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: Tariff Peace and Civil War, 1833–1865

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Chapter URL: http://www.nber.org/chapters/c13854

Chapter pages in book: (p. 176 – 218)

CHAPTER FOUR

Tariff Peace and Civil War, 1833–1865

The Nullification Crisis was defused by the Compromise of 1833, which ushered in a quarter-century of gradually declining tariffs. From its peak of 62 percent in 1830, the average tariff fell to less than 20 percent by 1859. With one brief exception, there was no strong movement to push them back up again, belying the notion that tariffs were a cause of the Civil War. However, the stability of this policy depended on the dominance of the Democrats in national politics. The Republican electoral sweep in 1860 and the outbreak of the Civil War brought about a major shift in US trade policy. The war made high taxes on imports a fiscal necessity, and the Republicans began to construct a powerful political coalition to ensure that import duties would remain high for the rest of the century.

THE COMPROMISE OF 1833

As we saw in chapter 3, the passage of the 1828 Tariff of Abominations, and the subsequent failure to modify it, sparked a furious backlash in the South. In 1832, South Carolina passed the Nullification Ordinance, in which it declared the tariff unconstitutional and threatened not to enforce it. In effect, a dispute over trade policy had become an unprecedented constitutional crisis. However, while southern states opposed high protective tariffs, South Carolina's extreme reaction only served to isolate it from the others. No other southern state was facing the economic problems related to cotton that South Carolina was, and none were willing to go as far as Carolina nullifiers. Other southern states supported President Andrew Jackson and denounced the South Carolina radicals for not exhausting all means of negotiations and compromise. South Carolina's action also changed the debate from one over whether the tariff was excessive to one about the right of states to veto federal legislation.

Meanwhile, Jackson was firmly resolved that nullification would not stand and was quite prepared to use force to settle the matter. The administration immediately sponsored a Force Bill in Congress that would authorize the president to use the armed forces if necessary to collect tariff revenues from federal customs houses.

Yet the president also sought to defuse the crisis by trying to address South Carolina's complaints. Ten days after issuing the Nullification Proclamation, Jackson struck a conciliatory note in his December 1832 annual message to Congress. While agreeing that protection was necessary to secure a domestic supply of essential goods, Jackson noted that experience "makes it doubtful whether the advantages of this system are not counter-balanced by many evils, and whether it does not tend to beget in the minds of a large portion of our country-men a spirit of discontent and jealousy dangerous to the stability of the Union."[1] Although the southern complaints were exaggerated, the president said, the tariff should be adjusted so that no region of the country could have reason for complaint.

Thus, Jackson retreated from his earlier position that the 1832 tariff reform had been adequate, now suggesting that protective tariffs should be reduced as well. "Large interests have grown up under the implied pledge of our national legislation, which it would seem a violation of public faith suddenly to abandon," he stated. "But those who have vested their capital in manufacturing establishments cannot expect that the people will continue permanently to pay high taxes for their benefit, when the money is not required for any legitimate purpose in the administration of the Government." Therefore, a gradual tariff reduction was called for: "If upon investigation it shall be found, as it is believed it will be, that the legislative protection granted to any particular interest is greater than is indispensably requisite for these objects, I recommend that it be gradually diminished, and that as far as may be consistent with these objects the whole scheme of duties be reduced to the revenue standard as soon as a just regard to the faith of the Government and to the preservation of the large capital invested in establishments of domestic industry will permit."[2]

Congress was also anxious to avoid a military confrontation with South Carolina and immediately began considering another tariff revision. In January 1833, Rep. Gulian Verplanck of New York introduced a bill that would reduce most protective tariffs to 20 percent within two years. These reductions ran into the stiff opposition from advocates of protection, who claimed that such radical cuts would paralyze industry. Henry Clay and his allies resisted accommodating South Carolina, arguing that the state's intransigence should not be rewarded with concessions. Even John Quincy Adams, who brokered the failed tariff compromise in 1832, was appalled by South Carolina's response, viewing its politicians as a bunch of bullies who were simply trying to blackmail the country into adopting its preferred tariff policy.

As a result, despite the urgency of the situation, the House acted slowly. By mid-February, no progress had been made in moving the legislation forward. As Senator Thomas Benton (1854, 1:309) recalled, "A prompt passage of the bill might have been expected; on the contrary, it lingered in the House, under interminable debates on systems and theories, in which ominous signs of conjunction were seen between the two extremes which had been lately pitted against each other, for and against the protective system. The immediate friends of the administration seemed to be the only ones hearty in the support of the bill; but they were no match, in numbers, for those who acted in concert against it—spinning out the time in sterile and vagrant debate."

As time slipped away, the risk of a military showdown increased. Congress had overwhelmingly passed a Force Bill allowing the president to use the armed forces in the execution of federal tariff laws. Jackson ordered the relocation of the customs house from the city of Charleston to a federal fort in the harbor and authorized it to collect import duties there. Now, South Carolina would have to attack a federal installation in order to nullify the tariff. Although South Carolina delayed implementing nullification to see how Congress would respond, time was running out for a peaceful resolution to the stalemate.

Alarmed at the House's dithering, the Senate took the initiative. Sensing danger to his system of protective tariffs, Henry Clay, the champion of the American System, took to the floor on February 12 and proposed a compromise measure. In his address, Clay stated,

> I am compelled to express the opinion . . . that, whether rightfully or wrongly, the tariff stands in imminent danger. If it should even be preserved during this session, it must fall at the next session. . . . The fall of that policy, sir, would be productive of consequences calamitous indeed. When I look to the variety of interests which are involved, to the number of individuals interested, the amount of capital invested, the value of the buildings erected, and the whole arrangement of the business for the prosecution of the various branches of the manufacturing art which have sprung up under the fostering care of this government, I

> cannot contemplate any evil equal to the sudden overthrow of all those interests. . . . I believe the American system to be in the greatest danger; and I believe it can be placed on a better and safer foundation at this session than at the next. . . . Let us not deceive ourselves. Now it's the time to adjust the question in a manner satisfactory to both parties. Put it off until the next session, and the alternative may, and probably then would be, a speedy and ruinous reduction of the tariff, or a civil war with the entire South.[3]

Clay reluctantly agreed to the tariff level being considered in the House, about 20 percent, but with a much longer transition period, stretched over nine years instead of the two years in the Verplanck bill.

The context for Clay's shocking announcement was the election of 1832. Not only had Jackson soundly defeated Clay for the presidency, but the incoming Congress was going to be overrun with Jackson supporters. The next Congress promised to be much more hostile to the American System than the outgoing one. If the current Congress postponed dealing with the issue, not only would it risk a military confrontation in South Carolina, but the tariff policy would be put into the hands of those who were likely to reduce protection significantly. As Clay wrote a few days before his address, "My belief is, that the Tariff is marked by the present administration for destruction, and that its object will be accomplished if some means are not soon devised to avert it, at the next Session."[4] By acting now, Clay hoped to defuse the crisis and buy some time for the policy of protective tariffs. With South Carolina on the brink of revolt, the federal government recording large fiscal surpluses, a popular president now supporting a reduction in protective tariffs, and a new Congress poised to challenge the American System, Clay concluded that maintaining the status quo would be impossible.[5]

After Clay spoke, John Calhoun of South Carolina rose to announce that he would also support the compromise out of a "desire to see this agitating question brought to a termination."[6] The *Register of Debates* records that Calhoun's brief remarks were followed by "a tumultuous approbation in the galleries." If Clay and Calhoun could agree, then the resolution of the crisis was at hand.

Benton (1854, 1:342) later gave the "secret history" of the compromise, which he largely attributed to Rep. Robert Letcher of Kentucky, a supporter of the American System who proposed it to Clay (who is said to have received it coolly at first) and to Webster (who rejected any compromise whatsoever). Letcher worked as an intermediary between Clay and

Calhoun (who were not on speaking terms) because Calhoun's support was necessary to give the compromise legitimacy. In the outside view, "Mr. Calhoun and Mr. Clay appear as master spirits, appeasing the storm which they had raised; on the inside view they appear as subaltern agents dominated by the necessity of their condition, and providing for themselves instead of their country—Mr. Clay, in saving the protective policy, and preserving the support of the manufacturers; and Mr. Calhoun, in saving himself from the perils of his condition."

