Volume Title: Clashing over Commerce: A History of U.S. Trade Policy

Volume Author/Editor: Douglas A. Irwin

Volume Publisher: University of Chicago Press

Volume ISBNs: 978-0-226-39896-9 (cloth); 0-226-39896-X (cloth); 978-0-226-67844-3 (paper); 978-0-226-39901-0 (e-ISBN)

Volume URL: http://www.nber.org/books/irwi-2

Conference Date: n/a

Publication Date: November 2017

Chapter Title: Policy Reversals and Drift, 1912–1928

Chapter Author(s): Douglas A. Irwin

Chapter URL: http://www.nber.org/chapters/c13857

Chapter pages in book: (p. 330 – 370)

CHAPTER SEVEN

Policy Reversals and Drift, 1912–1928

Although the United States emerged as the world's leading industrial power and became a net exporter of manufactured goods in the 1890s, these developments failed to change the course of US trade policy. Instead, import duties remained high, a brief flirtation with reciprocity sputtered out, and the partisan stalemate over trade policy continued unabated. Despite a brief period of lower tariffs under the Democrats (1913–1922), Republicans reverted to economic isolationism after World War I by raising import duties in 1922 and again in 1930. However, the goal of trade policy slowly began to shift from protecting manufacturing industries against imports to protecting agricultural producers from low prices, something import duties were ineffective in doing.

THE DEMOCRATIC TRIUMPH OF 1912

Despite significant changes in the US economy in the first decade of the twentieth century, no major changes were made to US trade policy. Republicans controlled seven consecutive Congresses after 1896, leaving Democrats demoralized and protective tariffs intact. At the same time, high protective tariffs were under attack for promoting the growth of monopoly trusts and the high cost of living, keeping Old Guard Republicans on the defensive. The party's failure to address these issues in the 1909 Payne-Aldrich tariff left them vulnerable in the 1910 and 1912 elections. Indeed, the Democratic and progressive Republican gains in the 1910 midterm elections were widely viewed as a repudiation of the Republican establishment.

In the 1912 election, President William Howard Taft ran for reelection on a platform that reaffirmed the party's support for protection. The platform stated that the high tariff policy "has been of the greatest benefit to the country, developing our resources, diversifying our industries, and protecting our workmen against competition with cheaper labor abroad, thus establishing for our wage-earners the American standard of living. The protective tariff is so woven into the fabric of our industrial and agricultural life that to substitute for it a tariff for revenue only would destroy many industries and throw millions of our people out of employment."[1]

Republicans denied that the tariff was responsible for rising prices, pointing out that countries with low tariffs were experiencing the same inflation of consumer prices. Yet "some of the existing import duties are too high, and should be reduced," they conceded. "Readjustment should be made from time to time to conform to changing conditions and to reduce excessive rates, but without injury to any American industry." To do this "requires closer study and more scientific methods than ever before" and therefore the Republicans proposed the creation of an expert commission much like the Tariff Board.[2]

The Democrats nominated Woodrow Wilson, the Governor of New Jersey and a former professor and president of Princeton University, as their presidential candidate. A student of government and politics, Wilson had a long and deep interest in tariff policy. Having grown up in the South, Wilson was a lifelong opponent of protection and a determined advocate of tariff reform. As a young man, he testified against high tariffs before the 1882 Tariff Commission, and a year later he helped organize the Atlanta branch of the Free Trade Club of New York.[3] In a scathing article, "The Tariff Make-Believe," Wilson (1909, 543) argued that tariffs were simply a way for politicians to dispense the largess of the government to special interests in exchange for political favors. He dismissed the pleas from industry for protection—the "pitiful tales, hard-luck stories, petition for another chance"—as "an act very unpalatable to American pride, and yet very frequently indulged in with no appearance of shame." In his view, "If any particular industry has been given its opportunity to establish itself and get its normal development, under cover of the customs, and is still unable to meet the foreign competition which is the standard of efficiency, it is unjust to tax to people of the country any further to support it."

Wilson (1909, 538) criticized the Payne-Aldrich tariff as "miscellaneously wrong in detail and radically wrong in principle." He attacked the so-called "jokers" in the tariff bills, "clauses whose meaning did not lie upon the surface, whose language was meant not to disclose its meaning." For example, the Payne-Aldrich legislation changed the tariff on imports of electric carbons from ninety cents per hundred weight to seventy cents per hundred feet, an apparent reduction but one that actually doubled the duty. Wilson condemned the process by which Congress drew up the tariff code. Congress never asked "what part of the protective system still benefits the country and is in the general interest; what part is unnecessary; what part is pure favoritism and the basis of dangerous and demoralizing special privilege?" Instead, he observed, in all tariff legislation "the committees of the House and Senate, when making up the several schedules of duties they were to propose, have asked, not what will be good for the country, but what will be good for the industries affected . . . what rates of duty will assure them abundant profits?"[4]

Wilson insisted that tariff reform and antitrust policy be put at the top of the Democratic agenda. Even though the party had opposed the Payne-Aldrich duties, they had lost credibility on the issue and were even accused of hypocrisy when some members lobbied for higher duties on products of interest to their own constituents, sometimes even asking for duties higher than those proposed by Republicans.[5] But Wilson was determined to force the party to live up to its past pronouncements. As a result, the Democratic platform declared "it to be a fundamental principle of the Democratic party that the Federal government, under the Constitution, has no right or power to impose or collect tariff duties, except for the purpose of revenue, and we demand that the collection of such taxes shall be limited to the necessities of government honestly and economically administered." It blasted high Republican tariffs as

> the principal cause of the unequal distribution of wealth; it is a system of taxation which makes the rich richer and the poor poorer; under its operations the American farmer and laboring man are the chief sufferers; it raises the cost of the necessaries of life to them, but does not protect their product or wages. The farmer sells largely in free markets and buys almost entirely in the protected markets. In the most highly protected industries, such as cotton and wool, steel and iron, the wages of the laborers are the lowest paid in any of our industries. We denounce the Republican pretense on that subject and assert that American wages are established by competitive conditions, and not by the tariff.

The party endorsed "the immediate downward revision of the existing high and in many cases prohibitive tariff duties, insisting that material reductions be speedily made upon the necessaries of life" and argued that "articles entering into competition with trust-controlled products and articles of American manufacture which are sold abroad more cheaply than at home should be put upon the free list."[6]

If Republicans were in a vulnerable position going into the election, party divisions ensured their demise. Dismayed by Taft's performance in office, former president Theodore Roosevelt entered the presidential race as a candidate for the Progressive "Bull Moose" Party, which demanded more government regulation of business. On the tariff, Progressives were ambivalent, advocating "a protective tariff which shall equalize conditions of competition between the United States and foreign countries, both for the farmer and the manufacturer, and which shall maintain for labor an adequate standard of living." They condemned Republicans for enacting the "unjust" Payne-Aldrich tariff and Democrats for wanting to destroy protection, which "would inevitably produce widespread industrial and commercial disaster." They supported the creation of a non-partisan Tariff Commission, but did not state what its mission should be. They professed to want lower tariffs, but opposed the reciprocity agreement with Canada because it could harm some northern farmers.[7]

In the presidential election of 1912, Roosevelt siphoned off enough Republican votes from Taft to hand the election to the Democrats. The election was scarcely a mandate for Wilson, who earned just 44.5 percent of the popular vote, while the combined total for Taft and Roosevelt was 53.7 percent. Regardless, the Republican split allowed the Democrats to secure unified control of government for the first time since 1894, making Wilson only the second Democratic president since the Civil War and the first of southern birth since before the Civil War. In addition, the Congressional seniority system meant that long-standing members of Congress—meaning Southern Democrats—assumed key leadership positions in the House and Senate. These Southern Democrats favored lower tariffs and were prepared to go along with Wilson.

In his inaugural address in March 1913, Wilson outlined an ambitious legislative program: a substantial reduction in the tariff, sweeping banking and currency reform, and new regulations on corporations. Tariff reform was given top billing because the existing policy "cuts us off from our proper part in the commerce of the world, violates the just principles of taxation, and makes the Government a facile instrument in the hand of private interests." He immediately called for a special session of Congress to reduce tariffs.[8]

Unlike previous presidents, Wilson viewed himself as the leader of his party and as having responsibility for overseeing the bill's passage through Congress. Wilson took an active interest in the details of the tariff schedule and worked closely with the Democratic leadership to ensure that the legislation was done to his satisfaction. Even before he took office, Wilson met with Ways and Means Committee chair Oscar Underwood (D-AL) to lay out his expectations about the provisions of the legislation.[9] Wilson pressed Underwood to shift many raw materials to the free list and to reduce duties on both industrial and farm goods.[10] Keenly aware of past failures to reform the tariff because of party divisions, Wilson and Underwood sought to ensure maximum party unity on the issue. They prepared to fight with Democrats representing a variety of special interests—whether it be shoes from Massachusetts, sugar beets from Colorado, textiles from North Carolina, wool from Ohio, or cane sugar from Louisiana—who might hold out for higher duties. Therefore, before proceeding, the House Democrats agreed to a binding party caucus in which they pledged to support any measure accepted by a two-thirds vote of the caucus.

The Ways and Means Committee held public hearings on the proposed revision, but business representatives who testified in favor of maintaining or increasing rates received a cool reception. A young Democratic congressman from Tennessee, Cordell Hull (1948, 72), later recalled, "For the first time in many years the beneficiaries of high-tariff privilege found themselves confronting an unfriendly committee which would not permit them virtually to write their own rates. This seemed very disconcerting to many of their representatives who appeared before the committee. . . . Many of them called on all of us who were engaged in preparing the bill. We would receive and hear them courteously, but after that our courses diverged."

Yet the committee's bill also made concessions for Democrats from the South and West by imposing duties on farm products, retaining protection for leather goods and sugar, and levying a 15 percent duty on wool. Before the bill was reported, Wilson intervened to stop this attempt at limiting the reform. The president threatened to veto any bill that did not put food, sugar, leather, and wool on the free list, compromising only by allowing a three-year phase out of the sugar duty. In particular, Wilson insisted that reducing the wool and woolens duties was a fundamental component of any tariff reform.[11] The committee took the president's threat seriously and changed the bill accordingly.

