

TARIFF RELATIONS WITH CUBA—ACTUAL AND DESIRABLE

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Cuba's political disturbances have in the past followed economic conditions that have caused discontent and encouraged revolution; such was the case in the ten-year insurrection and again in the insurrection of 1895, which preceded the Spanish-American War.

Previous to 1868 the tariff laws for Cuba were framed with the object of giving its trade to Spain, and for this purpose four different rates of duty were enforced, the first and lowest rate being upon Spanish merchandise in Spanish vessels, the second rate upon Spanish merchandise in foreign vessels, the third rate upon foreign merchandise in Spanish vessels, and the fourth rate upon foreign merchandise in foreign vessels. A duty was in force in Spain against Cuban sugar as a protection for the cane sugar produced in its southern provinces.

As long as the European countries were dependent upon the West Indies for the greater part of their sugar supply, and Cuba was producing with slave labor and had the buyers of Europe competing with those of the United States for her sugar, little attention was given to the fact that all legislation at Madrid was for the benefit of the mother country and that nothing was being done with a view to holding foreign markets for the island.

As years passed the continental countries of Europe all became producers of beet sugar and levied heavy duties against foreign imports, thus closing their markets to Cuba, and as soon as their production exceeded their consumption requirements, export bounties were paid, which enabled them to sell free-trade England at prices a good deal below cost of production. Cuba could then no longer compete there, and so became dependent upon the United States, where, fortunately for her, a countervailing duty, in addition to the regular tariff, had been enforced against those countries paying an export bounty.

With the gradual abolition of slavery in Cuba, 1866-1880, her
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cost of production had greatly increased, while, by reason of the growth of the beet sugar industry, values had been cut in two. Spain through all these changes held blindly to her course of protecting her home trade, regardless of the interests of Cuba, and the inevitable result was the long and disastrous insurrection, 1868-1878, which brought financial ruin to so many of the sugar estates of the island.

During this period the United States, up to 1884, was almost as negligent of her foreign trade interests as was Spain of the interests of Cuba. When the change came from wooden to iron ships, and from sailing to steam vessels, England was prompt, not only to furnish tramp steamers for the transportation of Cuba's sugar crop to the United States, but with English capital she built and operated under the Spanish flag steamers which carried both Spanish and English merchandise to Cuba, taking advantage of the first and third columns of the Spanish tariff for Cuba, from which American merchandise was debarred, for the United States contented herself by imposing an additional duty of 10 per cent upon Cuban and Puerto Rican merchandise in Spanish vessels. This provision was applied by the United States as late as 1874 upon a cargo of molasses imported by a Spanish schooner. In 1884 these discriminating duties were abolished by agreement with Spain. But we had for many years the singular spectacle of English-built Spanish steamers, operated largely by English capital, running from English and Spanish ports and supplying Cuba with the many articles of need which should have gone from the United States, including flour from American wheat, which was shipped from New York to Santander under the British flag and thence to Havana as Spanish flour. These same Spanish steamers came in ballast to our southern ports to load cotton back to Europe.

All this was allowed for years in the name of protection to American industries and American shipping, and at a time when, through radical changes in the commerce of the world, we were every year taking a larger proportion of Cuban exports and paying through New York, by remittance of exchange, to Spain, England, Germany and France, in settlement for merchandise with which they were supplying Cuba.

In 1890 the McKinley tariff bill was passed and by what was known as the Aldrich amendment, power was conferred upon the

President of the United States to negotiate treaties of reciprocity which would admit sugar free of duty from such countries as would make concessions in their tariffs upon American merchandise. Under the power so conferred a treaty of reciprocity was negotiated with Spain, and afterwards similar treaties were made with the principal sugar-producing countries of the world, and the United States' tariff upon sugar was practically abolished; so our exports to Cuba rapidly increased, the cost of food supplies in Cuba was greatly reduced, and the island entered upon a period of prosperity such as it had not known for many years. This lasted until the year 1895, when the second insurrection occurred.