The compromise was a true one in that no faction was completely satisfied with the outcome, but at the same time both sides could claim victory. Daniel Webster—who, ironically, had opposed Clay's American System in 1824—had not been consulted in the backroom deal-making and bitterly accused Clay of abandoning the cause of protection. Northerners resented Clay for bowing to southern pressure. Making an allusion to slavery, John Davis of Massachusetts complained: "You propose to bind us, hand and foot, to pour out our blood upon the altar, and sacrifice us as a burnt offering, to appease the unnatural and unfounded discontent of the South; a discontent, I fear, having deeper root than the tariff, and will continue when that is forgotten."[7] Rufus Choate of Massachusetts reprimanded his colleagues: "South Carolina has nullified your tariffs, and therefore you repeal them."[8]

To his critics, Clay responded, "I have been represented as the father of this [American] system, and I am charged with an unnatural abandonment of my own offspring. . . . But in what condition do I find this child? It is in the hands of the Philistines, who would strangle it. I fly to its rescue, to snatch it from the custody, and to place it on a bed of security and repose for nine years, where it may grow and strengthen, and become acceptable to the whole people."[9] By and large, manufacturing interests also supported the compromise. "The manufacturers flocked in crowds in Washington City—leaving home to stop the bill—arriving at Washington to promote it," Benton (1854, 1:316) recalled. "Those practical men soon saw that they had gained a reprieve of nine years and a half in the benefits of protection, with a certainty of the re-establishment of the system at the end of that time."

The compromise tariff gave South Carolina less than it had demanded, but it succeeded for the first time in putting the protective duties on cotton goods, woolens, and iron on a downward trajectory. In light of the urgent situation, and with both Clay and Calhoun lending their support to the compromise, the Senate appeared to accept the gradual phaseout as a reasonable outcome.

Once the compromise appeared workable in the Senate, Robert Letcher of Kentucky (and a Clay ally) introduced the bill in the House on February 25, which passed it the next day by a vote of 119–85. On March 2, the Senate passed it by a vote of 29–16, and it was signed by Jackson the next day. In the Senate, the South unanimously approved the compromise, while the North and West were split. The defection of the West did not go unnoticed by American System proponents. As the compromise was being debated, George Briggs of Massachusetts observed that "We are now soon to know, Mr. Chairman, whether this [protective] system, in which New England is so vitally interested, against her remonstrance, is to be overthrown by a combination of Southern votes with the votes of the Western and Middle States"[10] The North's split increased the credibility of the reform in the eyes of the South and, in Clay's opinion, helped "to reconcile the south more strongly to a measure, in which it has gained a nominal triumph, whilst all the substantial advantages have been secured to the tariff states." Clay was pleased with the outcome and wrote, "My friends flatter me, with my having completely triumphed."[11]

The compromise provided that all duties above 20 percent would be reduced by one-tenth of the excess above 20 percent starting in January 1834, with another one-tenth deducted in January 1836, another in January 1838, and another in January 1840, summing to a 40 percent reduction in the excess over 20 percent. In 1842, the remaining 60 percent excess over 20 percent would be removed, three-tenths in January 1842 and another three-tenths in July 1842. At the end of the transition period, in which the largest tariff cuts would come, the United States would have a fairly uniform 20 percent tariff on all dutiable imports. The compromise required that, from July 1842, import duties would "be laid for the purpose of raising such revenue as may be necessary to an economical administration of the government." Thus, Congress agreed to abandon protective tariffs and adopt a revenue standard for import duties.

The South Carolina nullifiers endorsed the compromise, and a state convention ended the crisis by repealing the Nullification Ordinance. As with any agreement, however, it was one thing to pass a compromise measure and yet another to ensure that it would be enforced. The South bore much of the risk in the compromise, because the low duties it sought would arrive only after a period of nine years. The South remained wary because, as Thomas Foster of Georgia accurately noted, the current Congress "had no power to bind our successors."[12] The South rightly feared that Congress could renege at any time on its intention either to reduce duties during the transition period or to maintain them after 1842. In presenting the compromise, Clay tried to assure the South that it would not be tampered with. If the bill passed with the consent of all, he "had no doubt the rate of duties guarantied would be continued after the expiration of the term, if the country continued at peace."[13]

For its part, the North feared that the compromise would prevent future Congresses from protecting manufacturing industries, even if economic circumstances were to change. To answer these charges, Clay admitted that "the bill contains no obligatory pledges—it could make none, none are attempted. . . . The next Congress, and every succeeding Congress, will undoubtedly have the power to repeal the law whenever they may think proper. . . . The measure is what it professes to be, a compromise; but it imposes, and could impose, no restriction upon the will or power of a future Congress."[14] Thus, while agreeing that the compromise could not bind the actions of future legislators, Clay believed that subsequent Congresses would avoid tampering with it. As it turned out, Clay was largely correct, but not necessarily for the reasons he gave.

AFTERMATH OF COMPROMISE: THE WALKER TARIFF OF 1846

The Compromise of 1833 succeeded in removing tariff policy from national politics for almost a decade. From 1833 until 1842, as provided under the compromise, the phased-in tariff reductions took effect without interference from Congress. Why was no attempt made to deviate from the compromise? It was certainly described in solemn terms, as "sacred" and as "the great bond of peace to this Union." But the main reason the compromise was untouched prior to 1842 was political: the Jacksonian Democrats, who were largely from the South and strongly supported the compromise, had unified control of government in every year from 1833 until 1841. Since they remained in power, others preferring higher tariffs—namely, the Whig party that included Henry Clay and Daniel Webster—did not have the opportunity to change the nation's trade policy.

The emergence of the Second Party System in the mid-1830s meant the return of partisan conflict over government policy. Just as Hamilton's Federalists and Jefferson's Republicans had clashed in the early years of the republic, now Whigs and Democrats fought over economic policy. But there were few disputes about tariff policy in the four years after the Compromise of 1833, during which time the economy was strong, demands for protection remained in check, and the government's fiscal surpluses (due in part to the sale of public land) allowed government debt to be paid down. While Clay vowed to fight any tariff reductions beyond those called for in the compromise, he did not attempt to subvert it by proposing higher import duties. Even Daniel Webster admitted that Congress "should not be disposed to interfere with it [the tariff] until a case of clear necessity should arise."[15]

However, the Compromise of 1833 was tested after the financial panic of 1837 and especially during the Crisis of 1839, which led to four years of severe deflation and an economic depression. As in previous cases, the downturn had its origins in the financial system. After the Second Bank of the United States was abolished in 1836, state governments began borrowing huge sums of money. The collapse of internal improvement projects in the Midwest and South in the summer of 1839 contributed to a wave of bank failures throughout the region, which produced a 22 percent contraction in the money supply.[16] Without a central bank to act as a lender of last resort or to offset the monetary shock, the federal government was unable to address the slump.

As a result, political pressures for trade protection grew stronger, and the stage was set for renewed political conflict over tariff policy. The North-South sectional dispute over tariffs did not disappear, but was increasingly played out through two political parties, the Democrats and the Whigs. Drawing their political support from the South and from poorer farming communities in the North, Democrats advocated limited government, which meant a strict construction of the Constitution, states rights, and a tariff for revenue only. Drawing their political strength from the North, particularly from more commercial and manufacturing communities, the Whigs wanted an activist federal government with a national bank, federally financed internal improvements, and protective tariffs for domestic industries. The underlying economic interest of each region largely, but not entirely, explained which party was consistently chosen to represent the region in Congress.[17]

The struggling economy enabled the Whigs to sweep into office against the incumbent Democrats in the election of 1840. Although the Whigs supported higher tariffs, their plans to revisit the issue were stymied by Vice President John Tyler, who unexpectedly became president after William Harrison died shortly after his inauguration. Tyler was a Virginia Democrat who had been chosen only to win support for the Whigs in the South in the expectation that he would never become president. Tyler immediately alienated the Whigs by twice vetoing legislation to create a national bank and blocking efforts to increase tariffs. The Whigs were anxious to raise tariffs, in part because the federal government's fiscal position had weakened considerably: the government ran a $10 million budget deficit in fiscal year 1841 and was expected to lose another $5 million per year as a result of the last and largest tariff cuts from the Compromise of 1833 that were due to take effect in 1842. Yet despite the economic downturn and growing fiscal deficit, Tyler stunned Whigs by saying that "the compromise act should not be altered except under urgent necessities which are not believed at this time to exist."[18]

The question of adjusting import duties to raise revenue also became intertwined with provisions of the Land Act of 1841. Under that act, which regulated the distribution of revenue from public land sales, any increase in import duties above the 20 percent limit mandated in the Compromise of 1833 would result in a sequester of the revenue from land sales. In his annual message to Congress in December 1841, Tyler reaffirmed that "it might be esteemed desirable that no such augmentation of the taxes should take place as would have the effect of annulling the land-proceeds distribution act of the last session, which act is declared to be inoperative the moment the duties are increased beyond 20 per cent, the maximum rate established by the compromise act."[19] But the president did not offer a way out of the government's fiscal difficulties.