To demonstrate his commitment to tariff reform, Wilson took the unusual step of addressing a joint session of Congress on April 8, 1913. No president had appeared before Congress since John Adams in November 1800. The joint session was a spectacular event: every seat in the House chamber was taken, and a huge crowd gathered outside the Capitol. Wilson spoke only briefly but made it clear that he would not tolerate a repeat of the party's failed efforts at tariff reform in 1894. Because of changed economic circumstances, Wilson argued that the country was in desperate need of a tariff revision:

> We long ago passed beyond the modest notion of "protecting" the industries of the country and moved boldly forward to the idea that they were entitled to the direct patronage of the Government. For a long time—a time so long that the men now active in public policy hardly remember the conditions that preceded it—we have sought in our tariff schedules to give each group of manufacturers or producers what they themselves thought that they needed in order to maintain a practically exclusive market as against the rest of the world. Consciously or unconsciously, we have built up a set of privileges and exemptions from competition behind which it was easy by any, even the crudest, forms of combination to organize monopoly; until at last nothing is normal, nothing is obliged to stand the tests of efficiency and economy, in our world of big business, but everything thrives by concerted arrangement.

The time had come, Wilson maintained, to change this:

> We must abolish everything that bears even the semblance of privilege or of any kind of artificial advantage, and put our business men and producers under the stimulation of a constant necessity to be efficient, economical, and enterprising, masters of competitive supremacy, better workers and merchants than any in the world. Aside from the duties laid upon articles which we do not, and probably cannot, produce, therefore, and the duties laid upon luxuries and merely for the sake of the revenues they yield, the object of the tariff duties henceforth laid must be effective competition, the whetting of American wits by contest with the wits of the rest of the world.

Wilson announced that he was withholding all other legislation from Congress so that nothing would "divert our energies from that clearly defined duty" of enacting a tariff bill.[12]

The burden was now clearly on the Democratic leadership in Congress to follow through. They controlled both chambers of Congress for the first time in eighteen years. Just a few weeks later, the Ways and Means Committee reported a bill that replaced complex specific duties with simple ad valorem duties, while reducing the average tariff from 40 percent to 30 percent, a 26 percent reduction, on average. The notion that tariffs should be set to equalize the costs of production was "absolutely rejected as a guide to tariff making"; instead, the party offered what it called a "competitive tariff."[13] Of course, the Republican minority objected to the "complete reversal of the economic policy of the government" that over time, it said, had built up industry and helped farmers prosper. Republicans complained that the Democratic proposal was a free-trade bill that would put American industry and workers at grave risk. They also reminded Democrats of their marginal election victory: "The party proposing it is in power, not by the grace of majority of the American people, but by a division in the ranks of the majority on other questions than that of protection."[14]

In May 1913, the House opened debate on the bill. Sam Rayburn (D-TX) set the tone: "The system of protective tariff built up under the Republican misrule has worked to make the rich richer and the poor poorer. The protective tariff has been justly called the mother of the trusts. It takes from the pockets of those least able to pay and puts into the pockets of those most able to pay."[15] The binding caucus held firm, and the bill was pushed through by a vote of 281–139. Democrats voted 274–5 in favor (four of the five dissents came from Louisiana because of sugar) and Republicans voted 127–5 against, while other parties, including the Progressives, voted 7–2 against. Figure 7.1 shows the geography of the House vote. As in

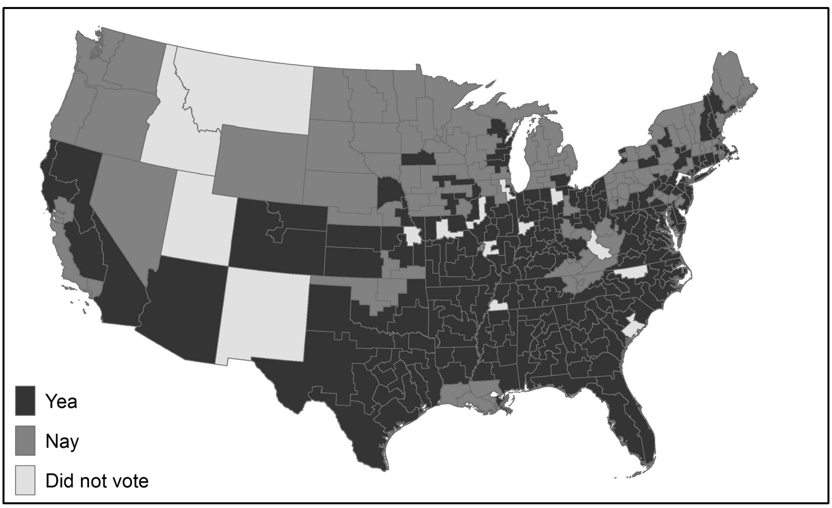

Figure 7.1. House vote on the Underwood tariff, May 8, 1913. (Map courtesy Citrin GIS/Applied Spatial Analysis Lab, Dartmouth College.)

previous tariff votes, the division was between Northern Republicans and Southern Democrats, with Democratic support even creeping into Ohio, Illinois, and Indiana.

The bill then moved to the Senate, still known as the "graveyard of tariff reform," where the larger representation of western states made it difficult to pass tariff reductions on raw materials and agricultural goods. True to form, the Finance Committee reported a bill that made 676 amendments to the House version, most of which were increases in rates. Fearing that the House bill could unravel in the Senate, Wilson took the offensive. The president went to Capitol Hill and directly confronted Senate Democrats, urging them not to break ranks. He refused to compromise with western members who wanted higher duties on wool and sugar. He warned the public that Washington had been invaded by scores of "pestiferous" lobbyists who were pressing for higher duties on raw materials: "I think that the public ought to know the extraordinary exertions being made by the lobby in Washington to gain recognition for certain alterations of the tariff bill."[16]

The president's statements prompted a progressive Republican from Iowa to propose an investigation into special-interest lobbying over the tariff. Although this motion caught Democrats off guard, they could not oppose it, and so Congress launched a sweeping investigation into industry contacts with senators on tariff matters and the financial holdings of senators in relation to protected industries. To almost everyone's surprise, the investigation revealed that there had been virtually no corrupt lobbying over tariffs. Furthermore, no trusts were involved, except the Federal Sugar Refining Company, which actually supported Wilson's proposal for duty-free sugar, something rejected by cane and beet farmers, who had spent large sums to keep the duties in place.[17] The investigation concluded that old-fashioned influence peddling or outright corruption had given way to industries exerting their political strength simply through constituent pressure. In addition, small- and medium-sized businesses were the key opponents of the tariff reductions, not big business or large trusts, because they were most vulnerable to foreign competition. The trusts and other large industrial concerns were now largely silent on tariffs because they were indifferent to them.

Unlike Grover Cleveland's clumsy attempt to shame the Senate in 1894, Wilson succeeded in generating a strong public reaction against the special interests that were trying to shape the bill: angry constituents wrote their congressmen and demanded that the Senate not weaken the House's attempt at tariff reform. As a result, Senate Democrats were united enough to pass the bill in September by a partisan vote of 54–37. Only two progressive Republicans, Robert LaFollette of Wisconsin and Miles Poindexter of Washington, voted in favor of the Democratic legislation. The other progressives remained aligned with mainstream Republicans and voted to keep the high duties in place, although this position caused them some discomfort.[18] After both chambers approved the conference version, Wilson signed the bill on October 3, 1913.

Thus, a combination of presidential leadership and a disciplined Congress controlled by southern Democrats led to the largest downward adjustment in import duties since the Walker tariff of 1846, which was also the product of southern Democrats. Under the new schedule, the average tariff on dutiable imports would fall from 40 percent to 27 percent, a cut of about one-third. The Underwood-Simmons tariff, as it was called, made a substantial across-the-board reduction of about 25 percent in duties on manufactured goods and put a large number of products on the duty-free list, including wool, iron, coal, lumber, meat, dairy products, leather boots and shoes, wood pulp and paper, wheat, and agricultural supplies; the duty on sugar was to be abolished gradually over three years. The share of duty-free imports rose from 54 percent of total imports in 1912 to 69 percent in 1916. Confronting the infamous Schedule K on the wool and woolen duties, Democrats succeeded in putting raw wool on the free list (the existing tariff had been about 44 percent) and cutting the tariff on woolen manufactures by one-third to one-half. This was an unlikely political achievement, given that Colorado, Montana, and Ohio were major wool-growing states. Ad valorem duties replaced specific duties, and the structure of the tariff was altered to keep rates high on luxury goods while reducing them on consumer goods.

Democrats were elated at their success. Wilson's Secretary of Agriculture, David Houston, exclaimed, "Think of it—a tariff revision downward at all—not dictated by the manufacturers; lower in the Senate than in the House—one which will not be made in the conference committee room!! A progressive income tax!! I did not think we would live to see these things!!"[19]

As Houston mentioned, the 1913 tariff bill also contained an income tax. As we saw in chapter 6, the Senate approved a constitutional amendment allowing an income tax during the debate over the Payne-Aldrich tariff of 1909. The amendment required approval by three-fourths of the state legislatures. Southern states quickly endorsed it, but Republicans from New York and Connecticut objected to the "sectional character" of the income tax and complained that they would be "plundered" by income and corporate taxes.[20] However, the political debate about the income tax was now much less contentious than it had been in the 1890s. The fact that many states had adopted an income tax on their own helped pave the way for national ratification. The support of New York was key, and when Tammany Hall Democrats decided to endorse it, the income tax amendment was certain to succeed. The Sixteenth Amendment to the Constitution was certified in February 1913, just in time for the tariff deliberations.[21] The 1913 tariff act imposed a 1 percent federal tax on incomes of couples exceeding $4,000, as well as those of single persons earning $3,000 or more, in order to compensate for the lost revenue from the reduction of tariff rates. The income tax was proposed partly on grounds of national security, out of fear that the government needed a reliable source of revenue in times of war when imports were likely to be disrupted.

This monumental change in the tax system severed the already tenuous link between protective import duties and the revenue requirements of the government. The income tax ended the dependence of the federal government on import duties for a substantial fraction of its revenues. In fiscal year 1913, customs receipts accounted for 45 percent of federal revenue. In fiscal year 1916, this had fallen to 28 percent. After World War I, the share was less than 5 percent.[22] Because the nation's personal and corporate income constituted a significantly larger tax base than just imports, the federal government now had access to a potentially enormous source of revenue. This set the stage for large increases in government expenditures in the future.

WORLD WAR I AND THE REVENUE ACT OF 1916

Unfortunately, the economic impact of the Underwood-Simmons tariff, the most significant tariff reduction since the Civil War, will never be known. In the summer of 1914, less than a year after the new tariff took effect, World War I broke out in Europe, severely disrupting world trade. Because of the war, American exports surged to record levels, while imports dropped off, making it impossible to know how domestic industries would have fared under the lower duties in normal times.