In 1894 the change from a Republican to a Democratic administration at Washington was followed by the passage of the Wilson tariff bill, which again placed a duty upon sugar, cancelled the reciprocity treaties and brought a return to the Spanish tariff rates in Cuba. Prices of sugar declined, while cost of living increased; confidence was destroyed through such conditions, together with a threatened insurrection, and as the estates finished their crops in the spring of 1895, all work on the plantations ceased, and the thousands of laborers suddenly thrown out of employment and unable to gain a livelihood took to the woods and joined the ranks of the insurgents. The destruction of property, the loss to commerce, and the reduction of Cuba's sugar crop from 1,040,000 to 230,000 tons, with the Spanish-American War which followed in 1898, are now matters of history. In 1897 the Dingley tariff bill was passed, by which ninety-six test sugar paid 1.68½ cents per pound, about double the rate under the Wilson bill.

Following our war with Spain and the taking over of her colonies came a radical change in our trade relations with Cuba through the reciprocity treaty, which took effect December 27, 1903. By this treaty Cuban sugar enters the United States at 20 per cent less duty than is charged upon other foreign sugar under the existing Dingley rates, or in round figures 1.35 cents per pound against 1.69 cents, the full rate on ninety-six test sugar, and Cuba concedes to the United States a reduction ranging from 20 to 40 per cent from her regular tariff rates charged to other countries.

When this treaty took effect the serious competition between European beet and Cuban sugars in the United States ceased. Under the Brussels agreement all government bounties, except those

of Russia, were abolished, and the continental countries took steps to restrict their production to their consumption. England could no longer supply her requirements below cost of production, and began drawing upon her own colonies and Java, and these sugars, paying a higher rate of duty in the United States than Cuban sugars paid, were diverted to England and to the eastern countries, as long as Cuba could supply our markets.

The first effect of the reciprocity treaty with Cuba was, as expected, to give that country the greater part of the differential duty and largely to divert her orders for supplies from Europe to the United States; but as an effect of changing the sugar tariffs of practically the entire commercial world, and the subsequent diversion of commerce to its more natural channels, combined with a poor agricultural season in Europe, crops were reduced and prices temporarily rose in 1905. This stimulated production in all cane-sugar countries, including Cuba, and large crops and lower prices in 1907 were the consequence.

Cuba, after the Spanish-American War, and under the stimulus of the reciprocity treaty, gradually recovered from the effects of the insurrection, but it was not until 1904 that her sugar crop again equaled that of 1895, preceding the second insurrection.

In tracing sugar legislation for the last forty years we get an illustration of how the tide of commerce has been changed and diverted from one channel to another by the raising and lowering of tariffs and by payments of bounties, at times bringing great temporary prosperity, and again sweeping away all barriers in seeking its natural outlet.

As has been stated, the first effect of the present reciprocity treaty was to give the greater part of the differential, amounting to roundly one-third of a cent per pound, to the Cuban producers, but as our domestic production and the Cuban crop increased, the New York duty-paid price dropped, and during the period, when the bulk of the Cuban crop is marketed (January to June), prices fell so far below the parity of Europe as to transfer the benefit of the differential to the consumers in the United States, so that in effect, while the reciprocity treaty in 1907 gave the United States markets for raw sugar to Cuba, as against other foreign competitors, by allowing her to undersell them, the island received but little pecuniary benefit from the differential accorded to her, and it still had to pay

1.35 cents per pound against the free sugar from our western beets, and the caned sugars of Louisiana, Puerto Rico and Hawaii, which sources were supplying nearly half of our annual requirements and forcing sales at the time of the heaviest receipts of Cuban sugars.