In June 1842, the final reduction in import duties under the compromise took effect, cutting government revenue even more. Additional revenue was needed to close the fiscal gap, so the Whigs passed two bills imposing higher tariff rates (similar to those found in the 1832 legislation) in July and August 1842. (Of course, they were not strictly revenue measures since they kept coffee and tea on the duty-free list and mainly imposed higher tariffs on imported manufactured goods.) Tyler vetoed both on the grounds that adhering to the terms of the compromise was the "highest moral obligation," and they would stop the distribution of revenue from public land sales at a time when the federal government desperately needed those funds. In late August, Congress passed the tariff bill without the distribution provision. This legislation squeaked through the House by a vote of 104–103 and the Senate by a vote of 24–23. Tyler reluctantly signed the bill, which helped increase the average tariff from 26 percent in 1842 to 37 percent in 1844.

The Tariff of 1842 reintroduced differential duties across imported goods and doubled protective duties. The fact that the final low tariffs envisioned by the Compromise of 1833 were in effect for just two months, July and August, before Congress had overturned them, rekindled old animosities. Southern politicians complained of a violated contract and a breach of faith. John Calhoun summed up the region's complaints:

> We have patiently waited the nine years of slow reduction, and resisted every attempt to make changes against the manufacturing interest, even when they would have operated in our favor, and for which we have received the thanks of those who represented it on this floor. And now, when the time has arrived, when it is our turn to enjoy its benefits, they who called on us to adhere to the act, when the interest of the manufactures was at stake, and commended us for our fidelity to the compromise, turn round, when it suits their interest, and coolly and openly violate every provision in our favor.[20]

John Jones of Virginia argued that for nine years, "while the South had to bear the burdens of the arrangements, it tamely and quietly submitted to the consequences. . . . Now, when we are to reap the advantages of the compromise act, what is the spectacle which we see exhibited? The very party who enacted the law have come forward and declared that they will not execute the promises nor discharge the obligations there imposed."[21] Yet the South was powerless to stop the enactment of the new tariff.

Although the American System had been moribund for nearly a decade, and support for it had waned even in Clay's home state of Kentucky, the weak economy gave the Whigs an opportunity to resurrect the policy. But turmoil within the Whig party—they were forced to expel Tyler from their ranks because of policy feuding—allowed the Democrats to recapture the House in the midterm election of 1842. The Ways and Means Committee quickly reported a bill that would put tariff rates somewhere between the 20 percent called for in the Compromise of 1833 and the higher rates in the Tariff of 1842. This proposal split the party: Southern Democrats thought the rates too excessive, while Northern Democrats were concerned about the potential harm to their industrial constituencies. In May 1844, the House tabled the bill by just six votes; the Whigs joined with enough Northern Democrats to spike the measure. In any event, the measure would have died in the Senate, where the Whigs retained control.

The presidential election of 1844, which pitted Democrat James Polk against Whig Henry Clay, was the first in which the political parties issued platform statements that outlined their policy positions. The Whig platform endorsed "a tariff for revenue to defray the necessary expenses of the government, and discriminating with special reference to the protection of the domestic labor of the country." The Democrats supported a tariff for revenue only ("no more revenue ought to be raised than is required to defray the necessary expenses of government") and rejected protective duties because "justice and sound policy forbid the Federal Government to foster one branch of industry to the detriment of another, or to cherish the interests of one portion to the injury of another portion of our common country."[22]

Given the recent electoral strength of the Whigs, Polk and the Democrats had to manage the issue of protective tariffs carefully as they took on Clay, the aging champion of the American System. Public opinion seemed to view the tariff favorably and attribute the economic recovery after the Crisis of 1839 to the higher duties enacted in 1842. Sen. Robert Walker (D-MS) informed Polk that political support for "the tariff is much stronger now through the Union, than it ever was before, & in Pennsylvania, New York, Connecticut & New Jersey, it is irresistible. In Pennsylvania, the last legislature, nearly two thirds of whom were democrats, passed resolutions of instruction *unanimously* in favor of the tariff, & the entire democratic press of the state has assumed the same ground. Many new manufactories are springing up throughout the state, & the old establishments are all again in successful operation. No man now attempts in that state to oppose tariff policy."[23]

To finesse the issue, Walker suggested that Polk call for a revenue tariff with some incidental protection to allow domestic industries to reap reasonable profits while still ensuring effective competition, arguing that this position was not as doctrinaire as the "tariff for revenue only" stance. Polk took this advice and wrote a letter in June 1844, which soon became public, stating that he was "opposed to a tariff for protection *merely*." Polk (1969, 7:267) described his position as follows: "In adjusting the details of a revenue tariff, I have heretofore sanctioned such moderate discriminating duties, as would produce the amount of revenue needed, and at the same time afford reasonable incidental protection to our home industry." That compromise language—a revenue tariff with incidental protection—served Democratic interests well by allowing them to emphasize the "revenue tariff" part in the South and the "incidental protection" part in the North. The position was not a complete evasion, because it explicitly used the key words "incidental protection" and "discrimination" in favor of domestic industries. The letter helped reassure voters in Pennsylvania, which ultimately went for the Democrats, although questions were raised in South Carolina about Polk's fidelity to the cause of low tariffs.

The 1844 election hinged more on the annexation of Texas than on tariff policy and proved to be a clean sweep for the Democrats. They secured both houses of Congress with large majorities and the presidency with the narrow election of Polk. This victory paved the way for a reversal of the Tariff of 1842 and a radical overhaul of the tariff structure.

In his inaugural address, President Polk adhered to the spirit of his campaign letter by endorsing a low-revenue tariff with incidental protection.[24] In his diary, he stated his belief that a tariff reduction was "the most important domestic measure of my administration."[25] To manage that, he appointed Robert Walker as his Treasury secretary. In November 1845, Walker presented to the cabinet a far-reaching proposal to reduce tariff rates and restructure the tariff schedule. Despite some opposition from those who believed the proposed reductions were extreme, Polk supported Walker, though he privately admitted that his Treasury secretary was "speculative and perhaps too highly wrought."[26]

In his December 1845 annual message to Congress, Polk set the stage for Walker's proposal. The president argued that the Tariff of 1842 violated the principles of a revenue tariff and tended more to prohibition than to incidental protection. In recommending lower duties, Polk insisted that "I am far from entertaining opinions unfriendly to the manufacturers. On the contrary, I desire to see them prosperous as far as they can be so without imposing unequal burdens on other interests." Polk also called for "the abolition of the minimum principle, or assumed, arbitrary, and false values, and of specific duties, and the substitution in their place of ad valorem duties as the fairest and most equitable indirect tax which can be imposed."[27]

