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

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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: Introduction

Chapter Author(s): Douglas A. Irwin

Chapter URL: <http://www.nber.org/chapters/c13850>

Chapter pages in book: (p. 1 – 27)

## INTRODUCTION

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In *Federalist 10*, James Madison observed that different economic interests arise in every society and often have sharply conflicting views on government policy. “A landed interest, a manufacturing interest, a mercantile interest, a moneyed interest, with many lesser interests, grow up of necessity in civilized nations, and divide them into different classes, actuated by different sentiments and views,” he noted. “The regulation of these various and interfering interests forms the principal task of modern legislation, and involves the spirit of party and faction in the necessary and ordinary operations of the government.” Madison illustrated this observation with the example of trade policy: “Shall domestic manufactures be encouraged, and in what degree, by restrictions on foreign manufactures? are questions which would be differently decided by the landed and the manufacturing classes, and probably by neither with a sole regard to justice and the public good.” Rather pessimistically, he concluded, “It is in vain to say that enlightened statesmen will be able to adjust these clashing interests, and render them all subservient to the public good.”<sup>1</sup>

Time has proven Madison right: trade policy has been the source of bitter political conflict throughout American history. This conflict has been fierce because dollars and jobs are at stake: depending on the policy outcome, some industries, farmers, and workers will suffer, while others will prosper. Madison also correctly anticipated that the fundamental issue in trade policy is the degree to which domestic producers should be protected from foreign competition. This persistent question has pitted different segments of society, regions of the country, and philosophical viewpoints against one another.

This book explores the economic and political factors that have shaped

the battle over US trade policy from the colonial period to the present. It considers the economic interests and partisan positions that have influenced the course of trade policy, the historical circumstances that have confronted and constrained policymakers, the policy outcomes that have emerged from the political process, and the economic consequences of those policies. Congress is at the center of the story because it is the principal venue in which trade policy is determined. Producer interests, labor unions, advocacy groups, public intellectuals, and even presidents can demand, protest, denounce, and complain all they want, but to change existing policy requires a majority in Congress and the approval of the executive. If the votes are not lined up, the existing policy will not change.

US trade policy has been directed toward achieving three principal objectives: raising revenue for the government by levying duties on imports, restricting imports to protect domestic producers from foreign competition, and concluding reciprocity agreements to reduce trade barriers and expand exports. These three Rs—revenue, restriction, and reciprocity—have been the main purposes of US trade policy. While all three have been important throughout history, US trade policy can be divided into three eras in which one of them has taken priority. In the first era, from the establishment of the federal government until the Civil War, revenue was the key objective of trade policy. In the second era, from the Civil War until the Great Depression, the restriction of imports to protect domestic producers was the primary goal of trade policy. In the third era, from the Great Depression to the present, reciprocal trade agreements to reduce tariff and non-tariff barriers to trade have been the main priority.

This delineation suggests that there have been only two major exogenous shocks to American trade politics that have produced a transition from one objective to another. The first was the Civil War, which led to a political realignment in favor of the Republicans and a shift from revenue to restriction as the primary goal of trade policy. The second was the Great Depression, which led to a political realignment in favor of the Democrats and a shift from restriction to reciprocity as the primary goal of trade policy. Within each of these three eras, existing policies were heatedly disputed by the two political parties. The status quo never went unchallenged, with one side or the other complaining that the country would be ruined if tariffs were not raised higher or lowered further. Yet, despite all the debate and controversy that different, clashing interests generated, it has proven very difficult to dislodge existing policies once they were established. Within each of the three eras described above, US trade policy

has shown remarkable continuity and stability, despite the political and economic conflict that exists at any given point in time.

This stability is built into American trade politics by the country's economic geography and political system. Different regions of the country specialize in different economic activities, the location of which can persist for decades if not centuries. For more than two centuries, cotton has been produced in Mississippi, tobacco in Kentucky and North Carolina, iron and steel in Pennsylvania, and so forth. These specialized regions have different interests with respect to trade: some produce goods that are exported, while others produce goods facing competition from imports. In representing these different regions, members of Congress usually vote on legislation according to the interests of their constituents. As a result, the stable economic geography of the United States leads to a stable political geography of Congressional voting on trade policy.<sup>2</sup> In addition, the American political system makes it very difficult to pass legislation, which biases policy toward maintaining the status quo.

As an economist, I am partial to using economic analysis as a way of understanding the forces operating on policymakers and the consequences of their policy decisions. The last major history of US trade policy by an economist was Frank Taussig's *A Tariff History of the United States*, first published in 1889 and running through eight editions, the last in 1931. This classic work requires updating for three reasons. First, nearly a century of momentous history has transpired since Taussig completed his last edition just after the passage of the Hawley-Smoot tariff in 1930 but before the depths of the Great Depression had been reached. Since then, the United States has moved from isolationism and protectionism in its trade policy to global leadership in promoting freer trade around the world. Second, empirical analysis has shed new light on many key questions of economic history that Taussig could only speculate about. Such questions include the impact of antebellum tariffs on the South, the role of protection in fostering the growth of infant industries, and the relationship between high trade barriers and the Great Depression. Third, the analytical framework that economists use to think about the political economy of economic policy has advanced significantly since Taussig's day.<sup>3</sup>

Of course, the story of US trade policy involves much more than economics; it is interwoven with the nation's political history. Not surprisingly, political scientists and historians have also made important contributions to understanding the evolution of trade policy.<sup>4</sup> Political scientists examine factors that economists too often ignore, such as how the policy-

making process itself can shape policy outcomes. (As Rep. John Dingell of Michigan is reported to have said, "I'll let you write the substance [of legislation], you let me write the procedure [for considering it], and I'll beat you every time"—although he apparently used a more colorful word than "beat.") And historians have provided detailed expositions of the political context in which trade policy debates have taken place.

At the same time, political scientists and historians have never been particularly engrossed by the intricacies of trade policy. Alan Milward (1981, 58) once wrote that "tariffs are extraordinarily uninteresting things unless related to the political events which give them meaning"—implying that only boring economists could ever find them intrinsically worthy of study. And historians, by their own admission, have never shown a deep interest in trade policy. As John Belohlavek (1994, 482) confessed, the tariff has "engendered narcolepsy among generations of American historians. . . . While few of us would contest the importance of the issue, even fewer care to research the confusing maze of rates and duties."

More importantly, political scientists and historians tend to neglect the economic consequences of different trade policies. How did Jefferson's trade embargo in 1808 affect the economy? Did high tariffs promote America's industrialization in the nineteenth century? Did the Hawley-Smoot tariff of 1930 exacerbate or ameliorate the Great Depression? Were liberal trade policies after World War II responsible for the economic prosperity experienced in the postwar period? Did trade with China in the early 2000s destroy jobs in manufacturing and hurt blue collar workers? Although this book focuses more on understanding the political and economic forces that have shaped the formation of trade policy rather than the consequences of any particular policy outcome, these important questions need to be addressed.

This book is organized chronologically, but within each chapter both political and economic developments are analyzed. This introduction provides some background to the chapters that follow. We first examine the main policy outcome that we are seeking to understand: the average tariff on imported goods. The average tariff is usually set to achieve one of the three objectives of trade policy (the three Rs): *revenue* for the government, *restriction* of imports to protect domestic producers from foreign competition, and *reciprocity* to open foreign markets to exports. We then discuss how the economic and political geography of the United States influences the policies that emerge from Congress. Finally, we consider how partisan and ideological factors can also play a role in the formation of trade policy.

