

## HOW THE PROCESSING TAX EFFECTS LABOR

By JEFF PALMER

It is apparent from a recent survey of the cotton textile industry, that the majority of the cotton manufacturers have the interest of their employees at heart. Statistics for the first full month of self-regulation of the industry, after the death of the N.R., show that observance of code fundamentals exceed 90 per cent.

This is rather remarkable, when one considers the adverse conditions under which the industry is operating today. During this period the consumption of cotton was in the decline, as shown by the report of the census bureau. Cotton consumed during June was 385,946 bales of lint and 61,905 bales of linters, compared with 469,250 bales of lint and 65,501 bales of linters during the month of May. The active spindles for June numbered 16,486,278, compared with 16,830,156 during May and nearly a million less than June a year ago.

There must be something radically wrong to cause this decrease in the manufacture of cotton goods. Are the people consuming other fabrics instead of cotton? If so, why? Ever since the depression started five years ago the cotton mills have been curtailing, and one would naturally think that if there was a surplus of manufactured cotton, that in five years it would have been consumed. Possibly the response to the President's appeal to put more employees to work to give purchasing power increased the supply and as soon as the mills realized that the market did not respond they were forced to curtail production. This has happened twice within a year.

The claim of the Administration was all that is necessary was increased purchasing power, and that the farmer and laborer were the greatest consumers. Therefore wages were increased 70 per cent, hours were reduced from 55 to 40. So much for the laborer. Now for the farmer. Cotton was selling for 6c, it was pegged at 12c an increase of 100 per cent. To do this a processing tax of 4.2 was placed upon each bale of cotton that the mills used, which based on the original price of cotton lint (6c) is approximately 75 per cent increased production cost. This price increase production cost. This price increase falls heaviest upon the laborer and farmer as they are consumers of the heavier weight cotton goods, which carry a greater amount of tax. Therefore the theory did not work out as anticipated.

The processing tax placed a handicap of \$21.00 a bale on the manufacturer at the start. This the foreign manufacturer does not have to pay. American labor has always enjoyed a much higher standard of living than that of foreign countries and in order to maintain that standard and have

sufficient employment to earn a decent living, this tax should be removed from the mills, and as it is for the relief of the farmer, he should be paid from the 4,880,000.00 dollars relief fund. This would give the mills much needed operating funds and would also help the laborer and farmer.

The price of finished cotton goods has advanced due to these increased costs of production, which has greatly effected consumption and caused a loss in wages. But unfortunately for the mills the advance in price has not kept pace with the cost of production. Many are operating at a loss and unless they get relief from these excessive financial burdens, will have to discontinue operation.

Why has the market not advanced with the rest of the advances caused by the New Deal? Wallace B. Donham, Dean of the Graduate School of Business Administration, Harvard University answers the question to a large extent in an article on Japan. He states that "Already some forty nations restrict Japanese imports," and "we shall, in the near future, either restrict her competition or repeat in sack cloth and ashes."

"At the moment we are not defending our home market and Japan sends us a constantly increasing number of products in constantly increasing quantities. It is not surprising that she sees no need for a reciprocal treaty. Cotton textiles are an important example. In 1933 she exported to us 1,115,713 square yards of cotton cloth, mostly in print dyed or colored cloths. In 1934 she sent 7,287,017 square yards, with an increase in bleached cotton cloth of nearly twenty-four times, while in January, February and March, 1935, she has already sent 12,770,887 yards.

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Japan has practically taken from American cotton manufacturers the markets in India, the Dutch East Indies, the Philippines and in various Central and South American countries. It is estimated, from the rapidly increase of her cotton textile exports to the United States, that by the end of the present year approximately 37 per cent of the American output of bleached cotton cloth and 25 per cent of the domestic print cloth.

This is good manufacturing for Japan but very disturbing to our mills because she has the advantage of not paying the processing tax and only pays about one fifth of what our mills pay for wages. She therefore can sell her product so much cheaper that we can that there is no profit for the American manufacturer, and unless a sufficient protective tariff is placed on her goods and the processing tax is shifted from the mills thousands of laborers will be thrown out of work.

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