The outbreak of the war initially triggered a short recession in the second half of 1914. As political tensions escalated that summer, the United States experienced a significant loss in gold reserves as Europeans investors sold their dollar securities to bring their assets back home.[23] Monetary conditions tightened until the end of the year, and the economy began to slump. Industrial production fell 12 percent from its July peak to its November trough, although it regained its previous level by June 1915.[24] The downturn clearly stemmed from the capital outflows as a consequence of the war, but Republicans blamed it on the reduced tariff rates because it occurred so soon after the 1913 tariff act. The weaker economy had electoral consequences as well: Democrats saw their House majority cut significantly in the 1914 midterm election.

As it did during the Napoleonic Wars a century earlier, the United States became a neutral carrier of goods to Europe early in the conflict. The volume of exports nearly doubled between 1914 and 1916, while those of finished manufactured goods nearly tripled. Overall imports remained unchanged, and imports of manufactured goods fell significantly. Consequently, America's merchandise trade surplus soared from $471 million in 1914 to more than $4 billion in 1919. The decline in imports gave rise to domestic production to replace the formerly imported goods, giving these industries "protection more effective than any tariff legislation" could provide, Taussig (1931, 448) suggested.

A more immediate policy concern was the decline in customs receipts, which fell by about a third during the five-year period of reduced imports. Meanwhile, federal expenditures soared from $742 million in 1916 to $18.9 billion in 1919 after the United States entered the war. There was no way import duties could have financed this massive increase in expenditures, and the president refused to borrow all the money needed to make up the difference. Faced with an enormous fiscal deficit, the Wilson administration proposed higher income taxes.

The Revenue Act of 1916 was primarily designed to address the shortfall in government revenue, although it also had important trade-policy provisions.[25] The legislation increased taxes on personal and corporate income, canceled the transfer of sugar to the free list, hiked import duties on chemicals and dyes to protect American producers from German dumping, and created an independent Tariff Commission. Political factors explain part of this adjustment of trade policy by the Wilson administration. In late 1915, with the next year's presidential election clearly in sight, Treasury Secretary William McAdoo reported to the president that Republicans were going to make the tariff an issue in the 1916 election. During an extensive tour of the Midwest, McAdoo found "a carefully cultivated sentiment, amounting to a genuine fear, on the part of manufacturers and many business men, that this country is in jeopardy from a possible invasion of its markets by manufacturers and merchants of Europe after peace is restored."[26]

Wilson's cabinet considered how to address the growing public fears about dumping after the war so that the low tariffs they had enacted could be preserved.[27] Commerce Secretary William Redfield supported legislation that would allow higher duties to be imposed on any imported products found to have been dumped in the US market. McAdoo opposed this idea as "an entering wedge for reopening the entire tariff subject."[28] As an alternative to antidumping legislation, McAdoo and Agriculture Secretary David Houston proposed creating an independent Tariff Commission. Progressives had long advocated using nonpartisan experts, insulated from political pressure, to "take the tariff out of politics" and improve the quality of information on trade policy that reached members of Congress.[29] Yet most Democrats were skeptical: they opposed the idea of a Tariff Board in 1909, fearing that it would be stacked with protectionists or given an objectionable mandate, such as setting tariffs to equalize the costs of production between domestic and foreign producers. Wilson also opposed the creation of such an agency for precisely these reasons. As late as mid-1915, the president vowed to "explode the nonsense" of Republicans who kept arguing for an independent commission.[30]

But now the administration was under pressure to counter Republican attacks on the issue. Houston contacted his former Harvard economics professor, Frank Taussig, to ask his advice about the wisdom of creating a Tariff Commission. In a memo laying out his views, Taussig argued that such a commission would not be able to forecast the impact of postwar trade flows on American industry, but could still provide useful and impartial information for policymakers. Congress, relying solely on public hearings and private lobbying for facts and analysis, had no independent source of information about the conditions of trade and domestic production, but a commission could play that role.[31]

Taussig's memo persuaded members of the cabinet about the merits of creating an independent, nonpartisan, fact-finding agency devoted to trade and tariff policy. McAdoo and Houston helped convince Wilson that such a body could provide useful information on trade conditions at home and abroad, particularly given the wartime disruptions to commerce, and would be a good political move, neutralizing Republican attacks and bolstering progressive support.[32] As he warmed to the idea, Wilson told fellow Democrats that Republicans "are desperately clinging to the one issue of the tariff, and nobody on either side of the house can prove anything about the tariff now. . . . Anyone who stands up and says that he can predict what is going to follow this war sufficiently to suggest what tariff policy should be is talking in ignorance."[33]

In January 1916, Wilson announced that he had changed his mind and now supported an independent commission to provide information on such matters as the impact of import duties on domestic industries, methods of handling unfair foreign competition or dumping, and other issues.[34] The reason Wilson gave was that "all the circumstances of the world have changed, and it seems to me that in view of the extraordinary and far-reaching changes which the European war has brought about, it is absolutely necessary that we should have a competent instrument of inquiry along the whole line of the many questions which affect our foreign commerce." Wilson reassured members of Congress that his change of mind on the commission reflected no "change in attitude toward the so-called protection question. That is neither here nor there." He simply believed that impartial information could be useful for government officials in shaping trade policy in the future. The political question of determining the level of import duties or other features of the country's trade policy was completely separate from the proposal; Congress was not asked to delegate any policymaking authority to the body, which would only have the authority to conduct fact-finding investigations and provide information to assist Congress.[35]

Despite Wilson's conversion, Democratic leaders in Congress opposed creating such an agency, fearing that it would be a threat to the low tariffs they had enacted and be captured by protectionist interests. But they could not deny the political case for such an entity so that Democrats could respond to Republican attacks. Other groups also weighed in: the American Protective Tariff League viewed a Tariff Commission as "dangerous and expensive," while the Chamber of Commerce, the American Federation of Labor, and the National Grange supported it. At the president's request, therefore, Congress included provision for a Tariff Commission in the Revenue Act of 1916.

The Tariff Commission was to be composed of six members, not more than three of whom could come from the same political party in order to preserve its nonpartisan standing. (The political representation requirement had no impact on the commission's view because there were many high-tariff Democrats that could be chosen by Republicans and many progressive, low-tariff Republicans who could be selected by Democrats.) Wilson appointed three Democrats and three progressive Republicans to twelve-year terms on the commission and made Frank Taussig its first chairman. The Tariff Commission began operation in April 1917 and started studying government finance during the war. During its first five years in operation, the Tariff Commission produced several industry studies and reports on such issues as the competitive position of Japan, free trade zones, antidumping policy, and customs administration. It made recommendations on mundane administrative details, such as improving the tariff classification schedule, but one of its early reports also led to the adoption of the unconditional most-favored-nation clause (to be discussed later).

The Revenue Act of 1916 also included a provision to prevent foreign "dumping" in the United States. The law made it illegal to dump goods "with the intent of destroying or injuring an industry in the United States." The remedy was not higher import duties, which McAdoo and Houston wanted to avoid, but rather fines (triple damages) and possible imprisonment for those found guilty; that is, the 1916 antidumping law was a criminal statute with criminal punishments. The law was rarely invoked, because proving that an exporter had a "predatory intent" with the goal of limiting or restraining competition was extremely difficult. Another controversial provision in the Revenue Act of 1916 was the imposition of new import duties on various chemicals—imported dyestuffs, medicines, and synthetics—to protect American producers from German competition after the war.

SLIDING BACK TO PROTECTION

The closely fought presidential election of 1916 hinged on America's role in World War I. Wilson narrowly defeated his Republican rival, marking the first time that a Democratic president had been reelected for consecutive terms since Andrew Jackson in 1832. The Democrats barely retained their control of Congress as well, making the party's hold on power fragile.

Although tariffs played a minor role in the campaign, the Republicans branded the Underwood-Simmons tariff "a complete failure in every respect" and called the 1916 antidumping provision an inadequate substitute for permanent protection. "The Republican party stands now, as always, in the fullest sense for the policy of tariff protection to American industries and American labor," the Republican platform stated. Meanwhile, the Democratic platform reaffirmed the party's belief "in the doctrine of a tariff for the purpose of providing sufficient revenue for the operation of the government economically administered, and unreservedly endorse the Underwood tariff law as truly exemplifying that doctrine."[36]

Having campaigned on a pledge to keep the country out of war, Wilson found himself asking Congress for a declaration of war in April 1917, just a month after his inauguration. This move came after Germany announced a campaign of unrestricted submarine warfare on all ships in a declared war zone. The German gamble was designed to break the battlefield stalemate, but it also threatened American exports.[37] This development, along with the Zimmerman telegram that hinted at a possible German alliance with Mexico, led the United States into the war. The nation quickly mobilized and tipped the military balance of power in favor of the Allies. America's formal participation in World War I was brief. In November 1918, the Allies and Germany signed an armistice that brought the conflict to an end.

Tariff policy was hardly discussed during the war, but the end of the conflict brought a whole new set of economic challenges. The entire world economy had been uprooted by the conflict, and international trade and finance remained disrupted for an extended period. The volume of world trade did not recover to its prewar level until 1924. British production had shifted away from export markets and toward wartime production; because it could not quickly readjust after the war, American manufacturers were able to continue their domination of world markets into the postwar period. Germany's economy was also damaged by the conflict; in addition to suffering a devastating hyperinflation in 1922–23, the country faced the prospect of paying large reparations for an extended period. The Communist revolution in Russia disrupted that country's exports of grain, to the benefit of American farmers seeking foreign sales. As a result, the United States emerged from the war in a much stronger economic position. The US share of world manufacturing production rose from 36 percent in 1913 to 42 percent in 1926/29, while that of every major European country fell.[38] The United States also emerged as a financial power and became a large creditor to the rest of the world.

In January 1918, President Wilson delivered his famous "Fourteen Points" address before a joint session of Congress. Wilson set out his vision of how the United States could help establish a new postwar world based on national self-determination and international cooperation, bringing secret diplomacy to an end and making World War I "the war to end all wars." The centerpiece of his proposal was the creation of a League of Nations that would guarantee political independence and territorial integrity, thereby preventing future military conflicts. Wilson's second and third points related to trade policy. The second called for absolute freedom of navigation on the seas. The third proposed "the removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance."[39] In effect, Wilson was calling for international cooperation to reduce trade barriers and ensure that non-discrimination was the basis for commercial relations around the world.