While United States control has, upon the whole, greatly benefited Cuba, and both General Wood and Governor Magoon are entitled to every credit for their administration of affairs, this relation has not been without its disadvantages. When the Cuban reciprocity treaty was under discussion at Washington every effort was made, by special interests, to reduce the proposed differential on sugar to the lowest possible figure, and fearing the competition for our domestic sugar through cheaper Cuban labor, our "Contract Labor Law," the "Chinese Exclusion Act," and our immigration law were all put in force in the island by General Wood, through directions from Washington, and afterwards made permanent by the joint resolution of Congress known as the Platt amendment. This action has effectually prevented Cuba from getting an adequate supply of labor to harvest her increasing crops, and the average wage of the agricultural laborer throughout the year is now quite as high as that paid in the United States. Figures from the payrolls of a well-known Cuban plantation show an increase in cost of labor between July, 1902, and July, 1906, of over 40 per cent, and an increase in the harvest season months of March, 1903 and 1907, of 33 per cent. With United States control came the labor agitator from the north and the formation of labor unions under his direction. This has led to a succession of strikes from trivial cause, many of which have had most disastrous consequences.

In providing by treaty for the exports of the United States, duties in Cuba were so adjusted as to give the trade to this country by differential duties ranging from 20 to 40 per cent. Under this provision our exports to Cuba have shown a most satisfactory growth, and from an insignificant amount under Spanish tariffs they reached the value of \$51,300,000 out of a total of \$104,400,000 imports for the twelve months ending December 31, nearly 50 per cent of the total. That the percentage was not greater was largely due to the high values prevailing in the United States, owing to control of prices of so many commodities by combinations, and to higher freight rates from the United States than from Europe, due to similar control of steamship lines.

Cuba has unquestionably benefited through United States control, first by securing a market for her sugars, when all others were closed to her, and, secondly, by the maintenance of order through the presence of United States troops during all but four years of the time which has elapsed since our war with Spain in 1898. Millions of foreign capital have been invested in Cuban sugar, tobacco and cattle industries, in the building of railroads, the establishment of banks, and other important enterprises. But both the consumers and producers in the United States have also benefited, the first through the lowering of the tariff rate on Cuban sugar, the second by an increased foreign market for their goods.

The political overturn in Cuba in August, 1906, with the threatened destruction of foreign property, forced the United States to again intervene by authority conferred by both governments under the Platt amendment to the Senate army appropriation bill of February 25, 1902, afterwards ratified by the Cuban Congress. This insurrection, which was fortunately checked before much destruction had been accomplished, stopped all agricultural work at a critical period, and destroyed confidence, so that very little planting was done for the crop of 1908, and these conditions followed by a severe drought during the next summer, reduced the sugar crop of 1908 to 925,000 tons against 1,420,000 tons the previous year.

In the early spring of the present year it was announced from Washington that the United States troops would be withdrawn not later than February 1, 1909; further credit was then refused to the planters, imports fell off, and general stagnation followed. These are the conditions prevailing to-day, for there are very few people connected with the business of the island, even among the Cubans themselves, who believe the country is yet prepared for an unrestricted independent government, free from United States control in some form.

The subject of tariff revision will soon be under discussion at Washington. The treaty of reciprocity with Cuba, which went into effect on December 27, 1903, was for five years from that date (to December 27, 1908), "and from year to year thereafter until the expiration of one year from the day when either contracting party shall give notice to terminate."

Already a movement is suggested on the part of our beet-sugar

producers to prevent any reduction in the sugar schedule and if possible to terminate this treaty. These interests claim that, given a high protection, domestic sugar should, within a few years, supply our consumption at a saving of some eighty million dollars, now sent abroad in payment for imported sugars. They ignored the fact that the greater part of these imports are paid for, not in cash, but in merchandise, the product of our factories, mines and farms, over fifty millions of which now goes to Cuba alone.

Another argument against reduced duties is that the United States cannot spare any of its revenue from sugar; a glance at the following figures will show the effect upon revenue, of the marked increase in domestic production:

CONSUMPTION, SUPPLY AND REVENUE FROM SUGAR—TEN YEARS.
(Sugar given in gross tons.)