Just days later, in the annual report of the Treasury Department, Walker unveiled his tariff proposal. He attacked the Tariff of 1842 as "unjust, unequal, as well in its details as in the principles upon which it is founded." He argued that protective tariffs discriminated in favor of the manufacturer against the farmer, mechanic, merchant, and shipping industry, and thereby increased the profits of capital while doing nothing for the wages of labor. He rejected the argument that protective tariffs made goods cheaper by explaining that "the occasional fall in price of some articles after a tariff is no proof that this was the effect of the tariff." He rejected the argument that the United States should retaliate against foreign trade barriers: "that agriculture, commerce, and navigation are injured by foreign restrictions constitutes no reason why they would be subject to still severer treatment, by additional restrictions and countervailing tariffs, at home." In fact, he contended, "by countervailing restrictions, we injure our own fellow-citizens much more than the foreign nations at whom we propose to aim their force." Higher tariffs at home would not lead to lower tariffs abroad, he argued, but would merely encourage and perpetuate existing foreign trade barriers.[28]

Walker then proposed a new tariff based on Democratic principles, which included converting all specific duties to ad valorem duties (so the rate of taxation was completely transparent) and creating a tariff schedule with just a few different rates of duty. Walker rejected having a single uniform duty, such as 20 percent, arguing that luxuries deserved to be taxed at higher rates and that some limited discrimination in rates across goods should be made. All imported goods would be assigned one of nine tariff categories. Schedule A consisted of alcoholic beverages, such as brandy and other spirits, and would be taxed at 100 percent. Schedule B comprised various spices and imported foods (fruit and meat), tobacco products, and wine, and would be taxed at 40 percent. Schedule C goods included a long list of items such as ready-made clothing; earthenware; manufactures of metal, silk, wool, and glass; and raw materials such as sugar and tobacco: these would be taxed at 30 percent. Schedule D goods, most notably cotton textiles, would be taxed at 25 percent. Schedule E goods included chemicals, nails and spikes, and manufactures of hemp and flax, all of which would be taxed at 20 percent. Four remaining schedules—F (15 percent), G (10 percent), H (5 percent) and I (duty-free)—rounded out the tariff schedule.

Walker's report was one of the few instances in the nineteenth century when the executive branch provided a detailed tariff plan for Congress's consideration. In April 1846, the Ways and Means Committee reported a tariff bill that largely reflected Walker's proposal. With Democrats firmly in control of the House, the bill's passage was a foregone conclusion, although some details were the subject of contention. Representatives from Ohio demanded that coffee and tea be put on the free list to help consumers; Walker objected to the loss of revenue but was forced to compromise. In July 1846, the House passed the Walker tariff by a partisan and sectional vote of 114–95. Democrats voted 113–18 in favor of the bill, with all of the nay votes coming from the North, principally Pennsylvania. With their stronghold in New England and the Mid-Atlantic, Whigs voted 71–1 against the measure.

Senate passage promised to be more difficult because Democrats had only a slim majority, and those from Connecticut and Pennsylvania were prepared to vote against the bill. Polk (1910, 2:53) noted in his diary that "the city is swarming with manufacturers who are making tremendous exertions to defeat it." Although the party had difficulty maintaining unity, the president and his allies put enormous pressure on Northern Democrats to support the administration. (One senator was intercepted at the Baltimore and Ohio railway station as he was going home and brought directly to the president, who persuaded him to stay in town and vote for the bill.) The Senate debate was intense. Clay fiercely attacked the bill: "We should not have subverted a patriotic system of domestic protection . . . for the visionary promises of an alien policy of free trade, fostering the industry of foreign people and the interests of foreign countries, which has brought in its train disaster and ruin to every nation that has had the temerity to try it."[29]

The Senate vote was expected to be close, perhaps even a tie, which would force Vice President George Dallas to break the stalemate. Dallas was a Democrat from Pennsylvania who favored protection, even voting against Clay's compromise in 1833, but he was also bound by his party's platform. Not knowing whether to choose between his party or his state, Dallas desperately wanted to avoid casting the deciding vote. When the dreaded moment came, however, Dallas made the painful decision to vote in favor of the bill. Although he did not approve of all its provisions, he stated, most Americans wanted a reduction in import duties, and majority opinion in the House was clear. At the last minute, however, Spencer Jarnagin, a Tennessee Whig who favored protection but had been instructed by the state legislature to vote for the bill and had previously abstained, changed his vote to yea. This pushed it over the top by a 29–28 margin, and the vice president's vote was unnecessary.

The House quickly concurred in one Senate amendment, and the president signed the bill. In his diary, Polk (1910, 2:55) wrote that the legislation had given

> rise to an immense struggle between the two great political parties of the country. The capitalists and monopolists have not surrendered the immense advantages which they possessed, and the enormous profits which they derived under the tariff of 1842, until after a fierce and mighty struggle. This city has swarmed with them for weeks. They have spared no effort within their power to sway and control Congress, but all has been proved to be unavailing and they have been at length vanquished. Their effort will probably now be to raise a panic (such as they have already attempted) by means of their combined wealth, so as to induce a repeal of the act.

The Walker tariff brought about the most far-reaching reduction in import duties to date. The average tariff on dutiable imports fell sharply, from 34 percent in 1845 to 26 percent in 1848. Unlike the Compromise of 1833, the tariff reduction was not phased in over time and took effect immediately.

The tariff also involved some tacit coordination with Britain. At the time, British policy was moving away from mercantilism and toward free trade; in fact, Parliament was on the cusp of repealing the Corn Laws, which severely limited imports of wheat. Walker and the Democrats hoped that, if the United States reduced its tariffs on manufactures, Britain might be encouraged to open up its agricultural markets. Indeed, Walker had closed his report with this statement: "Let our commerce be as free as our political institutions. Let us, with revenue duties only, open our ports to all the world, and nation after nation will soon follow our example. If we reduce our tariff, the party opposed to the corn laws of England would soon prevail, and admit all our agricultural products at all times freely into her ports."[30] The House delayed passage of the Walker tariff to see if Britain was actually going to repeal the Corn Laws, which it did in May 1846.[31] Although the British response to the Walker tariff was a minor consideration in its passage, this was one of the few instances in which Congress was considering what other countries might do when it changed the tariff schedule.

The Walker tariff remained in effect for eleven years, the second longest span of any tariff legislation passed by Congress. Although tariffs were not quite as low or as uniform as many in South Carolina wanted, the South as a whole strongly supported the Walker tariff. In fact, the South had clearly won the battle for establishing and maintaining a low "revenue" tariff with incidental protection. As figure 4.1 shows, with the

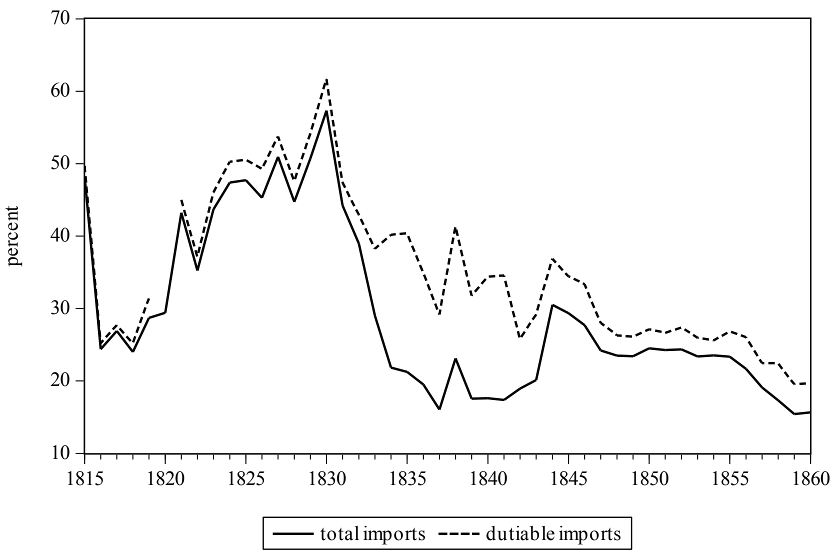

Figure 4.1. Average tariff: Total and dutiable imports, 1815–1860. *Note*: There was no observation for dutiable imports in 1820. (US Bureau of the Census 1975, series U-211–12.)

exception of the 1842–46 period, tariffs had fallen continuously since the Compromise of 1833. Indeed, the tariff was not again a major political issue until the late 1850s.

What political and economic factors account for the persistence of low tariffs after 1846? The main reason that tariff policy remained unchallenged from 1846 until the Civil War is that no party except the Democrats ever had unified control of government. During this period, the Whigs and later the Republicans, who were more favorable to protective tariffs, would sometimes capture the House or the Senate or the presidency, but the Democrats always retained control of the other parts of government and therefore had the power to block any effort to increase tariffs.