Along with the League of Nations, these ideas generated much consternation in Congress, even among some Democrats, as potentially compromising American sovereignty. Wilson clarified his remarks in an October 1918 letter to a senator. His third point, he explained, did not threaten national sovereignty, because every country remained free to impose whatever trade barriers it wanted. Rather, he was merely suggesting that, whatever tariffs or other measures that a country chose to impose, those policies should be applied in a non-discriminatory manner to establish "equality of trade conditions."[40] Not only did this make economic sense, Wilson argued, but it would reduce international commercial tensions that bred political frictions that could lead to war: "The experiences of the past among nations have taught us that the attempt by one nation to punish another by exclusive and discriminatory trade agreements has been a prolific breeder of that kind of antagonism which oftentimes results in war, and that if a permanent peace is to be established among nations, every obstacle that has stood in the way of international friendship should be cast aside." He denied that he wanted to interfere with the ability of a country to enact whatever level of tariff it wanted: "To pervert this great principle [of non-discrimination] for partisan purposes, and to inject the bogy of free-trade, which is not involved at all, is to attempt to divert the mind of the nation from the broad and humane principle of a durable peace by introducing an internal question of quite another kind."[41]

Thus, in Wilson's view, the United States had an opportunity to reassert its long-standing interest in having non-discrimination as a principle of world trade. Such a principle would not only serve the interests of American exporters, who faced barriers in foreign markets, especially the colonial markets of European powers, but would weaken the economic nationalism that led to international friction and contributed to World War I.

While determined to create the League of Nations, the president did not have a concrete plan for the postwar economic order. As he departed for the Paris Peace Conference in December 1918, Wilson told his negotiating team that he was "not much interested in the economic subjects" that might be raised, adding that "I do not think that international trade questions will be directly broached by the Peace Conference."[42]

Even if there had been big plans for postwar trade policies, domestic political developments would have put them in jeopardy. The Republicans gained control of Congress in the 1918 midterm elections, producing a two-year standoff between the president and Congress. Republicans were not only prepared to thwart any plans for League efforts to reduce trade barriers, which was viewed as a threat to Congress's authority over trade policy, but they were also anxious to enact higher tariffs if given the chance.

The partisan divide focused mainly on the League of Nations. The president engaged in an intensive public campaign in late 1919 to win support for the League. Republican skeptics ranged from those with mild reservations to hard-core isolationists who were irreconcilably opposed to participation in the League. Henry Cabot Lodge (R-MA), the chairman of the Senate Foreign Relations Committee, sought to include fourteen reservations to the charter, most notably rejecting any commitment to preserve the territorial integrity of other states, but also asserting Congress's authority over tariff policy. However, Wilson stubbornly refused to consider any changes to the charter or its application to the United States. In November 1919, when the Senate finally prepared to vote on the matter, Wilson demanded that Democrats reject all reservations to the treaty. This unwillingness to compromise ensured the League's defeat, and the Senate failed to ratify the Treaty of Versailles or join the League of Nations.

It is unlikely that American participation in the League would have made a significant difference to its trade policy. The United States was not alone in wanting to maintain its own tariff system and preserve its domestic policy autonomy. As a result, the League's Covenant made no mention of reducing barriers to trade. Article 23(e) of the League of Nations charter merely stated, "Subject to and in accordance with the provisions of international conventions existing or hereafter to be agreed upon, the Members of the League . . . will make provision to secure and maintain freedom of communications and of transit and equitable treatment for the commerce of all Members of the League." Thus, only equitable—and not even equal—treatment was called for, and this only with respect to members of the League. Indeed, while the Allies were allowed to discriminate against the trade of the defeated Central Powers, the Treaty of Versailles mandated that Germany give preferential access to goods from the Allied and Associated Powers. In effect, the Versailles conference deferred substantive discussion of sensitive economic questions to a later date.[43] The League sponsored the World Economic Conference of 1927, which discussed many aspects of international trade policy, but even then no concrete steps were taken.

The bitter fight between the Democratic president and the Republican Congress over the League carried over to tariff policy as well. Although protectionist pressures were dormant during the war, Republicans were clearly waiting for an opportunity to reverse the Underwood-Simmons tariff reduction in 1913.[44] During the war, the average tariff on dutiable imports dropped from 40 percent in 1913 to just 16 percent in 1920, its lowest level since 1792. This reduction was partly due to the 1913 tariff legislation but mostly due to wartime inflation, which reduced the ad valorem equivalent of the many specific duties in the tariff code. Republicans feared that this decline would leave the nation's industries exposed to foreign competition after the war and allow the country to become the dumping ground for the world. Democrats dismissed such fears, pointing to the large US trade surplus and the fact that American manufacturers were exporting large quantities of goods to other markets. As long as Europe was struggling to recover from the war, they observed, any fear that a flood of foreign goods would destroy domestic industries was an illusion. Indeed, although exports of manufactures fell off somewhat after the war, imports of manufactures were unchanged in 1919 but then jumped in 1920, albeit from artificially low levels. Furthermore, Democrats argued, the United States was now a creditor nation and should keep its market open to enable other countries to earn the dollars they needed to pay their debts.

Divided government left immediate postwar trade policy in limbo. With Wilson still in office, the Republican Congress did not bother to take up a tariff revision in 1919 or 1920, knowing that any bill they passed would be vetoed. In a message to a special session of Congress in May 1919, Wilson reminded Congress that "there is, fortunately, no occasion for undertaking in the immediate future any general revision of our system of import duties. No serious danger of foreign competition now threatens American industry. Our country has emerged from the war less disturbed and less weakened than any of the European countries which are our competitors in manufacture."[45]

Calling attention to the nation's large trade surplus and the need to export to foreign markets, Wilson reiterated his view that the tariff should be kept at existing low levels in his annual message to Congress in December 1919.

> The prejudice and passions engendered by decades of controversy between two schools of political and economic thought, the one believers in protection of American industries, the other believers in tariff for revenue only, must be subordinated to the single consideration of the public interest in the light of utterly changed conditions. . . . The

> productivity of the country, greatly stimulated by the war, must find an outlet by exports to foreign countries, and any measures taken to prevent imports will inevitably curtail exports, force curtailment of production, load the banking machinery of the country with credits to carry unsold products and produce industrial stagnation and unemployment. If we want to sell, we must be prepared to buy.

Wilson also rejected isolationism on political as well as economic grounds, saying that the United States had a great opportunity to shape the world economic system for the betterment of all: "No policy of isolation will satisfy the growing needs and opportunities of America. The provincial standards and policies of the past, which have held American business as if in a strait-jacket, must yield and give way to the needs and exigencies of the new day in which we live."[46] Republicans greeted these words with skepticism.

The presidential election of 1920 would determine the fate of the nation's postwar trade policy.[47] The Democratic platform reaffirmed the party's traditional policy "in favor of a tariff for revenue only and confirm[ed] the policy of basing tariff revisions upon the intelligent research of a non-partisan commission, rather than upon the demands of selfish interests." The Republican platform reiterated the party's "belief in the protective principles" and promised to revise the tariff "as soon as conditions shall make it necessary for the preservation of the home market for American labor, agriculture and industry."[48] The election was not much of a contest, as the Republicans, aided by a sharp recession, swept back into office.

THE RETURN OF REPUBLICAN PROTECTIONISM

A severe economic downturn after the war boosted the Republican electoral fortunes and fueled demands for higher import duties. During the war, the nation's new central bank, the Federal Reserve, which had been created in 1913, banned the export of gold and agreed to purchase Treasury securities to help finance the war. The consequent monetary expansion resulted in a rise in domestic inflation, which reached nearly 20 percent by 1918.[49] When the country went back on the gold standard and lifted the embargo on gold exports in mid-1919, the United States experienced a large loss of gold reserves, and the Federal Reserve responded by sharply tightening monetary policy in early 1920.

By mid-1920, prices, output, and employment were all plummeting.

The United States experienced one of the most intense deflations in its history: wholesale prices dropped 26 percent between June and December 1920; by June 1921, wholesale prices were 42 percent below where they had been a year earlier, and farm prices had fallen even more. Real output also declined sharply: farm production dropped 14 percent in 1921, and industrial production fell 26 percent in the year after June 1920. The unemployment rate jumped from 2 percent in 1919 to 11 percent in 1921.[50]

As in previous cases, the economic downturn was driven by monetary conditions, not factors related to trade. As the economy contracted, the volume of imports also fell sharply—by 16 percent in 1920. And there had been no postwar surge in imports: the volume of imports increased just 28 percent in the two years after 1918, as European economies struggled to recover from the war.

These painful economic conditions helped produce a landslide victory for the Republicans in the 1920 election, returning the party to the political dominance it had enjoyed prior to 1912. Warren Harding was elected president with just over 60 percent of the popular vote, and the Republicans gained huge majorities in the House and Senate. The outgoing Republican Congress immediately began considering new tariff legislation to address the postwar recession and alleviate the economic distress of farmers in particular. The underlying problems facing agriculture included the overexpansion of production and the rise in indebtedness due to the war, the severe deflationary monetary shock, and the decline in agricultural exports after the war. But all of this was beyond Congress's immediate control. Having no policies other than import duties at their disposal, Congress sought higher tariffs on agricultural imports as a way of protecting farmers from declining prices.

Shortly after the election, Joseph Fordney (R-MI), the chairman of the Ways and Means Committee, introduced emergency tariff legislation that would increase duties for a period of ten months on selected agricultural commodities, including wheat, corn, beans, potatoes, onions, peanuts, rice, lemons, peanut and cottonseed oil, cattle and sheep, and cotton and raw wool. The committee's report noted that "prevailing prices in many instances are far below the farmers' production costs. . . . Conditions are steadily growing worse, and unless remedial legislation is enacted at an early date, the inevitable result will be the abandonment of many farms and the slaughtering of the livestock thereon and irreparable injury to the agricultural resources of the country."[51]

The bill was rushed through the Ways and Means Committee over the objections of some Democrats who thought that its hastily prepared prohibitory rates would not help agriculture and would only trigger foreign retaliation against the country's farm exports. Because many Democrats represented agricultural states that were suffering, however, it was difficult for them to oppose a measure ostensibly designed to help their constituents. In December 1920, after devoting virtually no time for hearings or debate on the matter, the House passed the bill by a vote of 194–85; 92 percent of Republican supported the bill, while just 63 percent of Democrats opposed it. The Senate quickly followed.

