission may sign subpoenas, and members and agents of the commission, when authorized by the commission, may administer oaths and affirmations, examine witnesses, take testimony, and receive evidence.

Such attendance of witnesses and the production of such documentary evidence may be required from any place in the United States at any designated place of hearing. And in case of disobedience to a subpoena the commission may invoke the aid of any district court of the United States in requiring the attendance and testimony of witnesses and the production of documentary evidence, and such court within the jurisdiction of which such inquiry is carried on may, in case of contumacy or refusal to obey a subpoena issued to any corporation or other person, issue an order requiring such corporation or other person to appear before the commission, or to produce documentary evidence if so ordered, or to give evidence touching the matter in question; and any failure to obey such order of the court may be punished by such court as a contempt thereof.

Upon the application of the Attorney General of the United States, at the request of the commission, any such court shall have jurisdiction to issue writs of mandamus commanding compliance with the provisions of this title or any order of the commission made in pursuance thereof.

The commission may order testimony to be taken by deposition in any proceeding or investigation pending under this title at any stage of such proceeding or investigation. Such depositions may be taken before any person designated by the commission and having power to administer oaths. Such testimony shall be reduced to writing by the person taking the deposition, or under his direction, and shall then be subscribed by the deponent. Any person, firm, copartnership, corporation, or association may be compelled to appear and depose and to produce documentary evidence in the same manner as witnesses may be compelled to appear and testify and produce documentary evidence before the commission, as hereinbefore provided.

Witnesses summoned before the commission shall be paid the same fees and mileage that are paid witnesses in the courts of the United States, and witnesses whose depositions are taken and the persons taking the same, except employees of the commission, shall severally be entitled to the same fees and mileage as are paid for like services in the courts of the United States: *Provided*, That no person shall be excused, on the ground that it may tend to incriminate him or subject him to a penalty or forfeiture, from attending and testifying, or producing books, papers, documents, and other evidence, in obedience to the subpoena of the commission; but no natural person shall be prosecuted or subjected to any penalty or forfeiture for or on account of any transaction, matter, or thing as to which, in obedience to a subpoena and under oath, he may so testify or produce evidence, except that no person shall be exempt from prosecution and punishment for perjury committed in so testifying.

SEC. 707. That the said commission shall in appropriate matters act in conjunction and cooperation with the Treasury Department, the Department of Commerce, the Federal Trade Commission, or any other departments, or independent establishments of the Government, and such departments and independent establishments of the Government shall cooperate fully with the commission for the purposes of aiding and assisting in its work, and, when directed by the President, shall furnish to the commission, on its request, all records, papers, and information in their possession relating to any of the subjects of investigation by said commission and shall detail, from time to time, such officials and employees to said commission as he may direct.

SEC. 708. It shall be unlawful for any member of the United States Tariff Commission, or for any employee, agent, or clerk of said commission, or any other officer or employee of the United States, to divulge, or to make known in any manner whatever not provided for by law, to any person, the trade

secrets or processes of any person, firm, copartnership, corporation, or association embraced in any examination or investigation conducted by said commission, or by order of said commission, or by order of any member thereof. Any offense against the provisions of this section shall be a misdemeanor and be punished by a fine not exceeding \$1,000, or by imprisonment not exceeding one year, or both, in the discretion of the court, and such offender shall also be dismissed from office or discharged from employment. The commission shall have power to investigate the Paris Economy Pact and similar organizations and arrangements in Europe.

SEC. 709. That there is hereby appropriated, for the purpose of defraying the expense of the establishment and maintenance of the commission, including the payment of salaries herein authorized, out of any money in the Treasury of the United States not otherwise appropriated, the sum of \$300,000 for the fiscal year ending June thirtieth, nineteen hundred and seventeen, and for each fiscal year thereafter a like sum is authorized to be appropriated.

## APPENDIX 3.

### TITLE V OF THE ACT OF 1916, FIXING DUTIES ON DYESTUFFS.

#### TITLE V.—DYESTUFFS.

SEC. 500. That on and after the day following the passage of this act, except as otherwise specially provided for in this title, there shall be levied, collected, and paid upon the articles named in this section when imported from any foreign country into the United States or into any of its possessions, except the Philippine Islands and the islands of Guam and Tutuila, the rates of duties which are prescribed in this title, namely:

#### FREE LIST.

Group I. Acenaphthene, anthracene having a purity of less than twenty-five per centum, benzol, carbazol having a purity of less than twenty-five per centum, cresol, cumol, fluorene, metacresol having a purity of less than ninety per centum, methylanthracene, methylnaphthalene, naphthalene having a solidifying point less than seventy-nine degrees centigrade, orthocresol having a purity of less than ninety per centum, paracresol having a purity of less than ninety per centum, pyridin, quinolin, toluol, xylol, crude coal tar, pitch of coal tar, dead or creosote oil, anthracene oil, all other distillates which on being subjected to distillation yield in the portion distilling below two hundred degrees centigrade a quantity of tar acids less than five per centum of the original distillate, and all other products that are found naturally in coal tar, whether produced or obtained from coal tar or other source, and not otherwise specially provided for in this title, shall be exempt from duty.

#### DUTIABLE LIST.

Group II. Amidonaphthol, amidophenol, amidosalicylic acid, anilin oil, anilin salts, anthracene having a purity of twenty-five per centum or more, anthraquinone, benzoic acid, benzaldehyde, benzylchloride, benzidin, binitrobenzol, binitrochlorobenzol, binitronaphthalene, binitrotoluol, carbazol having a purity of twenty-five per centum or more, chlorophthalic acid, cumidin, dimethylanilin, dianisidin, dioxynaphthalene, diphenylamin, metacresol having a purity of ninety per centum or more, methylanthraquinone, metanilic acid, naphthalene having a solidifying point of seventy-nine degrees centigrade or above, naphthylamin, naphthol, naphthylenediamin, nitrobenzol, nitrotoluol, nitronaphthalene, nitranilin, nitrophenylenediamin, nitrotoluylenediamin, orthocresol having a purity of ninety per centum or more, paracresol having a purity of ninety per centum or more, phenol, phthalic acid, phthalic anhydride, phenylenediamin, phenylnaphthylamin, resorcin, salicylic acid, sulphanilic acid, toluidin, tolidin, toluylenediamin, xylidin, or any sulphoacid or sulphoacid salt of any of the foregoing, all similar products obtained, derived, or manufactured in whole or in part from the products provided for in Group I, and all distillates which on being subjected to distillation yield in the portion distilling below two hundred degrees centigrade a quantity of tar acids equal to or more than five per centum

of the original distillate, all the foregoing not colors, dyes, or stains, photographic chemicals, medicinals, flavors, or explosives, and not otherwise provided for in this title, and provided for in the paragraphs of the act of October third, nineteen hundred and thirteen, which are hereinafter specifically repealed by section five hundred and two, fifteen per centum ad valorem.

Group III. All colors, dyes, or stains, whether soluble or not in water, color acids, color bases, color lakes, photographic chemicals, medicinals, flavors, synthetic phenolic resin, or explosives, not otherwise specially provided for in this title, when obtained, derived, or manufactured in whole or in part from any of the products provided for in Groups I and II, natural alizarin and indigo, and colors, dyes, or color lakes obtained, derived, or manufactured therefrom, thirty per centum ad valorem.

Sec. 501. That on and after the day following the passage of this act, in addition to the duties provided in section five hundred, there shall be levied, collected, and paid upon all articles contained in Group II a special duty of 2½ cents per pound, and upon all articles contained in Group III (except natural and synthetic alizarin, and dyes obtained from alizarin, anthracene, and carbazol; natural and synthetic indigo and all indigoids, whether or not obtained from indigo; and medicinals and flavors), a special duty of 5 cents per pound.

During the period of five years beginning five years after the passage of this act such special duties shall be annually reduced by twenty per centum of the rate imposed by this section, so that at the end of such period such special duties shall no longer be assessed, levied, or collected; but if, at the expiration of five years from the date of the passage of this act the President finds that there is not being manufactured or produced within the United States as much as sixty per centum in value of the domestic consumption of the articles mentioned in Groups II and III of section five hundred, he shall by proclamation so declare, whereupon the special duties imposed by this section on such articles shall no longer be assessed, levied, or collected.

Sec. 502. That paragraphs twenty, twenty-one, twenty-two, and twenty-three and the words "salicylic acid" in paragraph one of Schedule A of section one of an act entitled "An act to reduce tariff duties and to provide revenue for the Government, and for other purposes," approved October third, nineteen hundred and thirteen, and paragraphs three hundred and ninety-four, four hundred and fifty-two, and five hundred and fourteen, and the words "carbolic" and "phthalic," in paragraph three hundred and eighty-seven of the "free list" of section one of said act, and so much of said act or any existing law or parts of law as may be inconsistent with this title, are hereby repealed.