For example, in 1848, Zachary Taylor, a Whig, was elected president and appointed a staunch protectionist from Pennsylvania as his Treasury secretary. In his first message to Congress in December 1849, Taylor called for a revision of the tariff and the reinstitution of specific duties "at rates high enough to afford substantial and sufficient encouragement to our industry, and at the same time so adjusted as to insure stability."[32] The Democratic Congress simply ignored this suggestion and made no move to change policy. His successor, Millard Fillmore, also a Whig, repeatedly called for higher duties. For example, in his annual message of December 1850, Fillmore conceded that an excessive tariff would be a cause of dissatisfaction, but argued for a modest tariff increase. With the Democrats firmly in control of Congress, this plea fell on deaf ears. In his messages for 1851 and 1852, Fillmore again called Congress's attention to the problems with ad valorem duties, the supposedly languishing state of manufacturers under the Walker tariff, and the unsatisfactory structure of duties that sometimes protected raw materials at the expense of manufacturers. Each time, Democrats in Congress took no notice.

The lack of unified government, except under the Democrats, was the proximate reason for the continuity of tariff policy from 1846 until 1860. This begs the question of why low-tariff forces were so well represented in Congress when they had been so weak just two decades earlier. The growing economic interest of the Midwest in open trade was critical to this development. The Midwest had always produced potentially exportable goods, such as wheat, other grains, and animal products, but prior to the 1840s, high transportation costs prevented them from gaining access to world markets. As transportation costs fell, foreign markets became a small but growing part of the demand for Midwestern agricultural products.

The expansion of agricultural production further west, and the perception that domestic demand was limited, gave the region hope that it could someday emerge as the "granary of the world." In his tariff report, Walker (1845, 13) explicitly sought to rally the support of the region in favor of lower tariffs. He observed that the great fertile lands of the Midwest were producing an abundance of agricultural produce for which "the home market, in itself, is wholly inadequate." As he put it, "the States of Ohio, Indiana, and Illinois, if cultivated to their fullest extent, could of themselves raise more than sufficient food to supply the entire home market. . . . They must have the foreign market, or a large surplus, accompanied by great depression in price, must be the result." Because import tariffs were effectively a tax on agricultural exports, Walker noted that the Midwest "must be the greatest sufferers by the tariff, in depriving them of the foreign market."

In fact, the Midwest provided decisive support for the Senate passage of the Walker tariff. The Senate passed the bill by a single vote, 28–27, and senators from the Midwest voted in favor 14–4. Without those votes, the South would not have been able achieve victory. This change in position did not go unnoticed. "How is it that some of the States which built up this [protective] system by the votes of their Representatives and Senators now desert it?" asked Senator James Morehead (W-KY). "Why have Ohio and other States changed, which used to vote unanimously for the protective policy, now that this great policy embraces an interest of three hundred millions of dollars?" Sidney Breese (D-IL) immediately replied: "If the manufacturing interests embrace a capital of four hundred millions, the agricultural interests amount to a thousand millions. Illinois wants a market for her agricultural products; she wants the market of the world. Ten counties of that State could supply all the home market. We want a foreign market for our produce, which is now rotting in our granaries."[33]

Several factors helped Midwestern farmers achieve greater access to foreign markets and thereby increase their export orientation. The dramatic decline in transportation costs due to internal improvements, particularly the rapid expansion of railroad networks in the 1850s, helped fuel exports from the Midwest. The repeal of the Corn Laws by Britain in 1846 and the Crimean War in the early 1850s also boosted foreign demand for American grains. As a result, the Midwest's hopes of selling more to foreign markets were fulfilled as wheat and flour exports surged, increasing from 6 percent of total exports in the late 1830s to 11 percent in the late 1850s. Thus, the Midwest's latent economic interest in exporting became operative during this period.[34]

As the region was becoming more closely tied to foreign markets, its political weight was also growing. From 1820 to 1850, as figure I.4

showed, the Midwest gained Congressional seats almost entirely at the expense of the North, not the South. The states that joined the union between the tariff votes in 1828 and 1846—Arkansas, Florida, Michigan, and Texas—added eight new votes in the Senate, seven of which were in favor of the Walker tariff. Together the South and Midwest controlled two-thirds of the Senate by 1850. Thus, the old export-oriented economic interests of the South were joined by new ones in the Midwest, and both sought low tariffs to promote foreign commerce. As cotton and tobacco producers in the South had long recognized, farmers in the Midwest now embraced lower import duties to increase imports and therefore the exports required to pay for them. As a result, the combined political strength of the South and Midwest checked the North's ability to enact protective tariffs. The North had little hope of overturning this coalition, and modest tariffs might have persisted for decades had the Civil War not intervened.

ANTEBELLUM TRADE AND PROTECTION

While politicians debated the details and purposes of import duties, the size and structure of the American economy changed significantly during the antebellum period. Between 1820 and 1860, the population of the United States grew from 9.6 million to 31.4 million. Although agriculture was still by far the most important economic activity, the share of the labor force employed in industry (mining, manufacturing, and construction) rose from 8 percent in 1810 to 20 percent in 1860.[35]

Despite this gradual shift in the economy, the composition of America's foreign trade was largely unchanged. About 85 percent of exports were raw materials (mainly cotton) and food (wheat and flour). About two-thirds of imports consisted of manufactured goods, principally from Britain, with the remainder being food and beverages, such as wine and spirits, coffee and tea, most of which did not compete with American products. Customs receipts still accounted for roughly 90 percent of federal government revenue throughout the antebellum period.

Of course, the tariff was controversial not because it raised revenue, but because protective duties affected resource allocation across different sections of the country. Three key economic questions about US trade policy in the antebellum period can be posed: (1) Was there a national economic gain or loss from the tariff? (2) Did the tariff redistribute income from the South to the North, and if so, by how much? (3) Did import tariffs play a significant role in promoting industrialization?

The first question is whether import tariffs were beneficial or costly to the nation as a whole. All taxes create what economists call a "deadweight loss," a measure of the inefficiency caused by the tax in changing the incentives for production and consumption. The deadweight loss from the duties imposed in 1859 was tiny, only about 0.2 percent of GDP, both because the average tariff on total imports was low (about 15 percent), and because the ratio of imports to GDP was small (less than 8 percent). Put differently, federal spending was only 1.6 percent of GDP, and customs revenue was about 1.2 percent of GDP, so import duties could not possibly generate a very large deadweight loss. However, when the Tariff of Abominations of 1828 pushed the average tariff to more than 60 percent, the deadweight loss of the tariff might have been as high as 2.5 percent of GDP.[36]

This deadweight loss could have been offset by other gains. The most plausible gain would have been an improvement in the country's terms of trade. The terms of trade, the price of a country's exports relative to the price of its imports, are closely related to the gains from trade. The terms of trade are said to improve when a country's export prices increase or its import prices decrease; in either case a country would give up fewer exports in exchange for more imports. The more favorable the terms of trade, the more a country benefits from trade, other things being equal. Many countries cannot influence their terms of trade. However, as the world's largest cotton producer, accounting for about 80 percent of world production in the antebellum period, the United States could affect the world price of cotton. A policy to restrict exports of cotton might have improved the terms of trade by increasing the price that the world had to pay for American cotton, enabling the United States to enjoy a higher real income at the expense of the rest of the world.[37]

An export tax would directly reduce cotton exports and increase the world price. Of course, export taxes were unconstitutional precisely because the South had feared that they might be used against its exports, but it is still instructive to consider their hypothetical impact. An optimal export tax would maximize national income by balancing the benefits of improved terms of trade against the cost of deadweight losses. Two different methods have been used to calculate the optimal export tax and its welfare consequences: simulation via a computable general equilibrium model and estimation to determine the elasticity of export demand facing the United States. Both methods yield similar conclusions: Harley's (1992) simulation indicates that the optimal export tax on cotton would have been around 60 percent and the welfare gain would have been close to 1 percent of GDP, while Irwin's (2003c) estimation of the elasticity of export demand for US cotton implies an optimal export tax of about 45–55 percent and a welfare gain of about 0.3 percent of GDP. Had such a policy been implemented, the nation as a whole would have benefited a slight amount, but large losses would have been inflicted on southern cotton producers, unless the proceeds of the tax were rebated to them. Still, despite the huge US market share in cotton, the potential economic gains from an optimal export tax would probably have been very modest.