The outgoing Republican Congress had passed the legislation so quickly that it landed on Woodrow Wilson's desk before he left office. On his last full day as president, Wilson vetoed the bill and excoriated the Republicans for passing it. In a blistering veto message, Wilson faulted the legislation for pretending to help farmers because the United States was a large exporter of many of the commodities on the list, except for sugar and wool. For example, while imports of wheat jumped from 5 million bushels in 1920 to 57 million bushels in 1921, exports of wheat also increased from 220 million bushels to 366 million in 1921. Because the country was a large exporter of such commodities, the prices that farmers received were those prevailing on the world market; import tariffs could not increase domestic prices to any significant degree. "Very little reflection would lead anyone to conclude that the measure would not furnish in any substantial degree the relief sought by the producers of most of the staple commodities which it covers," the president argued, because the decline in commodity prices was a worldwide phenomenon. The problem facing farmers was deflation, not rising imports, and reducing imports was no cure for falling prices. Wilson also warned Congress against imposing higher tariffs on manufactured goods: "If there ever was a time when America had anything to fear from foreign competition, that time has passed. I cannot believe that American producers, who in most respects are the most effective in the world, can have any dread of competition when they view the fact that their country has come through the great struggle of the last few years, relatively speaking, untouched, while their principal competitors are in varying degrees sadly stricken and laboring under adverse conditions from which they will not recover for many years." He concluded his veto message by saying that there was no justification for "a policy of legislation for selfish interests which will foster monopoly and increase the disposition to look upon the Government as an instrument for private gain instead of an instrument for the promotion of the general well-being."[52]

Although House Republicans failed to override the president's veto, they quickly prepared new legislation for the incoming Republican president, Warren Harding. Harding subscribed to the party's traditional views on the tariff, but he admitted to being "very much at sea" in trying to understand matters of trade policy.[53] In his inaugural address, Harding rejected the Democratic position: "It has been proved again and again that we cannot, while throwing our markets open to the world, maintain American standards of living and opportunity, and hold our industrial eminence in such unequal competition. There is a luring fallacy in the theory of banished barriers of trade, but preserved American standards require our higher production costs to be reflected in our tariffs on imports."[54]

Addressing Congress a month later, Harding called on legislators to enact higher import duties: "The urgency of an instant tariff enactment, emergency in character, . . . cannot be too much emphasized. I believe in the protection of American industry, and it is our purpose to prosper America first. . . . One who values American prosperity and maintained American standards of wage and living can have no sympathy with the proposal that easy entry and the flood of imports will cheapen our cost of living. It is more likely to destroy our capacity to buy."[55]

The Republican Congress responded by passing the Emergency Tariff of 1921, which was essentially the same bill that Wilson had just vetoed. The legislation covered just a few agricultural commodities and was set to last just six months (later extended) until a more comprehensive tariff revision could be formulated. In May 1921, Harding signed the measure. The goal of the Emergency Tariff was to increase domestic farm prices by reducing imports of agricultural goods, but the legislation came too late: farm prices had stopped falling five months prior to the bill taking effect. In fact, a subsequent Tariff Commission study found that prices had stabilized for all agricultural products regardless of whether they were affected by the higher duties or not.[56]

Of course, Republicans were also anxious to replace the 1913 Underwood-Simmons duties with higher rates of protection for all industries facing foreign competition. Although there was no postwar surge in imports, and in fact the volume of imports fell sharply due to the recession during this period, the economic slump provided the Republicans with another rationale for increasing import duties. Nationalist sentiment also strengthened support for isolationist policies after the war. These factors not only reinforced the traditional Republican support for protectionism, but antiforeign sentiment brought to an end to what had been a relatively open immigration policy when quotas were imposed on the number of immigrants from abroad.[57]

In January 1921, with domestic objectives firmly in mind, the Ways and Means Committee began hearings to revise the entire tariff code. This began a twenty-month Congressional journey to determine the post-war tariff schedule. As small- and medium-sized businesses lined up with complaints about foreign competition and requests for higher tariffs, Joseph Fordney (R-MI), chairman of the committee, stated that it was their duty to "give the boys what they wanted."[58]

Reporting a bill in July 1921, the Republican majority on the Ways and Means Committee called the existing tariff "wholly inadequate" and said, "This industrial depression is the inevitable result of the offering of foreign goods upon the American market at less than the American cost of production."[59] Many raw materials that had been put on the free list in 1913, such as hides and wool, were put back on the dutiable list, and specific duties replaced ad valorem duties. Although the 1909 tariff was the basis for the revision, tariffs on industrial products, such as chemicals, cutlery, clocks and toys, minerals, and agricultural goods, were increased from the 1909 level, while the iron and steel schedule was hardly touched, because the industry was not threatened by imports. Finally, the bill included a controversial American valuation provision. This provision required that the tariff on certain imported goods be based on the US price of the good, not the foreign export price. This would raise the valuation of the imported good and hence increase the applied tariff as well. This provision was adopted to address fears of the under-invoicing of merchandise by foreign suppliers or importers.

The Democratic minority called the bill a "monstrosity," the product of corrupt dealings that was "in keeping with the intrigue, secrecy, and jobbery which inspired its covert subtleties, its concealed indirections; framed its newly invented schedules, cast its complex and compounded rates, and fixed its unascertainable and incalculable duties, with the trickery which has transformed schedules, hidden jokers, transplanted items, changed nomenclature, and made it impossible to compare it with any of its predecessors." Democrats attacked the goal of trying to "equalize cost of production" between domestic and foreign producers, a "crude, brutal system that will impose the same duty upon a country of high-cost production as it will upon a country of low-cost production; that we are to impose the same duty upon the intelligent, high-cost production of Canada that we are to impose upon the coolie labor of India, China, and Japan."[60] Finally, they rejected the need for the revision based on the unwarranted fear of an import surge. They pointed out that the war had been over for nearly two and a half years and no import surge had ever materialized.

The House debate was unexceptional, with both sides repeating familiar arguments. For the Republican majority, Fordney argued that the bill would protect farmers from imports, create more jobs for workers, and safeguard industry against the revival of European competitors. "To those who believe in flooding our markets with cheap foreign goods, closing our mills, throwing our labor out of employment and mortgaging our farms, while the foreign mills run overtime, the foreign farms thrive, and labor prospers, this act is, as proclaimed by them, 'infamous' and 'outrageous,' but to those who believe in American prosperity, in American institutions and American labor, this act is salvation," Fordney declared. Without protection, he contended, domestic wages would fall: "Free trade here could have but one result, and that is that it would bring our laboring people to the low standard of life and living endured by the low-paid labor of foreign countries.[61]

Meanwhile, Democrats attacked the bill as a tax on every working family and ridiculed the notion that higher tariffs would relieve farmers from low agricultural prices. Higher agriculture duties "represent an attempt to fool the farmers and swindle the stockmen into the belief that they will get enough benefit out of this bill to fully compensate them for the higher prices that they must pay for all the manufactured goods upon which high protective or even prohibitive duties are levied in this measure," as Carl Hayden (D-AZ) put it. "Time will soon disclose the utter futility of attempting by a tariff to boost the price of wheat or corn or short-staple cotton and the numerous other farm and range products where importations are negligible and the surplus must be sold abroad."[62] Given the large Republican majority, the bill's passage was a foregone conclusion. In July 1921, the House passed the bill by a partisan vote of 289–127; Republicans voted 283–6 in favor, while Democrats voted 119–5 against.

The Senate Finance Committee began hearings immediately after the House action. Once again, public testimony was dominated by representatives from small- and medium-sized firms that demanded greater protection. With manufactured exports propelled to new high levels during and after the war, however, many representatives of big businesses actually testified in favor of lower rates. As David Walsh (D-MA) noted, the hearings revealed "for the first time in American history [that] the representatives of great big business are here asking for the lowering of rates and the representatives of small business . . . are asking for excessively high rates."[63] The large producers feared foreign countries would impose retaliatory tariffs against their exports, while bankers and financiers pointed out that the United States was now a creditor nation and should therefore keep its market open to allow European countries to repay their dollar-denominated debts.

However, pressing tax legislation and the death of the Finance Committee's chairman delayed consideration of the bill for more than a year. This, in itself, is remarkable: that tariff legislation was set aside to give priority to other matters indicated that it was no longer as important a policy matter as it once had been. Tariff legislation lacked the urgency of the past and had fallen in the hierarchy of congressional priorities. Congress now had other domestic policies, such as the income tax and federal regulations, that had a much greater impact on the economy than changes in import duties. The Senate held hearings on the bill in July–August 1921; the legislation was then set aside, and hearings resumed from November 1921–January 1922. In his December 1921 annual message to Congress, President Harding urged Congress to act more quickly: "I cannot too strongly urge in early completion of this necessary legislation." While acknowledging that there was always "a storm of conflicting opinion about any tariff revision," the president believed that "We cannot go far wrong when we base our tariffs on the policy of preserving the productive activities which enhance employment and add to our national prosperity."[64]

During the Senate delay, the proposed tariff bill provoked heated public debate at home and abroad. The most controversial changes were the American valuation provision and the embargo on imported dye, which was supported by the chemical industry but opposed by the textile industry. When the Finance Committee finally reported the bill in April 1922, it had made 2,436 amendments to the House version. Although it raised many of the rates in the House bill, the Senate dropped the American valuation provision and imposed a one-year embargo on imported dyes instead of the five years requested by the chemical industry. Opening the Senate debate, the Finance Committee chair, Porter McCumber (R-ND), declared, "Of all times in the history of the country, this is the time in which a protective tariff is most needed to sustain our American industries and our millions of people dependent upon them." The underlying issue was "protecting the American standard of wages and the American standard of living through the protection of our American markets."[65]

In contrast to the strict party discipline in the House, the sectional fight in the Senate was more intense. Once again, the divide between raw material and agricultural producers in the West and Midwest and the industrial interests in the East was exposed. The Senate debate became a free-for-all as representatives from the West denounced high duties on cotton, woolen, and silk manufactures but supported higher duties on manganese, tungsten ores, and other metals. They insisted that barbed wire be put on the free list, but proposed higher duties on high-grade manganese ore, against the objections of iron and steel producers. While Western ranching interests wanted high duties on cattle and hides, shoe manufacturers from Massachusetts wanted to keep hides on the duty-free list to hold down the cost of leather shoes.[66]

The endless conflicts led to dozens of floor votes on amendments, which further delayed the bill's passage. The Senate debated and voted on rate changes for innumerable obscure products: crude magnesite, burned and grain magnesite, caustic calcined magnesite, shelled almonds, unshelled almonds, shelled walnuts, unshelled walnuts, pork, lamb, wheat, cream, paddy rice, milled rice, cotton yarn, cotton waste, cotton cloth, cotton quilts, cotton underwear, and dozens of other products. By May 1922, the Senate was seriously bogged down and began marathon sessions, starting at 11:00 a.m. and ending at 10:30 p.m., to expedite matters. Even longer hours failed to speed the bill's progress, as individual Senators had a stake in specific lines of the tariff schedule, forcing consideration of nearly every item on the dutiable list.[67]

Democrats denounced the "excessive rates" in the Republican bill, but did not strongly defend the tariff they had passed almost a decade earlier. The Democrats no longer had an effective slogan to represent their position on tariffs. With the income tax in place, calls for "a tariff for revenue only" were obsolete. The partisan debate had shifted from "protective" versus "revenue" tariffs to "high" versus "moderate" tariffs—"with a not-too-great emphasis upon the word *moderate*," Berglund (1923, 28) adds. The difference in position was a matter of degree, not principle, as the Wilsonian reformers were no longer in command of the Democratic party.