## THE INSTRUMENTS AND OBJECTIVES OF TRADE POLICY

International trade consists of exchanging exports of domestic goods and services for imports of foreign goods and services. Governments can either encourage this trade with subsidies or discourage it with taxes. This gives us four possible ways in which governments can intervene in trade: export taxes, export subsidies, import taxes, and import subsidies. Two of these four policies have little relevance to the American experience. For reasons discussed in chapter 1, export taxes are expressly prohibited under article 1, section 9 of the Constitution. Import subsidies, which are government payments to bring foreign goods into the domestic market, are almost never employed by any country, the United States being no exception.

This leaves export subsidies and import taxes. The United States has sometimes used export subsidies, but never on a large scale because of their budgetary cost.<sup>5</sup> By contrast, import taxes—known as tariffs, or customs duties—have been the central focus of trade policy since the establishment of the federal government in 1789. As a result, import tariffs will be the primary focus of this book.<sup>6</sup>

Import tariffs are taxes levied on foreign goods as they enter the United States.<sup>7</sup> Tariffs can take the form of *ad valorem* duties (a percentage of the imported good's value, such as 30 percent) or specific duties (a fixed charge per unit of the imported good, such as \$1 per pound or per unit). An important feature of specific duties is that their percentage (*ad valorem*) equivalent cannot be determined without reference to the price of the imported good. For example, if a specific duty happens to be \$5 per imported shirt, then the *ad valorem* equivalent is 50 percent on a \$10 shirt and 10 percent on a \$50 shirt. Thus, the *ad valorem* equivalent of a specific duty is inversely related to the good's price. Because many tariffs are specific duties, wide swings in import prices have been responsible for large movements in the average tariff during certain periods in history.<sup>8</sup>

The average tariff is the most widely used indicator of a country's policy with respect to imports. Figure 1.1 presents the average tariff on total and dutiable imports for the United States from 1790 to 2015.<sup>9</sup> The average tariff on total imports is the broadest measure and includes imports of all goods (dutiable and duty-free), whereas the average tariff on dutiable imports focuses just on goods that are subject to a tariff. A large gap between these two series appeared after the Civil War, when some foreign products were allowed to enter duty-free—usually goods not produced

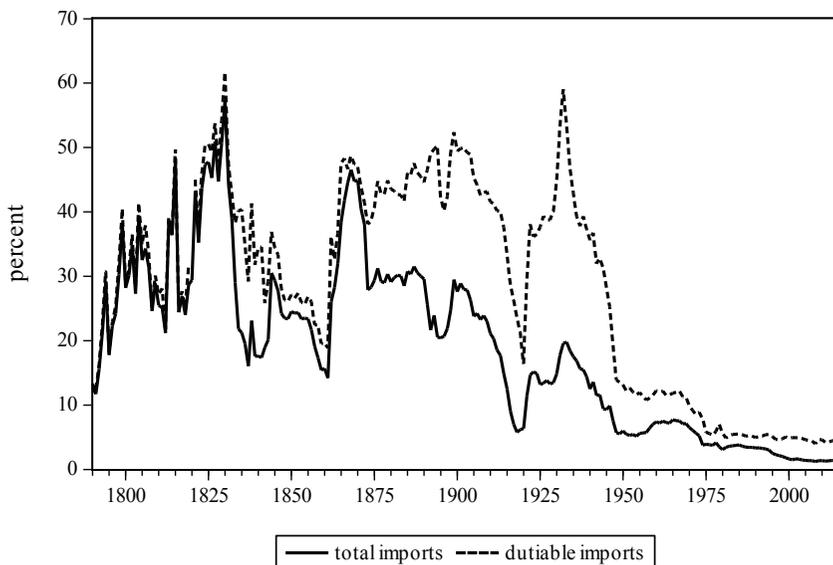


Figure I.1. Average tariff on imports, total and dutiable, 1790–2015. (US Bureau of the Census 1975, series U-211–12 for 1790–1970; US International Trade Commission, “U.S. Imports for Consumption, Duties Collected, and Ratio of Duties to Value, 1891–2015,” March 2016, for 1970–2015.)

domestically, such as coffee and tea, where no domestic producer would be harmed. Since the 1980s, free-trade agreements have also allowed some foreign countries to export their goods to the United States without facing any duties. Setting aside such imports, the average tariff on dutiable imports can be interpreted, somewhat simplistically but still usefully, as the average degree of protection given to domestic producers facing foreign competition. In some sense, these protective tariffs are the key “policy outcome” that we focus on throughout this book.

As Figure I.1 shows, these tariffs have fluctuated over time, suggesting that trade policy has been quite volatile. However, this is largely an illusion, and underlying policies have been much more stable than the figure suggests. While some of the movement in the average tariff is due to changes in tariff rates as enacted by Congress or negotiated by the president in trade agreements, most tariff acts and trade agreements only made incremental changes to the existing structure and rate of import duties and thus maintained the continuity of existing policy. By contrast, the largest movements in the average tariff have been driven by changing

import prices acting on specific duties. These exogenous fluctuations in import prices have sometimes produced large changes in average tariffs, even when there were no changes in underlying rates of duty set by policymakers and applied to imports.

What objectives have Congress and the president sought to achieve in setting these import tariffs? As already mentioned, policymakers have had three principal goals: raising revenue for the government, restricting imports to protect certain domestic industries from foreign competition, and pursuing reciprocity agreements with other countries to open foreign markets to US exports. In a rough way, the three eras of US trade policy can be seen in Figure I.1. In the first era, from 1790 to 1860, revenue was a key factor in setting import duties because they generated about 90 percent of the federal government's income. Of course, revenue was not the sole consideration: the average tariff rose from about 20 percent in the early 1800s to nearly 60 percent by the late 1820s because some northern states sought to introduce a protective tariff. This bid was eventually defeated by southern states, which wanted "a tariff for revenue only," but only after a major political crisis in which South Carolina threatened to secede from the union. The Compromise of 1833 resolved the matter and put tariffs on a downward path until the outbreak of the Civil War, by which time they were below 20 percent. The average tariffs on total and dutiable imports were similar because almost every imported good was subject to customs duties.<sup>10</sup>

This political equilibrium was disrupted by the Civil War, which shifted political power from the low-tariff Democrats in the South to the high-tariff Republicans in the North. During this second era, from 1860 until 1934, the primary goal of trade policy was the restriction of imports to protect certain industries from foreign competition. This new objective became a priority because the party that controlled the levers of political power changed, as did the strength of different economic interests that got represented in Congress. As a result, the average tariff on dutiable imports jumped from less than 20 percent in 1859 to about 50 percent during the war, where it remained for many decades. During this period, protective tariffs were a major issue in national politics: Proponents argued that they promoted the nation's growth and industrial development, while critics charged that they were inefficient and subsidized some sectors of the economy at the expense of others.