An import tariff might have achieved a similar outcome, because exports and imports are closely related to one another. As discussed in the introduction, the Lerner Symmetry Theorem holds that an import tariff is equivalent to an export tax. By reducing imports, an import tariff would indirectly reduce cotton exports and thereby improve the terms of trade. However, this sequence of events requires that the tariffs not simply reduce all exports, but cotton exports in particular. Harley's (1992) simulations suggest that import tariffs failed to do this. The United States exported many goods besides cotton: wheat, flour, and packing-house products (salted beef and pork, tallow, and lard) accounted for a significant share of exports. These exports, not cotton, were the marginal ones that adjusted to changes in the overall level of trade. In other words, to the extent that import tariffs reduced exports, they reduced marginal exports (food) and not the infra-marginal exports in which the United States possessed some monopoly power (cotton). As a result, import tariffs would have slashed food exports while leaving cotton exports largely unaffected, thus failing to improve the terms of trade.

The second question is whether the South was harmed by import tariffs, as southern politicians insisted, and if so to what extent. Harley (1992) examines how the welfare of three main factors of production—land, labor, and capital—would have been affected by removing the 20 percent tariff on imports in 1859, when imports were about 6 percent of GDP. According to his results, landowners stood to gain the most from eliminating the tariff (about a 10 percent increase in welfare), because agricultural production would expand. Labor would gain slightly (just 1 percent of its welfare), and capital would lose slightly (roughly 4 percent of its welfare). In a somewhat different view of the workforce, laborers in manufacturing would be worse off by 6–15 percent for those employed in the cotton textile industry, while farmers and planters would gain by 3–9 percent, depending upon the particular modeling assumptions made. In terms of aggregate regional income, the North would lose an imperceptible amount (0.1 percent) from an elimination of the tariff, because it produced both agricultural and manufactured goods. The welfare of the agrarian Midwest would increase about 1 percent and that of the South about 2 percent from eliminating the tariff.

Thus, in terms of its distributional effects, the tariff brought about a higher return to capital in the North and a lower value of land throughout the country, with labor not significantly affected. The South lost a small amount, in the aggregate, from import duties, but those losses were probably concentrated on a few politically influential landowners who orchestrated the heated political reaction against tariffs. As these results make clear, however, there was a clear economic rationale for capital-owners in the North to support the tariff and for planters in the South to oppose it. Furthermore, the redistribution of national income as a result of the tariff was probably significantly higher in the 1820s, when the tariff was much higher, than in 1859.

The third issue is the relationship between the tariff and early industrialization. The United States experienced rapid industrialization during the antebellum period. Even though protective tariffs declined after 1833, the nation continued the shift toward industry between 1840 and 1860, perhaps at an even faster pace than before. Between 1839 and 1859, the manufacturing sector expanded from about 15 percent of GDP to 21 percent of GDP.[38] There are many explanations for the growth of manufacturing during this time, including the expansion of the domestic market and the stable political environment that encouraged investment and capital accumulation.[39] Protective tariffs were just one of many factors in promoting the early growth of industry, but their role is controversial even today. Some have contended that the United States would have remained an agrarian economy with little domestic industry were it not for the tariffs, while others have argued that industrialization would have proceeded more or less as it did even without the tariffs.

In considering the relationship between foreign competition, tariff protection, and domestic manufacturing, several points must be kept in mind. First, many manufacturing industries were not affected by imports at all. These include the leather, wood, and food-processing industries, some of which were even successful at exporting. In fact, almost 17 percent of exports in 1859 consisted of semifinished and finished manufactured goods (excluding food manufactures), a surprisingly large proportion given the nation's huge resource advantage in producing agricultural goods. While these industries were often based on local natural resources, some manufacturing activities clearly would have taken place even without the tariff. Second, even if all protective duties had been abolished, the ability of the United States to import manufactured goods was limited by its capacity to export goods in return. The United States was a rapidly growing country with a large population. For it to have imported all of the manufactured goods that it desired to consume, the country's capacity to export cotton, wheat, and other agricultural products would have had to expand enormously: any increase in imports would have to be matched by an increase in exports to pay for them. (Similarly, foreign manufacturing capacity would have had to expand significantly as well.) Given the large size of the economy and its increasing demand for manufactured goods, it is implausible that the growing US economy would have remained entirely dependent on imported manufactured goods without any significant increase in domestic production.

In fact, as table 4.1 shows, almost all of the manufactured goods that Americans consumed were produced at home. For example, in 1859, after many years of relatively low protective tariffs, imports of manufactured goods were only about 9 percent of domestic consumption of manufactured goods, about the same as in 1839. This was down from 23 percent in 1810. Thus, by the 1840s, abolishing all import duties would have had a significant impact on certain industries, but would likely have had only a modest effect on manufacturing production overall.

As a result, many economic historians have argued that protective tariffs did not play a crucial role in America's industrialization. "In the main,

TABLE 4.1. Selected data on trade and production of manufactured goods, 1810–1859 (in millions of current dollars)

Year	Imports of manufactured goods	Exports of manufactured goods	Net exports of manufactured goods	Value of domestic production of manufactured goods	Imports as a share of domestic consumption
1810	≈49	6	− 43	173	23%
1839	55	16	− 39	547	9%
1849	121	23	− 98	1,019	11%
1859	191	46	− 145	1,886	9%

Sources: Imports and exports of manufactured goods, US Bureau of the Census 1975, series U-223-224, semi-manufactures and finished manufactures; excludes manufactured foodstuffs. Figure for imports of manufactures in 1810: assumed 75 percent of the $65 million in imports in that year were manufactured; comparable percentage in 1821 was 65 percent. Exports of manufactured goods in 1810: assumed 15 percent of $42 million in exports; same percentage as in 1820. Value of domestic production: for 1810, from Tench Coxe's estimate in *Statement of the Arts and Manufactures of the United States of America: For the Year 1810* (Philadelphia: A. Cornman, 1814), page li; for 1839, projected from Gallman's value added in manufactures for that year (Gallman 1960, 43) using a factor of 2.3, which is ratio of value of manufactured products to value added in manufacturing, average of 1849 and 1859; for 1849 and 1859, from Census data, as reported in *Statistical Abstract of the United States* (1913, 666). Imports as a share of domestic consumption calculated as imports divided by production minus exports.

the changes in duties have had much less effect on the protected industries than is generally supposed," Taussig (1931, 152) concluded. "Their growth had been steady and continuous, and seems to have been little stimulated by the high duties of 1842, and little checked by the more moderate duties of 1846 and 1857." Industrial production grew steadily and consistently throughout the antebellum period, regardless of the ups and downs of the tariff, according to Davis's (2004) data.

Most of the debate centers on the cotton, woolen, and iron industries, which were protected by relatively high tariffs. How much output would have been lost in these manufacturing industries had the protective duties been substantially reduced? The impact depends crucially on the elasticity of substitution between imported and domestic products—that is, the degree to which consumers shift their purchases between domestic and foreign goods when the prices of imported goods change. A low elasticity of substitution implies that domestic and foreign goods are different products and imperfect substitutes for one another, indicating that a tariff reduction would have a small effect on the domestic industry. A high elasticity of substitution implies that domestic and foreign goods are similar products or close substitutes for one another, indicating that a tariff reduction would have a large effect on the domestic industry. Unfortunately, there are few empirical estimates of this important parameter for the antebellum period.