Even the commitment of the South to low tariffs was weakening. The South was not uniformly against all protective tariffs because of various local interests, such as sugar in Louisiana, graphite in Alabama, and ferroalloys in Tennessee. In fact, as the Southern economy began diversifying and attracting unskilled, labor-intensive industries from the North, notably textiles and apparel in the Carolinas, more constituents in the region began to see the merits of high tariffs against foreign competition. While representatives from the South voted against the bill on the final roll call, in terms of the roll-call votes on particular commodities, they were no longer as implacably opposed to higher tariffs as they had been in the past.[68]

After four months of laborious floor debate, the Senate passed the bill in August 1922 by a partisan vote of 48–25; Republicans voted 45–1 in favor, Democrats voted 24–3 against. Another month was taken in conference to reconcile the differences between the House and Senate versions. The conferees accepted the higher agricultural duties introduced in the Senate, weakened the American valuation proposal (now enforced at the discretion of the president), and dropped the dye embargo. In late September, President Harding signed the Fordney-McCumber tariff of 1922.

The 130-page bill had taken twenty months to work its way through Congress. The Fordney-McCumber tariff helped increase the average levy on dutiable imports sharply, from 16.4 percent in 1920 to 36.2 percent in 1922. However, because of the impact of falling prices on the specific duties, only about half of this increase was actually due to the higher rates in the legislation. The tariff revision came much too late to take any credit for the brisk economic recovery: the recession ended in July 1921, but the new tariff law was not enacted until September 1922, fourteen months after the economic trough.

FLEXIBLE TARIFFS, ANTIDUMPING, AND UNCONDITIONAL MFN

The Fordney-McCumber tariff marked a return to the traditional Republican policy of protection, but it also contained three important administrative innovations: a new flexible tariff provision, a new antidumping procedure, and the unconditional most-favored-nation (MFN) clause. The flexible tariff provision gave the president the authority to adjust a tariff rate on a particular good by as much as 50 percent (up or down) if the Tariff Commission concluded that such an adjustment was necessary to equalize the costs of production between domestic and foreign producers. The driving force behind this unprecedented grant of authority was William Culbertson, an entrepreneurial, moderate Republican on the Tariff Commission. In October 1921, while the tariff bill lay dormant in the Senate Finance Committee, Culbertson wrote a memorandum to President Harding proposing the idea.[69] The inability of Congress to adjust tariff rates in a timely way in light of rapidly changing circumstances had generated growing concern in the business community and among policymakers. After the war, prices had been volatile, and the pattern of trade was highly uncertain, leaving many to fear that tariffs might be inappropriately set across a range of goods. Culbertson argued that this problem could be addressed if Congress allowed the president, with the guidance of experts at the Tariff Commission, to adjust import duties as economic conditions demanded. He also wanted the flexible tariff authority to be used to moderate the excessive duties in the tariff schedule that arose because of political deal-making in Congress.[70]

Culbertson persuaded the president about the merits of this idea. In his annual message to Congress in 1921, Harding expressed the hope that "a way will be found to make for flexibility and elasticity [in the tariff], so that rates may be adjusted to meet unusual and changing conditions which cannot be accurately anticipated" and proposed that the Tariff Commission be involved in this process.[71] Culbertson worked closely with Secretary of State Charles Evans Hughes and Reed Smoot (R-UT) of the Senate Finance Committee to draft an acceptable provision.[72] Section 315 of the Fordney-McCumber tariff act gave the president the authority to investigate differences in the cost of production and adjust tariffs to ensure that those costs were equalized. In signing the legislation, Harding stated that "if we succeed in making effective the elastic provisions of the measure, it will make the greatest contribution to tariff-making in the nation's history."[73] Although the constitutionality of this provision was quickly challenged, the Supreme Court upheld the delegation of tariff-setting authority to the president in 1928.[74]

A controversial aspect of the flexible tariff provision was using the tariff to equalize the costs of production between domestic and foreign producers. Advocates argued that this was an objective and measurable standard for setting tariffs in a scientific and nonpolitical way. They believed that this approach would provide adequate protection for domestic industries yet also "take the tariff out of politics." Of course, this doctrine had many problems, including the fact that international differences in the costs of production were the very basis for international trade. Setting that point aside, every tariff rate in the 1922 act would, in principle, have to be adjusted after a Tariff Commission investigation, since none of them had been formulated on that basis. But could government officials really calculate the "cost of production"? Culbertson (1923, 262) was confident of the Tariff Commission's ability to use modern accounting techniques to determine such costs and believed that any criticism of the doctrine "results either from ignorance or from a design to defeat scientific tariff methods."

But most experts, including Frank Taussig, the former chairman of the Tariff Commission, argued that it was impossible to determine an industry's costs of production, because different firms had different costs. Whose costs of production should be measured, Taussig asked, those of large producers or small producers? Which costs should be measured, marginal costs or average costs? Should transportation costs be included or excluded? Should one think of the cost of producing coffee in Maine or in California? Should one calculate the cost of producing a small number of automobiles or a large number when there are economies of scale? How should capital costs be allocated in multiproduct firms? What about seasonal variation in costs? What about joint costs, such as cotton and cottonseed oil, where the latter is a by-product of the former? If government officials asked firms about their costs to determine the tariff, would this not give the firms an incentive to inflate their figures in the hope of obtaining a higher tariff? If average costs across all firms in an industry were used, then the tariff would not protect the least-efficient, highest-cost producers, while it would pad the profits of the lowest-cost, most efficient producers—was this an equitable outcome? And what about foreign costs: would they not be different for goods coming from Germany as opposed to Japan? Since different countries had different costs, let alone different firms, would each country require its own product-specific tariff in order to "equalize costs" of production?

Taussig and other economists concluded that the whole exercise of arriving at a single number that represented "the cost of production" was meaningless, that it would be impossible for government officials to undertake the task without bias and prejudice, and that the results would inevitably be arbitrary and lack any "scientific" basis.[75] Because of these complications, Taussig (1920, 134–35) spoke for most economists in rejecting the cost-of-production approach as one that gave the "appearance of fairness" but was ultimately "worthless" as a solution to the problem of setting tariffs in a political environment. And this conclusion was reached without raising a more fundamental objection that international differences in the cost of production were the basis for trade in the first place.

Regardless of these conceptual difficulties, Congress recognized that the executive branch could react more quickly to changing economic circumstances than the legislative branch could through legislation, and therefore it adopted the provision. There was also the general expectation that it would be used to reduce rates. As Smoot stated, "If the President is given this power, I think there will be many, many more occasions when he will exercise it in lowering rates than in increasing them; in fact, if the conditions become normal, I expect the President of the United States to lower . . . the majority of rates."[76]

In practice, the flexible tariff provision had very little effect on import duties, partly because each proposed change required a time-consuming investigation by the Tariff Commission. During the period 1922–1929, more than 600 applications for rate changes on 375 commodities were received by the commission, and yet it was only able to complete 47 investigations on 55 commodities.[77] Furthermore, the provision was used to raise rates more than reduce them. From 1922–29, the Tariff Commission issued 41 reports recommending changes in duties, and the president made 37 proclamations adjusting duties. In 32 cases, duties were increased—often by the full 50 percent—on 16 types of chemicals, wheat flour, butter, straw hats, print rollers, and pig iron, as well as on narrowly defined goods such as taximeters, men's sewed straw hats, sodium nitrate, precipitated barium carbonate, and onions. The 5 reductions were on minor and obscure products: mill feed, bobwhite quail, paintbrush handles, phenol, and cresylic acid.[78]

The use of section 315 was also overshadowed by a political storm concerning the independence of the Tariff Commission in these deliberations. Critics charged that the Harding and Coolidge appointees were biased and undermined the goal of having an independent, nonpartisan expert body. For example, Harding's first three appointees to the Tariff Commission were the editor of a protectionist magazine and secretary of the Home Market Club of Boston (Thomas O. Marvin), a lobbyist for the pottery industry (William Burgess), and a high-tariff Democrat with ties to Louisiana sugar interests (Henry H. Glassie).

Even worse, open warfare broke out at the Tariff Commission about a sugar report in 1924.[79] The controversy centered on one of the commissioners, Henry Glassie, whose wife held major sugar investments. The Wilson-appointed commissioners challenged Glassie's right to participate in the sugar investigation. Glassie refused to recuse himself from the case on the grounds that it was a fact-finding investigation, not a judicial one. Although President Calvin Coolidge supported Glassie, Congress passed a law denying salary to any member of the commission taking part in an investigation in which family members had a financial interest. With Glassie disqualified, the Wilson appointees outnumbered the Harding appointees by three to two. Fearful that the sugar report would recommend lower duties, the White House tried to influence the commission's vote by putting pressure on some of the Wilson appointees. One Wilson appointee was denied reappointment, while Culbertson was offered a position at the Federal Trade Commission, which he turned down. Coolidge asked Culbertson to delay the sugar report; after he demurred, Culbertson found himself accused of malfeasance for having accepted compensation for lecturing at Georgetown University.