While the average tariff on dutiable imports remained high, the average tariff on total imports fell because some consumer goods (coffee and

tea) and raw materials (tin and rubber) were given duty-free treatment. In this period, import tariffs were less important for revenue purposes because other taxes had been introduced. From 1860 to 1913, import duties generated about half of the government's revenue; after the introduction of the income tax in 1913, only a small fraction of government revenue has come from import duties. From 1913 to 1933, tariffs were highly unstable: the average tariff declined sharply during World War I, quickly rose again after the war, then spiked to nearly 60 percent in the early 1930s. These fluctuations reflected not only legislative changes in tariff rates, but the impact of import-price movements on specific duties as well.

This political equilibrium was disrupted by the Great Depression, which shifted political power to the low-tariff Democrats in the election of 1932. In the third era, from 1934 to the present, reciprocity became the principle objective of trade policy, with the goal of opening up foreign markets for US exports. Reciprocity involves the negotiation of agreements with other countries to reduce trade barriers; that is, the United States agrees to reduce its tariff on foreign goods in exchange for foreign tariff reductions on US goods. Up to this point, trade agreements had not been feasible, in general, because Congress wanted to maintain control of the tariff schedule and was reluctant to give negotiating authority to the president. Because high foreign trade barriers were imposed during the Great Depression and were detrimental to US exports, Congress delegated such powers to the president in the Reciprocal Trade Agreements Act of 1934.

This landmark piece of legislation moved the locus of trade policy-making from the legislature to the executive branch and marked the beginning of a new era. Since then, the United States has concluded many agreements, such as the General Agreement on Tariffs and Trade (GATT) in 1947 and the North American Free Trade Agreement (NAFTA) in 1993. Partly as a result of such agreements, tariffs have fallen to historically low levels. After collapsing in the 1940s, largely due to rising import prices during and after World War II, the average tariff on dutiable imports stood at about 10 percent by the early 1950s and then declined to about 5 percent by the late 1970s, about where it stands today.

Thus, over the long sweep of history, there have been only two ruptures that have led to major shifts in US trade policy: the Civil War, which marked the transition from revenue to restriction, and the Great Depression, which marked the transition from restriction to reciprocity. The former was associated with a shift in political power between different regions of the country; the latter was associated with a political realignment

along with an important institutional change in the trade policymaking process.

In each of these periods, what guidelines did policymakers use in setting tariffs to raise revenue, restrict imports, and realize reciprocity? In fact, there are no objective, scientific criteria for determining how tariffs should be set to achieve these objectives.<sup>11</sup> The revenue-maximizing tariff rate depends upon the price elasticity of import demand, but Congress never really knows the precise magnitude of that elasticity and, in any event, may not wish to “maximize” revenue. There are no specific rules for determining which industries should be protected from foreign competition or the degree to which they should be protected, or even for determining whether such protection could improve economic welfare. Economists generally believe that trade restrictions reduce national income, but there are theoretical reasons for promoting “infant industries” if certain conditions are met. Yet there are few indicators that help one determine in advance which industries are candidates for such support. And reciprocity involves a political judgment about whether a particular trade agreement constitutes a “good deal” that serves the national interest.

Even if there were practical guidelines in each case, they would likely play little role in the political arena where policy decisions are made. The setting of tariffs is an inherently political exercise. Actual tariffs are “guesswork modified by compromise,” as Senator Joseph Foraker of Ohio once put it. Members of Congress usually disagree intensely about using tariffs to achieve any particular objective. The policy outcomes reflect compromises and trade-offs between many different considerations (domestic and foreign) and objectives (political and economic). As House Speaker Thomas Reed (R-ME) quipped, “the only place you can pass a perfectly balanced tariff is in your mind: Congress will never pass one.”<sup>12</sup>

As Madison seems to have predicted, restricting imports for protectionist purposes has always been the most contentious part of US trade policy, although in recent years trade agreements have also generated intense controversy. The raising or lowering of protective tariffs has always sparked heated debate because those tariffs affect which sectors of the economy will expand and which will contract.<sup>13</sup> By increasing the domestic price of imported goods, a protective tariff affects the allocation of labor employment and capital investment across different sectors of the economy. For these reasons, rendering these “clashing interests” subservient to the public good, as Madison put it, has always been a difficult challenge for policymakers.

## THE ECONOMIC AND POLITICAL GEOGRAPHY OF US TRADE POLICY

So why has trade policy been so hotly disputed and yet also so stable within each of the three eras discussed above? Political conflict arises because some regional economic interests benefit from exports, while others are harmed by imports. The continuity of trade policy is rooted in the country's stable economic geography (the economic interests located in various regions) along with its stable political geography (the representation of those interests in Congress).

In terms of economic geography, the production of goods that can be traded across countries—the cultivation of agricultural crops, the extraction of mineral resources, and production of manufactured goods—tend to be located in certain parts of the country, where they can remain for decades, if not centuries. The composition of trade—the types of goods exported and imported—also tends to be stable over time. This means that the nation's farmers, miners, and manufacturers have long-standing but conflicting interests over trade: some export to foreign markets and want relatively open trade, while others face foreign competition and want protective tariffs to keep imports out of the domestic market. Thus, different regions of the country, with their different producer interests, tend to have fairly stable preferences for certain trade policies. Because members of Congress usually reflect the interests of their constituents, Congressional voting patterns also show continuity over time.

The logic of this argument is illustrated in Figure I.2: the stable economic geography of production combined with the stable composition of trade gives rise to stable regional producer interests and hence a stable political geography of trade policy in Congress. We shall see throughout this book how this pattern plays out time and again, making it difficult to change existing policies unless a large shock—such as the Civil War or the Great Depression—comes along and produces a major shift in political power. Of course, should an industry's geographic location change or the composition of trade shift, regional economic interests will be affected and Congressional voting patterns will adjust. Let us consider each step in more detail.

The most important economic interests that influence trade policy are domestic producers—namely, firms and the workers they employ. It is often said that the United States has a “producer-driven” trade policy, in that members of Congress and executive branch officials are particularly responsive to the nation's farmers, miners, and manufacturers. These pro-

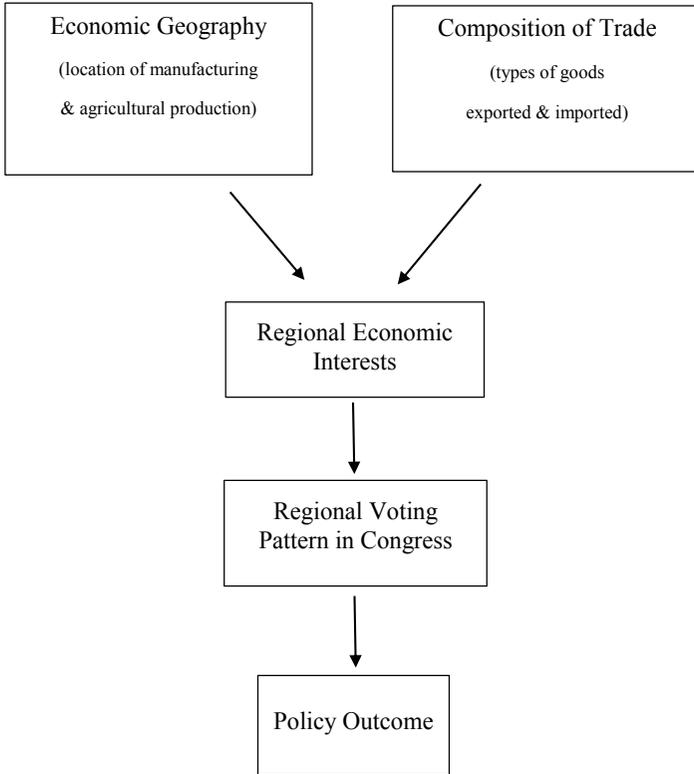


Figure I.2. Schema of the book.