Harley's (1992) model provides a benchmark for thinking about this issue. He distinguishes between the cotton textile industry, which he views as vulnerable to foreign competition and hence dependent on the tariff, and other manufacturing industries that were more firmly established. These included the leather industry (shoes and boots), which competed successfully against British products in Canada; and the food-processing, tobacco, and wood products industries, which were also untouched by foreign competition or even successful at exporting. Harley assumes the elasticity of substitution between domestic and imported goods is ten in the case of cotton textiles, a high number that implies domestic and foreign textile products were close substitutes for one another, and five in the case of other manufactured goods. In simulating the removal of the 20 percent tariff in 1859, he finds that overall manufacturing output falls by 17 percent. However, the effects differ significantly across industries. In the case of cotton textiles, domestic production falls 35 percent because of the high elasticity of substitution; in the case of other manufactured goods, domestic production falls 14 percent. To pay for the increase in imports, farm exports nearly triple, while cotton exports rise less than 10 percent.

However, these simulation results probably represent an extreme case, because they are based on the large elasticity of substitution, the value of which was assumed rather than estimated. Others have concluded that the tariff was not essential to the cotton textile industry, even as early as the 1820s, because American and British producers specialized in different varieties of cotton goods, implying a much lower elasticity of substitution between them. As Zevin (1971, 126–27) noted, "imports from Britain and the products of New England mills tended to fall into quite distinct product classifications. . . . The imports were largely ginghams, woven in intricate patterns to which the power looms had not yet been adopted. New England power looms were supplying plain weaves—sheeting, shirting, and, somewhat later, twills—usually made of lower count yarns than the British cloths." In other words, Britain concentrated on finer cotton goods, while America specialized in making heavier, standard cloths. As a result, domestic producers may have been insulated from foreign competition by the different characteristics of their products, and any growth in imports would not necessarily come at the expense of domestic production.[40]

This view is supported by the fact that the sharp reduction in the cotton textile tariff in 1846 had surprisingly little impact on the domestic industry. The Walker tariff of 1846 pulled the rug out from under domestic producers when it eliminated the minimum valuation and replaced the nearly 60 percent ad valorem equivalent then in effect with a simple 25 percent ad valorem duty. Imports soared by a factor of three and doubled their share of the market to 15 percent, but, as figure 4.2 shows, there was no decline in domestic output. This implies that there were limited opportunities to substitute foreign products for domestic ones in consumption and therefore suggests that the tariff was not critical to the growth of the industry.[41]

By contrast, the iron industry faced more direct competition from imports. Bar and pig iron were relatively homogeneous products, and imports were a close substitute for domestic production. As a result, the elasticity of substitution between domestic and foreign iron was relatively high, and domestic production very sensitive to fluctuations in import prices. The American iron industry was not as firmly established as the textile industry and suffered under a variety of handicaps that impaired its competitive position, such as limited capitalization and small furnaces, as well as the lack of anthracite coal for smelting.[42] About 40 percent of domestic iron output was dependent upon tariff protection for its existence, according to Davis and Irwin (2008). Of course, the tariff on imported iron harmed other domestic industries, particularly iron-using industries, and raised

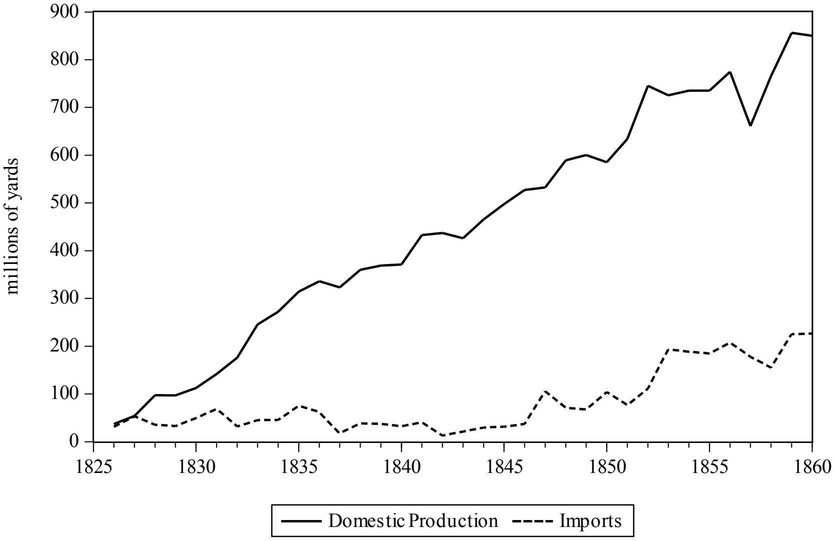

Figure 4.2. Domestic production and imports of cotton textiles, 1826–1860. (Irwin and Temin 2001, 782.)

the cost of bridges and other infrastructure projects, farm implements, and railroad construction. As noted earlier, the iron industry was divided between pig and bar iron producers and those producing final goods using iron, such as farm equipment. Bar and pig iron producers wanted high levels of protection for their products, but that would have increased the production costs of other industries, harming their competitive position against other foreign producers.

While most manufacturing industries grew steadily throughout the antebellum period, the tariff certainly affected the level of production in some trade-sensitive sectors. "We often hear it said that any considerable reduction from the scale of duties in the present tariff . . . would bring about the disappearance of manufacturing industries, or at least a disastrous check to their development," Taussig (1931, 153) observed. "But the experience of the period before 1860 shows that predictions of this sort have little warrant." The Harley estimate that 17 percent of domestic manufacturing was dependent upon the tariff may be an upper bound if the estimated sensitivity of cotton textile manufactures to imports is too high. Taussig (1931, 61) concluded that, although the conditions for infant industry protection were present in the antebellum period, "little, if anything, was gained by the protection which the United States maintained." In his view, the "ingenuity and inventiveness" of American mechanics and the large and growing domestic market were much more responsible for the expansion of manufacturing during this period than protective tariffs.

In fact, domestic manufacturers complained more about the volatility of prices, which added to the uncertainty of their investment plans, than about the level of imports.[43] Most producers would have preferred stable demand and stable prices rather than simply higher tariffs by themselves, but they sought such tariffs as an imperfect way of stabilizing the market. For example, as figure 4.3 shows, the antebellum iron industry was buffeted by severe shocks, most of which were tied to economic developments in Britain, the leading source of iron imports. The British railway boom in the mid-1840s led to a significant increase in iron prices in both countries and enabled domestic production to double. A commercial crisis in Britain in late 1847 ended the boom, leading to excess capacity and a sharp drop in British export prices. Consequently, imports surged and domestic production fell by nearly half.[44] Domestic producers blamed the Walker tariff reduction and British "dumping" for their distress.

Yet tariffs were incapable of assuring such stability or smoothing import-price fluctuations when large demand and supply shocks in Britain were transmitted to the United States. A higher tariff would increase the domestic price and allow smaller, less efficient producers to survive in the

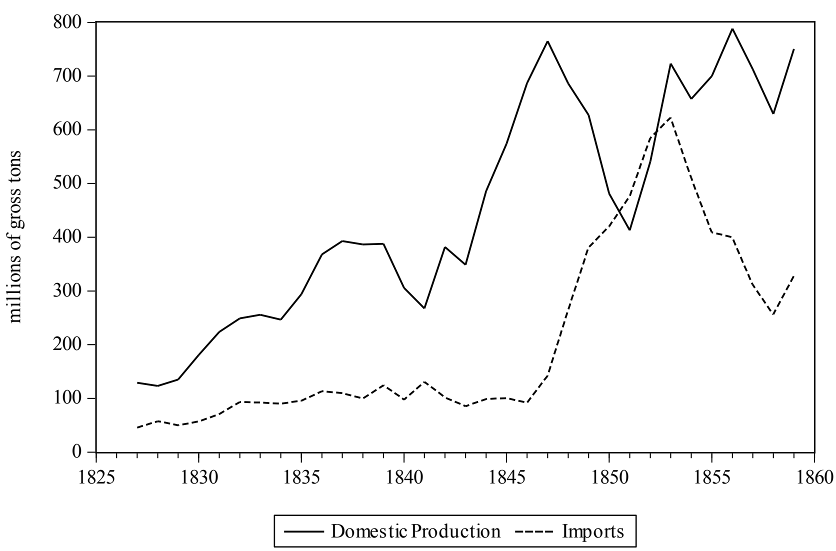

Figure 4.3. Domestic production and imports of pig iron, 1827–1859. (Davis and Irwin 2008.)

market, but such a tariff would not necessarily stabilize that higher price or insulate producers from macroeconomic fluctuations in general.