When the report was finally issued in August 1924, the Tariff Commission was indeed split. The three Wilson appointees recommended reducing the sugar tariff from 1.76 cents per pound to 1.23 cents, while the two Harding appointees opposed this recommendation. Coolidge delayed making a decision for many months, during which time further pressure was put on the Wilson appointees to change their vote. Finally, in June 1925, nearly a year after the report had been released, the president decided not to adjust the sugar tariff, citing the divergent conclusions from the commission. Edward Costigan, one of the original commissioners appointed by Wilson, was outraged: "Thus, a major report of the commission was ignored and a commission investigation of the first order, which had engaged the services of an expert staff for nearly two years and cost the Government many thousands of dollars, was thrown overboard, following an unprecedented series of lobbying drives and political maneuvers, in some of which the White House actively shared."[80] Costigan resigned in protest and publicly declared the Republican appointees unfit for service, while Culbertson quit to take a diplomatic position in Romania.[81]

With the Tariff Commission's reputation for impartiality tarnished, Democrats and progressive Republicans created a select congressional committee in March 1926 to investigate the matter. Culbertson testified that "to stay on the Tariff Commission was worse than futile: it was to continue to lend my name as a sanction to a situation which for me had become intolerable." The Select Committee's report was divided as well, with three of five Senators (two Democrats, one insurgent Republican) recommending that the flexible tariff provision be repealed. The majority reported that the provision took up a huge amount of the commission's time "with no substantial result of general importance to the public." They found "controversies of such acute character arose in the commission that certain of its members became suspicious of the good faith of others, and bitter disputes, sometimes personal occurred, resulting about the time this select committee was created in a partial breakdown and a threatened complete breakdown of the Tariff Commission." They concluded that "the commission as a body was not functioning in an impartial or quasi-judicial manner, as we believe it was the intention of Congress that it should function."[82]

Progressives were sorely disappointed that the flexible tariff provision had failed to "take the tariff out of politics" and had been used to increase duties more than to reduce them. The insurgent George Norris (R-NE) wanted to abolish the commission because it had "fallen into hands of reactionaries and no longer served the purposes for which [it was] created."[83] Even David Houston, who as agriculture secretary helped convince President Wilson to create a commission, expressed disappointment with its performance. Recalling Wilson's reluctance to embrace the idea, Houston (1926, 187) admitted, "I am now inclined to think that his first view was right and that I was wrong. The conception was a good one, and the law was well conceived; but it has been pretty well demonstrated that the Commission cannot get the facts to the public for its education and that Congress will pay little attention to its economic findings." Houston concluded that the flexible tariff provision had been a "mistake" because it "radically changed [the Tariff Commission's] status from a fact-finding body to a piece of political machinery." He viewed the flexible provision as "a futile conception" because Republican administrations would simply adjust tariffs upward and Democratic administrations would adjust them downward.

Republicans also became suspicious of the flexible tariff provision because it posed a threat to Congress's authority. They even began to lose faith in the idea that the costs of production could be measured and provide a scientific basis for setting tariffs. "The theory that tariff rates should be determined by the difference in domestic and foreign costs of production has proved well-nigh impractical, since it is difficult in many instances to ascertain foreign costs of production," Smoot admitted. "Practically the only thing an American manufacturer is interested in is the actual competition he is compelled to meet in the American market."[84]

The second new feature of the tariff law allowed import duties to be adjusted to prevent foreign dumping in the US market. As we have seen, the Antidumping Act of 1916 made it illegal to sell imported goods at prices substantially lower than the market value in the exporting country "with the intent of destroying or injuring an industry in the United States," but proving predatory intent on the part of foreign exporters was almost impossible. In addition, the statute was enforced through the court system, which meant lengthy delays, and the remedy included fines and possible imprisonment, as did the antitrust laws. All of these factors left the statute unused.

The Antidumping Act of 1921, part of the Emergency Tariff Act of that year, changed matters considerably. This new antidumping law allowed the Treasury secretary to impose duties on imports if an investigation determined that imports "at less than [their] fair value" were injuring or were likely to injure a domestic industry.[85] The "fair value" was considered to be the price charged by an exporter in its home market. Thus, a foreign exporter charging a lower price on its sales in the United States than in its own home market could be found guilty of dumping. The Treasury Department was to administer the law and could impose import duties equal in magnitude to the dumping margin as the remedy. Antidumping duties did not become an important part of US trade policy until the 1970s and 1980s, as is discussed in later chapters. From 1921 to 1934, there were just fifty-four findings of dumping—about four per year. From 1934 to 1954, there were only seven findings of dumping.[86] Despite its infrequent use, the antidumping law was another step in the delegation by Congress of some tariff-setting authority to the executive branch. Congress simply could not afford the time to overhaul all the hundreds of rates in the tariff schedule every few years, nor could it update individual tariffs on a regular basis.

The third new aspect of trade policy in the early 1920s was the adoption of the unconditional most-favored-nation (MFN) clause in commercial agreements. As with the flexible tariff provision, William Culbertson was the driving force behind this policy shift. Although barely noticed at the time, the adoption of the unconditional MFN clause ultimately had far-reaching consequences for US trade policy by making it possible for the United States to participate more easily in international agreements to reduce trade barriers.

The background to this change was the spread of discriminatory trade policies by European countries in the decades prior to World War I. France, Germany, and other countries had adopted maximum-minimum tariff schedules, and the United States was often ineligible for the lower tariff rates if it lacked any trade agreement with those countries. The United States also faced widespread discrimination against its trade as a result of colonial trade networks. Furthermore, the United States found itself getting embroiled in an increasing number of tariff disputes and conflicts over the treatment of its goods in foreign markets, although the stake in each case was usually small. As a country with inflexible tariff rates determined by Congress, the United States found itself at a disadvantage in global trade, because the executive branch could not effectively negotiate with other countries to secure equal treatment in foreign markets.

In 1919, in a report entitled *Reciprocity and Commercial Treaties*, the Tariff Commission addressed this growing problem. Completed under the guidance of Frank Taussig, then the commission's chairman, the report proved to be one of the most influential government documents on trade since Alexander Hamilton's *Report on Manufactures*. The report noted that, to the extent that the United States sought to eliminate discrimination by other countries through bilateral negotiations, it was handicapped by its long-standing use of the conditional interpretation of the MFN clause, a policy that dated back to the Treaty of Amity and Commerce with France in 1778. Under conditional MFN, a concession granted to one country would not be given automatically to other countries unless they also granted new concessions. If taken seriously, this meant that if the United States agreed to reduce its tariff on some goods to secure equal treatment for its exports in another country, those tariff reductions would not be extended to other countries unless they also granted some new concessions. This would create a new disadvantage for other countries, many of whom might already be treating American goods quite favorably. If those countries were harmed by the new disadvantages they faced, they might even retaliate against the United States. Thus, an active trade policy based on conditional MFN could produce a tariff schedule that was riddled with discriminatory provisions and exceptions across many countries. At the very least, conditional MFN deeply complicated the process of international bargaining to achieve equal market access.[87]

The Tariff Commission argued that the old conditional MFN policy no longer served the nation's interests. The United States could not realistically have a country-by-country trade policy because, as the commission's report stated, "The separate and individual treatment of each case tends to create misunderstandings and friction with countries which, though supposed to be not concerned, yet are in reality much concerned." Therefore, the commission concluded,

> A great gain would be secured, now that the United States is committed to wide participation in world politics, if a clear and simple policy could be adopted and followed. The guiding principle might well be that of equality of treatment—a principle in accord with American ideas of the past and of the present. Equality of treatment should mean that the United States treat all countries on the same terms, and in turn require equal treatment from every other country. So far as concerns general industrial policy and general tariff legislation, each country—the United States as well as others—should be left free to enact such measures as it deems expedient for its own welfare. But the measures adopted, whatever they be, should be carried out with the same terms and the same treatment for all nations. (US Tariff Commission 1919, 10)

Of course, if it offered equal treatment to all countries unconditionally, the United States might lose bargaining leverage against other countries. Such leverage could be restored either by giving special concessions to countries that gave equal treatment to American goods or by imposing penalty duties on countries that did not. The commission argued that penalty duties imposed at the discretion of the president—"not for the purpose of securing discrimination in its favor, but to prevent discrimination to its disadvantage"—was the better option. Although the commission did not make a specific policy recommendation, it strongly implied that unconditional MFN with penalty duties for countries discriminating against the United States would be the best approach.

President Wilson drew attention to the commission's report in a message to Congress in May 1919.[88] Congress did not act upon the matter until considering the tariff revision in early 1921. At the same time that he was encouraging senators to adopt the flexible tariff provision, Culbertson was also working to convince them about the merits of unconditional MFN with penalty duties. As a result, section 317 of the Fordney-McCumber tariff allowed the president to proclaim new or additional duties, not exceeding 50 percent, upon imports of any or all products of a country found to impose "any unreasonable charge . . . which is not equally enforced upon the like articles of every foreign country" or to discriminate "in such a manner as to place the commerce of the United States at a disadvantage compared with the commerce of any foreign country." As Senator Smoot argued,

> We would base the commercial policy of the United States upon the twin ideas of granting equal treatment to all nations in the market of the United States, and of exacting equal treatment for the commerce of the United States in foreign markets. We do not believe that the United States should pursue a general policy of special bargains and special reciprocity treaties. . . . We stand for a simple, straightforward, friendly policy of equal treatment for all, with no discriminations against any country except as that country has first discriminated against us.[89]

This provision sparked virtually no debate in Congress, which was preoccupied with setting the many duties in the tariff schedule. The phrasing of section 317 appeared to endorse unconditional MFN, although it did not explicitly mandate it.

Just days after President Harding signed the Fordney-McCumber tariff in September 1922, Culbertson wrote to Secretary of State Charles Evans Hughes, drawing his attention to section 317 and its implicit endorsement of unconditional MFN. Hughes acknowledged the significance of section 317—"the importance of this policy can hardly be overestimated"—and suggested that Culbertson write up a memorandum explaining his view. That memo made a powerful case for equality of treatment and unconditional MFN.[90] The conditional approach "affords us no security against discriminations in foreign countries, and in this period of reconstruction, when many countries are revising their treaties and reconsidering their grants of most-favored-nation treatment, the conditional most-favored-nation principle is liable to be applied against us." Culbertson concluded with the following recommendation: "Now that Congress has taken a definite stand for the policy of equality of treatment, it would seem to follow logically that in the revision of our commercial treaties we should adopt the unconditional form of the most-favored-nation clause."[91]

Hughes sent the memorandum to Henry Cabot Lodge (R-MA), the chairman of the Senate Foreign Relations Committee. Lodge found it "very convincing and very well put, and I think that Mr. Culbertson makes a very strong case."[92] Having received Lodge's tacit approval, Hughes then forwarded the Culbertson and Lodge correspondence to the president and expressed the view that "there is an opinion among many that for the future the United States should adopt the unconditional form of most-favored-nation clause in its treaties of commerce and navigation." In February 1923, President Harding wrote to Hughes, "I have gone over your letter and the argument of Mr. Culbertson with some considerable deliberation, and I am pretty well persuaded that the negotiation of the unconditional provision is the wise course to pursue." Harding gave permission to proceed with the negotiation of unconditional MFN agreements with other countries.[93] With that, the United States adopted the unconditional MFN clause.[94]

The new unconditional MFN policy was unveiled in a new commercial treaty with Germany in 1924. The treaty did not alter any import duties, but required that each country extend unconditional MFN benefits to each other in the application of its tariff and other commercial benefits. Thus, there was no change in the US tariff schedule, but the United States obtained assurances that it would continue to receive equal treatment in Germany's market even if Germany reached new trade agreements with other countries.