ducer interests are not only deeply engaged in the policy process, but they are often concentrated in certain parts of the country. Different regions have different attributes—soil or climatic conditions in the case of agriculture, geological factors in the case of mining, or proximity to natural resources in the case of manufacturing—which leads them to specialize in producing different agricultural crops, mineral resources, and manufactured goods. For example, one usually associates cotton production with South Carolina, Mississippi, and Texas, iron and steel with Pennsylvania and Ohio, tobacco with Virginia, North Carolina, and Kentucky, wheat with Kansas and Nebraska, automobiles with Michigan, coal with Pennsylvania and West Virginia, financial services with New York, copper with Arizona and New Mexico, high technology goods with California, aircraft with Washington, and so forth.

Figure I.3 presents a stylized depiction of the economic geography of

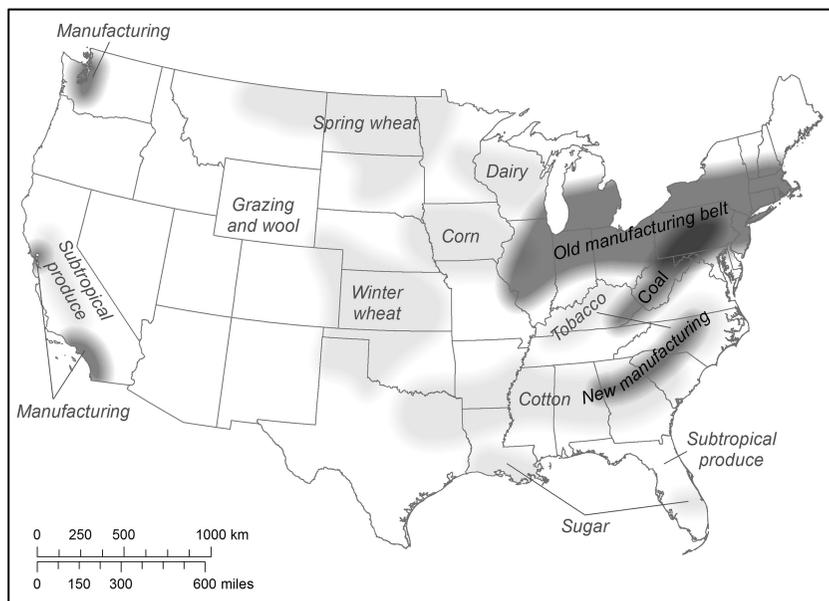


Figure I.3. The economic geography of the United States.

the United States. A long manufacturing belt that first emerged in the early nineteenth century stretches from New England across upstate New York and Pennsylvania and into the upper Midwest. This region encompasses the early textile and woolen manufactures industry (in Massachusetts and Rhode Island), the steel industry (in Pennsylvania and Ohio), and later the automobile industry (in Michigan) and the farm equipment industry (in Ohio and Illinois). Tobacco production has been concentrated in the upper South and cotton production in the lower South. In the Midwest, there is a wheat belt in Minnesota, North Dakota, and Kansas, a corn belt in Iowa, Illinois, and Indiana, and a dairy belt in Wisconsin and Michigan.

This geographic specialization in production can last for many decades, but it is not immutable.<sup>14</sup> For most of the nineteenth century, cotton textile production was located primarily in New England, but it gradually migrated to the South in the early twentieth century when the development of electricity freed the mills from their dependence on water power and allowed them to relocate in search of lower labor costs. Cotton production is concentrated in the South; it started in South Carolina in the 1820s and slowly moved westward toward Mississippi and Texas over the following century. The geographic concentration of iron and steel produc-

tion in Pennsylvania and Ohio was originally due to local deposits of coal and iron ore, and these two states accounted for about two-thirds of domestic production of iron and steel until the mid-twentieth century. In the 1970s and 1980s, with the intensification of foreign competition, manufacturing belt states with a concentration of heavy industries became known as the Rust Belt when plants shut down or moved to the South, where a new manufacturing belt had developed.<sup>15</sup>

Given that the nation's farms, mines, and factories have tended to be geographically concentrated, what determines the interests of these producers with respect to trade? That depends largely on whether these producers export their goods to foreign markets or face competition from imports. As a broad generalization, producers that face foreign competition want high tariffs on imports, while producers that export to foreign markets want low tariffs on imports. The interests of exporters and import-competing producers are opposed because international trade involves the exchange of exports for imports and any policy intervention that reduces imports also reduces exports, other things being equal.

The interdependence of exports and imports has long been recognized. A proposition known as the Lerner Symmetry Theorem holds that a tax on imports is equivalent to a tax on exports. In effect, by levying a tax to restrict imports, policymakers are also levying a tax that restricts exports.<sup>16</sup> As a result, political conflict over trade policy often pits export-oriented producers against import-competing producers. In fact, exporters tend to be the leading interest group willing to fight against import-competing producers that demand higher tariffs. In the nineteenth century, for example, export-dependent cotton and tobacco producers in the South strongly opposed the high tariffs sought by manufacturing producers in the North.

Producers and consumers within an industry also have conflicting interests over trade. A tariff that protects domestic producers from foreign competition by increasing the price they receive also harms domestic consumers by increasing the price they must pay. In effect, the tariff subsidizes domestic producers competing against imports and taxes domestic consumers of imported goods and their domestic substitutes. And consumers are not only households but also industries that use imported raw materials and intermediate goods in their production processes. Many trade-policy conflicts have pitted producers of raw materials and intermediate goods against producers of final goods. For example, while domestic wool producers (sheep farmers) have demanded high tariffs on imported wool, domestic woolen manufactures wanted low tariffs to keep their production costs down.

These trade-policy interests of producers are stable as long as the composition of trade is stable. The composition of trade—the types of goods exported and imported—is largely determined by a country's natural resources, factor endowments (land, labor, and capital), and technology relative to other countries. Because these underlying attributes are usually slow to change, the composition of trade tends to be stable over time. The United States exported cotton and wheat two centuries ago and continues to do so today. The United States imported clothing, iron and steel goods, and tropical produce two centuries ago and continues to do so today.

Figure I.4 shows the broad commodity composition of (A) exports and (B) imports from 1821 to 2010. Prior to the Civil War, food and raw materials (wheat and cotton) comprised about two-thirds of exports, and manufactured goods (clothing and metal goods) comprised about two-thirds of imports. This pattern reflected the abundance of arable land and the scarcity of labor and capital in the United States compared to Britain and other trading partners. Of course, when a country's natural resources, factor endowments, and technology change, the pattern of trade will change as well. Throughout the nineteenth century, the United States accumulated capital and began exploiting its rich mineral deposits, particularly iron ore. This allowed it to become an exporter of mineral-intensive capital goods, such as iron and steel products, while continuing to import labor-intensive manufactured goods, such as apparel. Manufacturers of capital-intensive goods became less interested in protecting the domestic market from foreign competition and more interested in exporting to foreign markets, while manufacturers of labor-intensive goods continued to face competition from abroad and sought to maintain high tariffs. This evolution in trade patterns had a profound impact on the economic interests of various sectors of the economy and, as we will see, was eventually reflected in Congressional trade politics.