YEAR.	Consumption.	Free sugar supply.	Cuban crop.	Other countries, bal. requirements.	Revenue to June 30.
1898.....	2,003,000	556,000	(b) 230,000	1,217,000	(a) \$29,504,000
1899.....	2,078,000	537,000	345,000	1,196,000	61,596,000
1900.....	2,220,000	478,000	308,000	1,434,000	57,741,000
1901.....	2,372,000	698,000	635,000	1,039,000	63,040,000
1902.....	2,566,000	876,000	850,000	840,000	53,033,000
1903.....	2,550,000	971,000	999,000	580,000	63,630,000
1904.....	2,767,000	881,000	1,040,000	846,000	58,152,000
1905.....	2,632,000	1,070,000	1,163,000	399,000	51,439,000
1906.....	2,864,000	1,177,000	1,179,000	508,000	52,645,000
1907.....	2,994,000	1,278,000	1,428,000	288,000	(c) 60,334,000

NOTES.—Sugar statistics are for calendar years. Revenue for fiscal years. Figures of consumption and crops from Willett & Gray's Reports:

(a) Revenue effected by change in tariff August, 1907. (b) Spanish-American War. (c) Temporary increase from heavy Cuban importations previous to June 30.

During the ten-year period above given the consumption of the United States increased 991,000 tons, the average annual increase being slightly under 5 per cent; during the same period the supply of free sugar increased 722,000 tons, the Cuban crop 1,198,000, while our requirements from all other countries have decreased 929,000 tons, and the revenue under the Dingley tariff has (if we except the year 1907) not increased since 1899, but has rather diminished in face of the steady increase of consumption.

Following these figures to a logical conclusion, and barring
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partial crop failures, such as occurred in Cuba the present year, when the crop is reduced to 925,000, the present tariff rate would first shut out sugars from all foreign countries, other than those from Cuba, then check, and afterwards reduce, the Cuban production, for the reason that sugar paying a duty of 1.35 cents per pound cannot compete with that paying no duty.

The revenue from sugar under the present tariff has apparently reached and passed its maximum point, and any increase in tariff rates would soon decrease it by artificially stimulating the domestic production for which consumers are already paying some one hundred million dollars annually, but little more than half of which reaches the United States treasury.

Under the Treaty of Paris, 1898, and the provision of the Platt amendment, 1902, the United States first made themselves responsible for, and afterwards assumed the right to protect life and property in Cuba. In case of further trouble following the contemplated withdrawal of United States troops, either we must return promptly or so far abandon the Monroe Doctrine as to permit the landing of troops by the European governments for the protection of their citizens, whose interests there are large and steadily increasing.

While the present differential duty of .34 cents per pound has proved sufficient to protect Cuba in the United States markets against the lower cost sugars of Europe and Java, she cannot long compete with our domestic sugars against the duty she is now paying of 1.35 cents per pound. As long as the island is prosperous and under some form of United States control, a Republican government may be maintained; but should her great sugar industry be made unprofitable, either by cancellation of the treaty or by long continuance of the present high duty against her sugar, revolution, fed by her unemployed, is sure to result in the future, as it has under similar circumstances in the past. Revolution would be followed by a third and final occupation by the United States, by annexation, and finally by abolition of all duties. Whether such a condition is desirable in the near future, either for the United States or for Cuba, is open to grave doubt, but no government in any form, other than one of military force, can be maintained unless the people are given a "square deal," and allowed to benefit through their own industry.

To put the sugar industry of Cuba upon a sound basis does not require the removal of duties here, or such drastic measures as would prevent a fair and just return to our beet sugar and other producers upon their invested capital. But these interests are no longer dependent upon the present high Dingley rates—a liberal reduction can now be made in our sugar schedules; and by continuing the present differential of 34 cents per one hundred pounds, our large and increasing export trade to the island can be held, through maintaining its leading industry in a sound and healthy condition.

Will our domestic producers allow such reduction, or will they, by pursuing the former policy of Spain, risk all, and bring about the very conditions of free trade which they are so anxious to avoid?