The decision to adopt unconditional MFN went relatively unnoticed at the time. The implications were not fully appreciated by contemporary observers, because no immediate policy changes were evident.[95] But if the United States ever decided to undertake tariff negotiations with other countries, something that was not foreseen at the time, unconditional MFN would greatly facilitate the conclusion of such agreements. In particular, it would minimize the difficulties for third parties, preventing them from having grounds for retaliating against the United States.

THE TARIFF AND AGRICULTURE IN THE 1920S

Once the economy emerged from the short but severe recession in 1920–21, Republicans enjoyed the electoral benefits of a strong economy during the 1920s. With progressives in disarray and Democrats weak and divided, Republicans secured easy victories in the presidential elections of 1924 and 1928 and retained uninterrupted control of Congress. This ensured the Fordney-McCumber duties against the threat of any downward revision. In his 1923 annual message to Congress, President Coolidge argued that the Fordney-McCumber tariff had accomplished its dual objectives of raising revenue and restoring prosperity. No further tariffs changes were necessary because "a constant revision of the tariff by the Congress is disturbing and harmful."[96] A year later, Coolidge praised protective tariffs for securing "the American market for the products of the American workmen" and enabling "our people to live according to a better standard and receive a better rate of compensation than any people, anytime, anywhere on earth, ever enjoyed."[97] In his 1926 annual message, Coolidge again hailed the strength of the economy as "predicated on the foundation of a protective tariff."[98] He rejected the view that America's creditor status implied that it should open its market to foreign goods; in his view, one year's worth of strong economic growth would create more demand for foreign goods, and thus help foreign countries earn dollars to repay their debts, than lower tariffs.

Meanwhile, to the discouragement of those desiring lower tariffs, Democrats were largely vanquished as a political force. As Senator Cordell Hull (1948, 1:124) of Tennessee lamented, "I had become one of the voices whose notes, pleading for lower tariffs, international cooperation, and better national financing, shattered against a stone wall. . . . I became progressively more discouraged until in 1929 I almost decided to retire from Congress." The 1924 Democratic platform denounced the Fordney-McCumber tariff as "the most unjust, unscientific and dishonest tariff tax measure ever enacted in our history. It is class legislation which defrauds the people for the benefit of a few; it heavily increases the cost of living, penalizes agriculture, corrupts the government, fosters paternalism and, in the long run, does not benefit the very interests for which it was intended."[99] But with the economy growing steadily, there was little apparent public discontent with the Republican tariff policy. After the war, the public cared little about the issue, and most of the popular resentment about protective duties, so evident around the turn of the century, had dissipated.

Of course, tariff policy did not completely fade away as a political issue. The one segment of the American economy that was not doing well during the 1920s was agriculture. The nation's farmers suffered from high levels of indebtedness after wide price fluctuations buffeted the sector during and after World War I. Agricultural prices doubled during the war as foreign demand for crops soared. This triggered a wave of land speculation and large investments in machinery and buildings, all of which pushed farm indebtedness to high levels. When farm prices did not collapse as expected after the war, another wave of land speculation took place. Then the tightening of monetary conditions in 1920–21 led to a sharp fall in commodity prices, putting heavily indebted farmers under enormous financial pressure.[100] Although manufacturing industries were also slammed by the recession, they snapped back, and industrial production grew steadily for the remainder of the decade. By contrast, agriculture remained in a prolonged slump. Farm income did not regain its prewar level until 1925 and was flat for the remainder of the decade. As the real burden of mortgage and other debt rose sharply due to falling prices, farms began to fail in increasing numbers. Foreclosures rose from 3 percent of farms in 1913–20 to 11 percent over 1921–25, and reached an astounding 18 percent of farms from 1926–29.[101] The divergent paths of prosperous industry and struggling farms once again bred agrarian resentment in the Midwest against the industrial and commercial wealth of the East.

With nearly a quarter of the American labor force still employed in agriculture, Congress could not ignore the farm sector's severe distress, as evidenced by falling farmland values, mortgage foreclosures, and rural bank failures. With manufacturers already protected by import tariffs, Congress considered numerous proposals during the 1920s for government policies that would give more assistance to farmers.[102] In an influential book entitled *Equality for Agriculture*, George N. Peek and Hugh S. Johnson, president and vice president of the Moline Plow Company, suggested that farm relief should be provided by boosting farm prices to their prewar level. They developed the idea of a "parity price" for farmers that would guarantee the purchasing power of farm products based on the price level in 1910–14.[103]

The question was how to achieve the objective of higher farm prices. One way this could be done was supposed to be through "tariff equality," in which the agricultural products that farmers sold would be protected as much as the manufactured products that they purchased. While the average tariff on manufactured goods was about 45 percent, the average tariff on agricultural products was only about 22 percent. Therefore, tariff equality could mean either increasing duties on agricultural imports or decreasing duties on manufactured imports. Farm groups had no desire to attack the principle of protection or to take on industrial interests in a fight to slash their tariffs, so the consensus seemed to be that higher tariffs on agricultural imports were desirable.[104]

The problem with higher import tariffs as the solution to agriculture's difficulties was that the United States remained a large net exporter of the crops that most farmers produced, particularly grains (wheat and corn) and traditional staples (cotton and tobacco). The prices of these commodities were determined by the world market. Higher duties on agricultural imports would give most farmers little, if any, relief from low prices. In the debate over the Fordney-McCumber tariff, Senator Carl Hayden (D-AZ) said that including higher tariff rates on agricultural goods "can be explained in no other way than that they represent an attempt to fool the farmers and swindle the stockmen into the belief that they will get enough benefit out of this bill to fully compensate them for the higher prices that they must pay for all the manufactured goods upon which high protective or even prohibitive duties are levied in this measure. . . . Time will soon disclose the utter futility of attempting by a tariff to boost the price of wheat or corn or short-staple cotton and the numerous other farm and range products where the importations are negligible and the surplus must be sold abroad."[105]

The failure of the Emergency Tariff of 1921 and the Fordney-McCumber tariff of 1922 to provide much assistance to agricultural producers led to legislative proposals to increase farm prices directly, through programs ranging from federal loans and cooperative marketing arrangements to government purchases of farm surpluses at guaranteed prices and export subsidies. The most noteworthy of these schemes was developed by Senator Charles McNary (R-OR) and Representative Gilbert Haugen (R-IA). The McNary-Haugen plan, first introduced in 1924 and considered repeatedly over the rest of the decade, combined domestic price supports with an export subsidy as a way of implementing the price parity concept advocated by Peek and Johnson.[106] Under the plan, the government would create an export corporation that would buy enough domestic output of a particular commodity to raise the price to a target set by the government and tied to the general price index. Imports would be restricted to prevent them from coming in at prices below the target. The government would then dispose of any surplus it held by exporting it at the lower world market price. The financial loss arising from purchasing the commodities at high domestic prices and selling the surplus at low world prices would be financed by an "equalization fee" on domestic sales. The plan could not feasibly include all agricultural produce, so it was limited to basic commodities, such as wheat, wool, cattle, and swine.

While farm organizations, from the National Grange to the American Farm Bureau Federation, supported the scheme, opponents attacked the McNary-Haugen bill as unconstitutional, sectional, and unworkable.[107] In 1924, the House defeated it; the greatest support came from the Midwest, but almost all states in the East and South opposed it. Recognizing the need to cultivate additional political support, representatives from the Midwest reintroduced the bill and included cotton in the program. The combination of cotton- and corn-belt support led to its passage by Congress in 1927.

Although Midwestern Republicans supported the measure, the party's eastern establishment did not, because farmers were not traditionally part of their political base.[108] Indeed, Coolidge vetoed the bill, arguing that government price-fixing would be difficult to administer and would distort markets, and that the equalization fee was unconstitutional. The president also maintained that the bill was sectional and selective because it helped farmers who produced wheat, corn, and cotton and raised hogs, but not those who produced oats, barley, and vegetables, in addition to ignoring beef and poultry producers.

Despite the president's opposition, farm supporters continued to insist that something be done to relieve the financial distress in agriculture. In early 1928, Congress passed another McNary-Haugen bill, this time by a wider margin than before, and tried to address the president's objections by covering all commodities. Once again, Coolidge vetoed the bill on the grounds that it would "poison the wellsprings of our national spirit."[109] In his sharply worded veto message, Coolidge once again faulted the scheme for being an unwise price-fixing measure that would assist some farmers at the expense of others and be impossibly complex to administer.

Frustrated by their failure to secure agricultural relief, the Midwestern Republican insurgents were determined to do something to help their agricultural constituents. With price supports having been blocked, they began to lash out against high tariffs for industrial producers. In December 1927, Senator William McMaster (R-SD) proposed an immediate, downward revision of the tariff, aiming primarily at machinery and equipment used by farmers. Denouncing agricultural tariffs as a fraud, McMaster started attacking protection for industry:

> The only way agriculture can win relief is by arousing the industrial East. I want to see the industrial group placed on the defensive just as agriculture has been on the defensive for the last seven years. The West must strike industry where it hurts to get any necessary relief. I know no better way to bring the East to its senses than to tamper with the tariff. The farmer is determined in this. They must either get the benefits of the tariff or they must be relieved of the burdens of the tariff.[110]

Senate Finance Committee chairman Reed Smoot (R-UT) condemned the McMaster proposal: "It is difficult for me to measure the disastrous effect of adopting this resolution. It is an attack in the dark without a redeeming feature."[111] Smoot and the Old Guard Republicans insisted that no tariff revision was needed for at least two years. Yet the Republican leadership was overwhelmed by insurgent Republicans from the Midwest and low-tariff Democrats from the South who came together to pass the McMaster resolution.

In the House, where Eastern interests had greater representation, the proposal was tabled, but only by a surprisingly narrow margin. Once again, a battle between the agricultural Midwest and the industrial East was postponed. But the agrarian demands for tariff reform and new tariff legislation would force Congress to revisit the issue sooner than the Republican leadership had expected or desired. The insurgents demanded a revision that would reduce tariffs on industrial products and increase them on agricultural goods, thereby supposedly providing relief for America's ailing farmers. It is ironic that the seeds of the Hawley-Smoot tariff were laid not by greedy industrial lobbyists or the Republican leadership, but by progressive Republicans from the Midwest.