The combination of the slowly changing geographic location of production and the slowly changing composition of trade means that many states have distinctive, long-lasting economic interests with respect to trade policy. Consequently, the lineup of states in the political battle over trade policy has tended to be persistent over time. For most of the nineteenth century and well into the twentieth, there was a distinctive North-South division in Congressional voting on trade issues. Simply put, the North was the location of manufacturing production, and the South was where agricultural crops for export were cultivated.<sup>17</sup> For example, Figure I.5 depicts the geography of the House votes to increase tariffs in 1828 and in 1929. Although these votes are separated by more than a century, the simi-

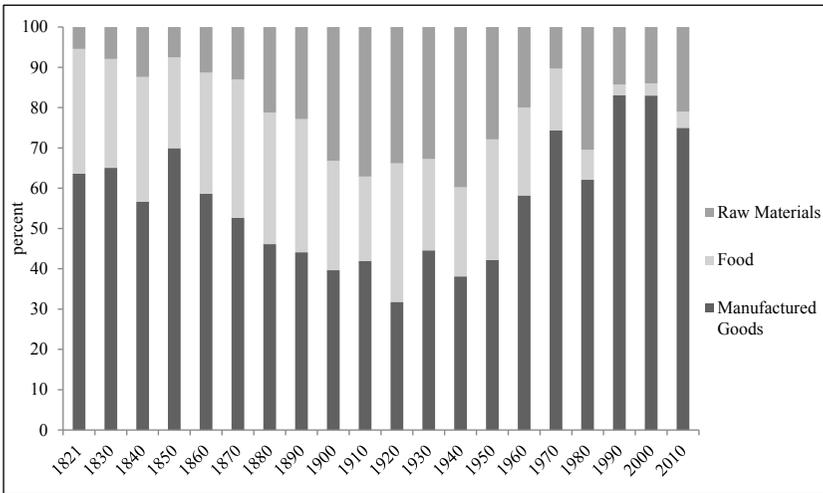
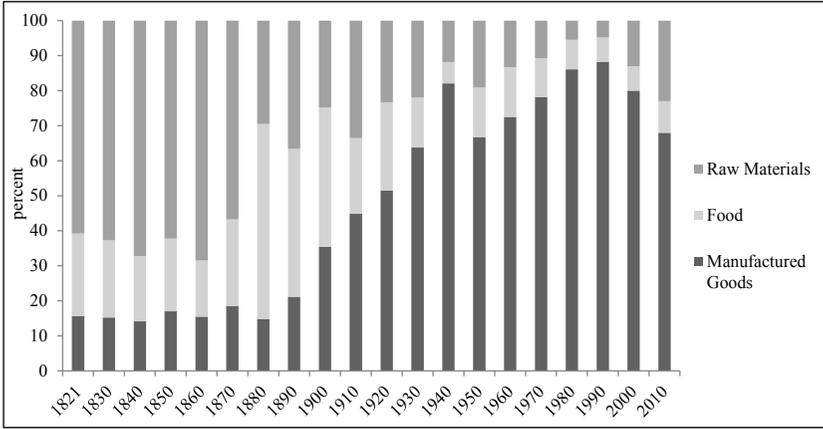


Figure I.4. Commodity composition of (A) exports and (B) imports, 1821–2010 (US Bureau of the Census 1975, series U-213–34; since 1980, from [www.bea.gov](http://www.bea.gov)).

larity in the voting pattern is striking; the correlation between the share of a state's delegates voting for the tariff in the two periods is 0.70. This illustrates how a stable economic geography combined with a stable pattern of trade leads to a stable political geography of Congressional voting. After World War II, however, Congress began voting on presidential negotiating authority and trade agreements rather than on specific tariff rates, and the voting pattern became somewhat more scrambled, with a rough East-West division emerging. Even so, the correlation between voting on the tariff in

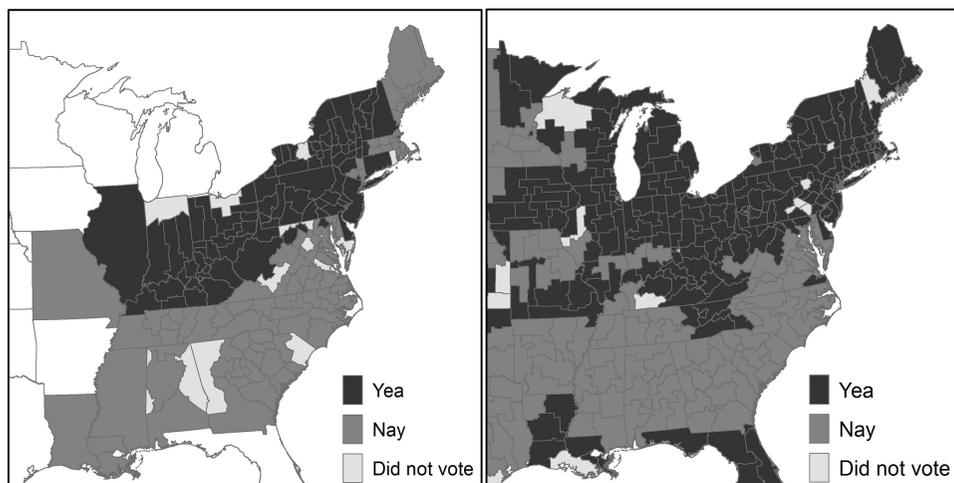


Figure 1.5. House voting on tariff bills in 1828 and 1929.  
*Left:* April 22, 1828. *Right:* May 28, 1929. (Map courtesy of Citrin  
 GIS/Applied Spatial Analysis Lab, Dartmouth College.)

1828 and on the North American Free Trade Agreement (NAFTA) in 1993 is 0.60 for the twenty-two states in the Union in 1828.

This emphasis on regional economic specialization and industry-specific trade interests is consistent with there being significant adjustment costs in moving capital and labor between industries and regions.<sup>18</sup> An alternative approach implies that broad factors of production—skilled workers, unskilled workers, capital owners, and land owners—will have similar economic interests, regardless of the particular industry in which they are employed. In this case, political conflict over trade policy will be based on different factors of production (capital owners against labor, or skilled workers against unskilled workers) rather than different industries of employment (export-oriented industries against import-competing industries).<sup>19</sup>

For most of US history, however, there has not been a single, unified “capital” or “labor” interest regarding trade policy, because there are many different types of capital and labor that are affected by trade in different ways. Capital owners and workers employed in industries that compete against imports (iron and steel, textiles and apparel) typically have a much different view of trade policy than the capital owners and workers employed in industries that export (agriculture, machinery, or aerospace). In the late nineteenth and early twentieth centuries, national labor unions

generally declined to take a position on tariff policy, because individual unions disagreed over what policy to advocate, depending on the situation facing their particular industry. Therefore, economic interests were usually organized on an industry basis in producer associations (the National Wool Growers Association, the American Iron and Steel Association, and the American Farm Bureau) and labor unions (the United Auto Workers, United Steelworkers, Amalgamated Clothing and Textile Workers Union, and the United Mine Workers). The tariff schedule is also organized by product classification (chemicals, metals, clothing, etc.), not by the primary factors that are used in production (labor-intensive versus capital-intensive goods). Congress debated the tariff on a product-by-product, industry-by-industry basis, which only reinforced the incentive of business and labor groups to organize at the industry level.

That said, since the 1970s, Congress has voted on trade agreements, not tariff rates. In such agreements, specific industry interests have been somewhat less important, and a broader “class” analysis has become more relevant than in the past. The rise of intra-industry trade—as suggested by Figure I.4, in which both exports and imports are now largely manufactured goods—also means that economic interests may be less sharply defined by industry and more by intensity of factor use, since the United States tends to import labor-intensive goods and export skilled-labor and technology-intensive goods. In this case, economic interests will be defined by factor-type, or economic class, and they may form broad, opposing coalitions, such as labor unions (the AFL-CIO) or business groups (the Chamber of Commerce) that cut across different industries. Consequently, in recent decades, production workers and the labor movement, broadly speaking, have opposed trade agreements, whereas multinational firms and capital-owners have supported them.

## TRADE POLICY AND POLITICAL INSTITUTIONS

Regardless of how conflicting economic interests are organized, they must thrash out their differences through the political process. So how does the political system affect the resolution of these clashing views? Madison and the framers of the Constitution designed American political institutions to make it difficult to enact large policy changes. They divided power within the federal government to provide checks and balances on the ability of any group to dominate the system. Power was dispersed across three entities—the House of Representatives, the Senate, and the executive—each of which represented a different constituency and would

have to approve legislation before it became law. By creating three potential roadblocks (or veto points) to the enactment of legislation, the framers built into the political system a strong status-quo bias. This constitutes another reason for the stability of policy over time.

Article 1 of the Constitution gives Congress the authority to levy duties on imports and regulate foreign commerce. Therefore, Congress is the main forum in which economic interests play out their struggle to influence trade policy. Policy decisions come down to whether a majority of members in the House and Senate support or oppose higher or lower tariffs and accept or reject particular trade agreements.<sup>20</sup> Because members of Congress represent specific geographic areas with distinct economic interests, the votes of members tend to reflect the interests of their constituents, because they are unlikely to be reelected if they do otherwise. "It is easy to formulate general principles," concluded John Sherman (1895, 2:1128), a leading Republican senator in the late nineteenth century, "but when we come to apply them to the great number of articles named on the tariff list, we find that the interests of their constituents control the action of Senators and Members."<sup>21</sup> Thus it is not surprising that representatives from Pennsylvania and Ohio support steel interests, Louisiana and Florida support sugar interests, Mississippi and Texas support cotton interests, California and Washington support aerospace interests, and so forth. Satisfying the demands of these producer interests was the primary mission of Congress. "The dominant congressional opinion on the tariff" for many years, Fetter (1933, 427) notes, was "a tacitly accepted belief that the way to promote the national welfare was to give each group what it wanted to make its members individually prosperous, without any consideration of the relation of such action to larger problems of national policy."

Of course, politicians can also abandon long-held views on trade policy when the interests of their constituents change. Daniel Webster of Massachusetts spoke eloquently in Congress for many years about the importance of free trade and open commerce when his state was dominated by shipping and mercantile interests. When cotton textiles became an important part of the state's economy in the 1820s, Webster adjusted his position and began supporting protective tariffs. (This gave rise to many chortles on the floor of the Senate where his earlier speeches had not been forgotten.)

Because political representation is based on geography, shifts in population have changed the political strength of different regions, and hence of different trade-related interests, over time. Figure I.6 shows the regional share of seats in the House of Representatives due to the admission of new states and the reapportionment of seats after each census. Before the Civil

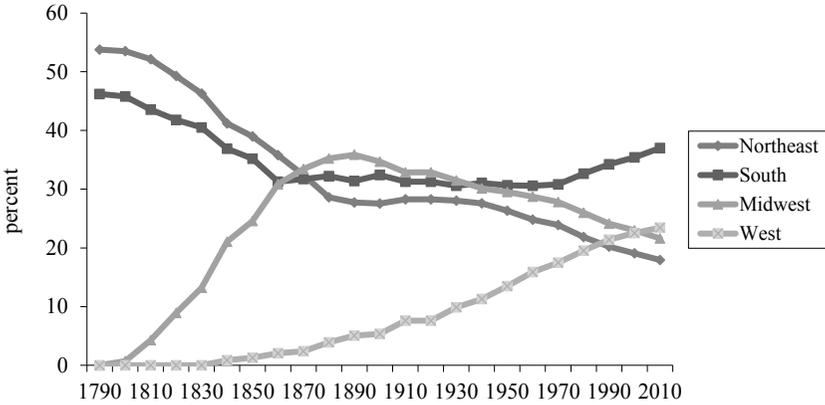


Figure I.6. Regional representation in the House of Representatives, 1790–2010. ([http://www.census.gov/population/apportionment/data/2010\\_apportionment\\_results.html](http://www.census.gov/population/apportionment/data/2010_apportionment_results.html).)

War, the House was about equally divided between the North and South, but rapid westward expansion soon meant that both sides had to appeal to votes from the Midwest to achieve a majority. The twentieth century saw the rise of the far West. More recently, the North and Midwest have lost seats in the House, making it difficult for heavy industries and unionized workers in the old manufacturing belt to win support for import restrictions or defeat trade agreements.

There is no reason to believe that opposing trade interests—whether export-oriented and import-competing industries, or producers and consumers within an industry—will be equally balanced and wield the same amount of political power in Congress. First of all, trade interests are not equally distributed across regions. For example, in the nineteenth century, exports were highly concentrated in just a few commodities, particularly cotton and tobacco, which came from just a few southern states. Meanwhile, imports consisted of many different types of manufactured goods—cotton and woolen textiles, iron and steel products, pottery and earthenware—that competed against a large number of producers scattered across many states in the Northeast and upper Midwest. Because Congressional representation is based on geography, export interests had fewer advocates in Congress than import-competing interests.

Different groups also have different incentives to organize for political activity. Although the United States exported large amounts of cotton, wheat, and corn in the nineteenth century, the trade interests of these farmers were very uneven: cotton producers were highly dependent on for-

eign markets (about two thirds of the crop was exported), wheat producers less so (about a quarter of the crop was exported), and corn farmers hardly at all (only a tiny share of the crop was exported). Therefore, the incentive of these exporters to push for open trade policies varied considerably. By contrast, just about any industry competing against imports has a strong incentive to lobby for higher tariffs even if the foreign share of the domestic market was small.

The same is true for producers and consumers of a particular good. Even if the economic stakes facing each are about equal, their political strength can be highly unequal because they have different incentives to engage in political action.<sup>22</sup> The benefits of import restrictions are highly concentrated on a few producers who have a strong incentive to organize and support the policy, while the costs are spread widely across many consumers, who have very little incentive to organize and oppose the policy. As Vilfredo Pareto (1971 [1909], 379) pointed out long ago, "A protectionist measure provides large benefits to a small number of people, and causes a very great number of consumers a slight loss." This makes it relatively easy to impose import duties, as does the legislative practice of logrolling, or vote trading.<sup>23</sup>

Furthermore, once in place, import restrictions are difficult to remove. A reduction in a tariff will bring certain harm to particular groups and uncertain gains for others. As a result, those facing large capital losses will fight against such a policy change much more vigorously than the many potential beneficiaries will fight for the policy change.<sup>24</sup> This makes it difficult for members of Congress to vote for lower tariffs; it has been said that doing so is an "unnatural act" for any politician.<sup>25</sup> For example, although the 1988 US-Canada Free Trade Agreement was relatively uncontroversial, Senator Bob Packwood (R-OR) described how hard it was for many members of Congress to vote for it. If the agreement was opposed by one vocal industry in a senator's home state, he pointed out, that senator was almost certain to vote against it, even if the pact would also benefit ten other special interests in the state. "Those that are hurt are infinitely madder, and have longer memories, than those that are helped," Packwood said. Thus, a "no" vote to protect one industry from damage "is going to be remembered more than a 'yes' that helped ten."<sup>26</sup>

What about the executive branch? In the nineteenth and early twentieth centuries, presidents were expected to defer to Congress on legislative matters and did not play a major role in trade policy. For example, in 1888, Senator John Sherman instructed President-elect Benjamin Harrison that a president "should have no policy distinct from that of his party and

that is better represented in Congress than in the executive."<sup>27</sup> Presidents could always propose policy changes, particularly if their party had a legislative majority, but ultimately Congress would decide whether to enact such proposals and what the content of the final legislation would be.

Since the passage of the Reciprocal Trade Agreements Act in 1934, however, presidents have taken a much greater leadership role in the formation of trade policy. This legislation allowed the president to reach trade agreements with foreign countries. Since then, presidents have led Congress in undertaking new trade initiatives, or presidential passivity has led to policy drift. Yet Congress still retains ultimate authority over trade policy. Even though Congress has not passed any general tariff legislation since 1930, Congress has had to approve any trade agreement negotiated by the executive branch since the 1970s. This has sometimes led to epic battles, such as the 1993 debate over the passage of NAFTA.

As the chief executive, the president has a national constituency and thus has a different perspective on trade policy than individual members of Congress. Whereas Congress views trade based on how it affects the interests of their constituents, the president is insulated from the parochial concerns of any particular group of producers. Presidents tend to view international trade based on how it affects the nation as a whole and often use trade policy to achieve foreign-policy goals. As a result, they usually aim to expand trade and see trade agreements as a way of projecting America's power and influence around the world. At the same time, presidents do occasionally support import restrictions for domestic political purposes.

## POLITICAL PARTIES AND IDEOLOGY

Of course, trade policy is not simply a matter of how economic interests play out in Congress, because not all regions of the country have sharply defined interests with respect to trade. This means that political parties, ideology, and other factors also have the potential to influence the course of trade policy.

Madison's observation that different economic interests "give rise to the spirit of party and faction" was, of course, prophetic. For most of US history, American politics has been dominated by two political parties, each taking a different stand on trade policy. For more than a century after the advent of the Second Party system in the 1830s, Democrats advocated low import tariffs, and Whigs and Republicans advocated high protective tariffs. This partisan divide had a geographic basis: Democrats originally

drew most of their support from the agrarian South, where farmers produced staple crops for export, and Whigs and Republicans drew most of their support from the industrial North, where manufacturers faced foreign competition.

Different parties have dominated American politics in different periods, which has helped to establish and maintain a particular trade policy equilibrium. In the three decades before the Civil War, Democrats were politically stronger than the Whigs and kept tariffs relatively low, because they viewed revenue as the main objective of trade policy. After the Civil War, Republicans were politically stronger than the Democrats and kept tariffs relatively high because they supported the protection of domestic industries as the main objective of trade policy. After the Great Depression, the Democrats were politically stronger than the Republicans and helped push tariffs back down again, because they supported reciprocity as the main objective of trade policy.

After World War II, the United States entered an unusual period in which a bipartisan consensus favored reciprocal trade agreements. This consensus emerged as much for foreign-policy reasons as for economic ones. Then, in the 1970s, two things began to happen. First, the geographic regions from which the parties drew most of their support began to shift: The Democratic base shifted to the North, and the Republican base shifted to the South and West. Second, the economy became exposed to greater foreign competition, which particularly affected the industrial heartland in the upper Midwest. As a result, Democratic support for open trade policies began to weaken, and Republican support for open trade policies began to strengthen.<sup>28</sup> By the 1980s, the parties had largely switched positions on the issue. By the 1990s, the bipartisan consensus on trade policy had frayed, and it was once again a polarizing issue in American politics.

A timeless question in political science is whether parties matter for policy outcomes. To some, political parties simply reflect underlying economic interests and therefore do not have an independent effect on policy. "There is much truth in the suggestion that special interests in one guise or another are more potent in securing the legislation that governs the country than are the political parties under whose banners the politicians are elected to hold office," Oscar Underwood (1928, 404), an Alabama Democrat, once conceded. Distinguishing the impact of political parties and economic interests on policy outcomes is complicated by the fact that they have a symbiotic relationship: interests are attracted to the party that comes closest to supporting their views, while the parties are positioning themselves to gain the support of various interests to boost their electoral

fortunes. Because of this interdependence, a straight party-line vote in Congress does not necessarily mean that only partisan factors are at work.

In fact, constituent interests often take priority over partisan positions when members of Congress face a conflict between the two. "The real struggle in tariff legislation is one of *sections*," John Sherman (1895, 2:1085) noted. "The Republican party affirms that it is for a protective tariff. The Democratic party declares that it is for a tariff for revenue only; but generally, when Republicans and Democrats together are framing a tariff, each Member or Senator consults the interest of his 'deestric't or state." For example, Louisiana is a case where interests dominated party loyalty: in the nineteenth century, it was a solidly Democratic state whose representatives almost always voted for higher tariffs (against the party's position) because local sugar producers wanted to keep out foreign sugar.

At the same time, political parties care about many other issues beyond trade policy. Not all states have sharply defined economic interests with respect to trade, and yet they are represented in Congress by members of one party or another. These party members are usually willing to vote with their colleagues on trade issues so long as other members vote with them on matters of greater concern to their own constituents. Perhaps for this reason, studies of Congressional voting have shown that political parties do, in fact, have an impact on voting patterns, even after controlling for district-level economic interests.<sup>29</sup>

Because parties matter for legislative outcomes, large swings in political power—which can occur for reasons completely unrelated to changes in trade or trade-related economic interests—often bring about significant changes in trade policy. A sweeping electoral victory by one party can generate such a policy shift because the two parties are dependent on different economic interests. Thus, even when underlying state-level economic interests are unchanged, the political power of those interests can rise or fall when there is a shift in party dominance after an election.

Because the political parties usually take opposing positions on trade issues, the passage of trade legislation often requires a unified government, in which the same party controls the House, Senate, and the presidency. Unified governments were responsible for the passage of every major piece of trade-related legislation from the early 1840s through the 1960s. Changes in unified government from one party to another are fairly rare. In the 150 years since the Civil War, there have been only ten transitions to a new unified government under a different party. These occurred after the elections of 1892, 1896, 1912, 1920, 1932, 1952, 1960, 2000, 2008, and 2016. On average, there is a change in party control only once every

fifteen years. Each of these occasions created an opportunity for a different political party to put its stamp on policy, sometimes (but not always) bringing important changes to trade policy. The infrequency with which one party replaces another in controlling government is an important factor in explaining the persistence of existing policies. In fact, about 40 percent of the seventy-seven Congresses since the end of the Civil War have been under divided government, during which time major policy changes were nearly impossible.<sup>30</sup>

While economic interests and shifts in partisan political strength have clearly influenced the course of trade policy, the role of ideology is more difficult to establish.<sup>31</sup> On the one hand, it is easy to dismiss ideology as being something too amorphous to affect Congressional decisions. Some believe that ideas simply provide rhetorical cover for views that are actually rooted in interests. The writer Ambrose Bierce (1911, 258) once defined politics as “a strife of interests masquerading as a contest of principles.” Even Alexis de Tocqueville (2004 [1848], 202) supported this interpretation in writing that a politician “first tries to identify his own interests and find out what similar interests might be joined with this. He then casts about to discover whether there might not by chance exist some doctrine or principle around which this new association might be organized, so that it may present itself to the world and gain ready acceptance.”

And yet the role of ideas cannot be dismissed entirely, because not every participant in the trade-policy process has an economic stake in the matter. This implies that interests alone provide an incomplete account of political motivation. Ideas are systems of beliefs that allow policymakers to understand and debate the specific policy issues that confront them. The framing of the tariff issue—the rationale or justification for supporting or opposing a particular position—could enhance political support for the status quo or support a change in policy. Many views about trade policy are related to one’s political philosophy regarding the goals of government policy. Should the federal government intervene in the economy to achieve certain outcomes? Is the manufacturing sector special and does it deserve protection from foreign competition? Other ideas relate to an economic understanding of cause and effect. Do higher tariffs increase or decrease wages? Do higher tariffs promote industrial development or just subsidize inefficient industries? Do trade agreements help big corporations and hurt workers, or do they promote competition and benefit consumers? The purported answers to these questions help to define which policies are viewed as economically desirable or politically acceptable at any given point in time.

In particular, the lessons drawn from past experience can shape the public debate by influencing what policies are believed to be desirable. For many decades after the Civil War, the economic growth and development of the United States was associated with the policy of high protective tariffs. Regardless of its validity, the perception that protection was responsible for that growth helped shape political reality, making it very difficult for politicians and the public to support a significant change in policy. Later, the public's association of the Hawley-Smoot tariff of 1930 with the Great Depression and the catastrophic collapse of world trade demolished the argument that higher import duties would keep the economy strong. In the post-World War II period, multilateral cooperation to reduce tariffs became identified with expanding trade, a growing economy, and more peaceful international relations. This experience shaped perceptions of the issue among many members of Congress and the public who did not have a direct stake in one particular policy. By the 2000s, job losses and the decline in manufacturing employment were associated with increased trade with Mexico and China and led to demands to limit imports from those countries. Narrow economic interests were not solely responsible for shifts in prevailing opinion; rather, these shifts seemed to arise from broader lessons drawn from experience.

Furthermore, economic interests are sometimes passive until political entrepreneurs, motivated by ideas or driven by ideological passions, recruit them in support of a particular cause. Instead of simply accepting existing policy as they find it, politicians can become leaders who can mobilize dormant interests and form new political coalitions to support a change in policy. During the antebellum period, Henry Clay's notion of an "American System" became an effective way of describing policies to protect domestic producers from foreign competition and develop the home market. This policy was ultimately rooted in economic interests, but a large political coalition in support of it is unlikely to have coalesced without an overarching idea that gave various separate interests a plausible rationale for working together toward a common goal.

Similarly, the outbreak of World War I led a congressman from Tennessee to believe that governments fighting over markets and scrambling to create colonial trade blocs had been an important cause of the conflict. He became convinced that freer world trade could make a positive contribution to world peace. That congressman, Cordell Hull, eventually became Secretary of State (serving from 1933-44) and worked tirelessly to help reduce trade barriers around the world. His purpose was both political (world peace) as well as economic (world prosperity). More than any other

individual, Hull was the driving force behind the reciprocal trade agreements program, the framework that guides US trade policy to this day.

Hull's attachment to certain ideas, not the demands of powerful interests, was critical to moving policy in a new direction. Though he came from the traditionally pro-trade South, Hull was not simply acting on behalf of economic interests, and he did little to cultivate them in building political support for his approach. Rather, he simply sought to persuade others about the merits of his views, which is why so many people at the time dismissed his quest as futile. He ultimately played a critical role in changing the direction of US trade policy. As Senator Paul H. Douglas (1972, 476) wrote, "Thus, the shrewd, hillbilly free trader and militia captain from the Tennessee mountains outwitted for beneficent ends the high-priced protectionist lawyers and lobbyists of Pittsburgh and Wall Street."

In fact, the one regime change in US trade policy, the enactment of the Reciprocal Trade Agreements Act of 1934 that authorized the president to undertake trade negotiations, is difficult to explain on the basis of the political strength of various economic interests. There are no compelling interest-group based explanations for the origin of this legislation. Rather, this institutional change in trade policy was tied to shifts in the dominant ideas that guide policy. Jeffrey Legro (2000) argues that changes in collective ideas are likely to occur when a policy generates outcomes that deviate from societal expectations, those outcomes are undesirable, and a viable alternative policy exists. These three conditions were met in the early 1930s. The Hawley-Smoot tariff of 1930 led to foreign retaliation against US exports and a collapse in global trade. This disastrous, and largely unexpected, outcome led politicians and the public to associate high tariffs with the Great Depression. This allowed negotiated tariff reductions to emerge as a credible alternative to existing policy and a potential solution to the problems caused by the collapse of world trade. As a result, an enormous sea change in ideas occurred: the case for protectionism was weakened, and freer trade was gradually accepted as a viable alternative. Hull stepped into power at precisely this moment.

Have the ideas of economists also played a role in promoting more open trade policies? Although economists are widely known for pointing out the gains from trade and the costs of trade restrictions, they have not had much influence in shaping policy outcomes throughout history. Frank Fetter (1933, 413) went so far as to write that "in the field of the tariff, the teachings and writings of American economists have been virtually without effect in the education of public opinion or the formulation of public

policy." In June 1930, a petition signed by more than one thousand economists urged President Herbert Hoover not to sign the Hawley-Smoot tariff bill, but of course he signed it anyway. Since the Great Depression, however, economists have played a larger role in economic policy debates and may have had some impact in giving politicians pause before endorsing protectionist policies, although it is difficult to know how influential they have been.

In sum, trade policy has always been controversial because there are clashing economic interests at stake, as Madison understood long ago. While Daniel Webster grumbled that the tariff was "a tedious disagreeable subject" for the legislators forced to deal with it, the political and economic debates about trade policy have always been spirited.<sup>32</sup> Studying past controversies over trade will help us understand whether today's disputes are really different from those in the past. The history of trade policy will also show us the path by which the United States found itself in the globalized world of today.