Another hotly debated question was whether economic fluctuations were driven by or could be mitigated by import duties. Henry Carey, Hezekiah Niles, and other tariff advocates blamed every economic slump on "free trade" and credited every economic expansion to "protection." Yet most economic downturns were the result of financial corrections after credit markets engaged in excessive lending. The Panic of 1819, the Crisis of 1839, and the Panic of 1857 all had their origins in land speculation fueled by cheap credit. Higher tariffs could do little to protect producers from such boom-bust cycles.

The timing of tariff changes and economic fluctuations made it seem that the two were closely linked, with a lag. The tariff reduction in 1833 was followed by the Crisis of 1839, and the tariff reduction of 1857 coincided with the Panic of 1857 (as we shall see). This pattern seemed to validate those who warned against cutting import duties, but the relationship was different than they suggested. A domestic economic boom would give rise to a large fiscal surplus, which allowed Congress to reduce import duties, but the inevitable end of the boom would result in a recession and a fiscal deficit, putting pressure on Congress to increase import duties to protect manufacturers and generate revenue. Thus, the Panic of 1819 led to the Tariff of 1824, the Crisis of 1839 led to the Tariff of 1842, and the Panic of 1857 led to the Morrill Tariff of 1861. Given the lag between the downturn and the legislation, the economy had usually begun recovering from the downturn by the time the higher tariff had taken effect. This pattern created the illusion of a causal relationship: a lower tariff would lead to hard times, and a high tariff would be followed by good times.

In each case, however, the legislated change in import duties was responding to—not driving—the swings in the economy. The political pressure to respond to a downturn manifested itself in the demand for high protective tariffs because the federal government did not have the ability to stabilize the monetary or financial system, and in fact sometimes destabilized it. By contrast, the Walker tariff of 1846 significantly reduced duties, but was followed by an economic boom, not a recession. While free-trade advocates argued that the lower duties caused the expansion, they were as mistaken as their protectionist counterparts in attributing macroeconomic developments to changes in import duties rather than other causes, monetary and real. In this case, the boom came largely as a result of the California gold rush of 1849 and other factors.

TARIFFS ON THE EVE OF THE CIVIL WAR

After the enactment of the Walker tariff in 1846, the tariff issue faded from the national political debate. From 1845 to 1860, the Democrats controlled at least two of the three institutions—the House, the Senate, and the presidency—responsible for tariff legislation. The Democrats supported the status quo under the Walker tariff and could block any move to change policy. The Whigs never achieved a unified government during this period, and hence they never had the opportunity to raise tariffs.

The nation's strong economic growth during these years was the basis for maintaining existing policies. A wave of economic prosperity followed the Mexican War in 1847 and the California gold rush in 1849 and enabled the government to record large fiscal surpluses, eliminating the need for a higher tariff for revenue purposes and muting demands by import-competing producers for protection. In his memoirs, James Blaine (1884, 196), a leading Republican, recalled, "After 1852 the Democrats had almost undisputed control of the government, and had gradually become a free-trade party. The principles embodied in the tariff of 1846 seemed for the time to be so entirely vindicated and approved that resistance to it ceased, not only among the people but among the protective economists, and even among the manufacturers to a large extent. So general was this acquiescence that in 1856 a protective tariff was not suggested or even hinted by any one of the three parties which presented Presidential candidates."

Having largely defeated the movement for protective tariffs, Democrats reestablished the idea of a "tariff for revenue only" as the guiding principle of trade policy. For example, in December 1854, Democratic President Franklin Pierce declared that a tariff for "revenue, and not protection, may now be regarded as the settled policy of the country."[45] Under this standard, import duties were to be imposed only to raise funds for economical government expenditures; any tariff rates above 20–30 percent were considered excessive, and any significant budget surplus called for a reduction in duties. Because import duties raised almost all of the government's revenue, there was little scope for alternative commercial policies, such as reciprocity agreements with other countries. Indeed, Congress did not encourage the president to undertake negotiations that might lead to such agreements.[46]

As the political debate over tariffs subsided, the divisive issue of slavery came to dominate national politics. Fearing a sectional split over the matter, the Democrats had long suppressed slavery as a topic of political discussion. From 1836 to 1844, a gag rule in the House prevented any debate on the issue, as Democrats voted to table hundreds of antislavery petitions. This containment strategy succeeded until the acquisition of Texas raised the prospect of extending slavery into newly acquired territories. This strained the Missouri Compromise of 1820, which prohibited slavery north of 36° 30′ latitude. President Tyler's invitation to California and New Mexico to enter the union as free states outraged the South, which wanted to maintain a balance between free and slave states in the Senate so that it could have veto power over antislavery legislation. To resolve the standoff, Henry Clay brokered the Compromise of 1850, but this merely postponed the conflict.

Democrats then tried to grant statehood to the Kansas and Nebraska territories. In a concession to the Southern wing of the party, however, the Democrats passed the Kansas-Nebraska Act of 1854, which repealed the Missouri Compromise and allowed the territories to enter with slavery if determined by popular sovereignty. This proved to be a huge political blunder, as its architects underestimated the hostile reaction of the antislavery forces among Northern "free-soil" Democrats and many Whigs. The Kansas-Nebraska Act threw American politics into turmoil, splintering the Democrats, destroying the Whig party, and giving rise to the antislavery Republican party, comprised of old Whigs and abolitionist Northern Democrats. Although the Republicans would later adopt many of the activist government policies advocated by the Whigs, such as a national banking system and protective tariff, they were more of an antislavery coalition without a strong position on trade policy at this stage. Indeed, the Republicans, who managed to capture the House in the midterm election of 1854, made no mention of tariff policy in their 1856 election platform.

Meanwhile, the continued strength of the economy gave the government large fiscal surpluses and allowed the outstanding public debt to be reduced by half. The Walker tariff came under some criticism for having set duties on raw materials too high and thereby harming the manufacturers who used them in production. These two factors led to growing pressure to reduce import duties once again. In December 1853, President Franklin Pierce proposed lower tariffs to reduce government revenue and to allow all raw materials used in manufacturing to enter duty-free. With Congress focused on the controversy over slavery, Pierce repeated his proposal in his annual message of December 1855, noting that "the conspicuous fact that the annual revenue from all sources exceeds by many millions of dollars the amount needed for a prudent and economical administration of public affairs cannot fail to suggest the propriety of an early revision and reduction of the tariff of duties on imports."[47]

In control of the House, the Republican ranks included a large number of former Northern Democrats who opposed the Democrats on slavery but continued to support limited government and lower tariffs. In view of the president's message, the Ways and Means Committee reported a bill in August 1856 that would cut existing rates of duty by about 20 percent, on average. However, the House was unable to act on the bill before adjourning prior to the fall election.

The 1856 election saw the Democrats regain unified control of government, with James Buchanan elected president. The combination of a unified Democratic government and a large fiscal surplus seemed to assure the passage of new tariff legislation. Once the House took up a tariff bill in January 1857, however, members still struggled to focus on import duties because of the raging controversy over slavery. When the House finally turned to tariff policy, the debate focused primarily on the extent to which duties on raw materials should be reduced. Aware that there was no possibility of increasing tariffs on final goods, northern manufacturers supported efforts to cut or eliminate duties on raw materials to reduce their costs of production. Wool manufacturers wanted free wool, and railroad interests demanded free iron. Indeed, the tenor of the debate demonstrated how much advocates of protection had lost political power. "The tone of the discussion was vastly different from that of thirty years before when the bill of 1828 was under consideration," as Stanwood (1903, 2:99) notes. "Protectionists put forward their opinions in the most timid manner; the free traders were bold and radical in the expression of views."

In February 1857, the House approved the bill and sent it to the Senate, which made some minor modifications and passed it just six days later. A conference committee quickly resolved the minor differences between the House and Senate versions, and the bill was signed by Pierce on March 3, 1857, his last day in office.

The Tariff of 1857 allowed the average tariff on dutiable imports to slide from 26 percent in 1856 to less than 20 percent in 1860, about a 20 percent reduction in rates, bringing it to its lowest level in the nineteenth century. The average tariff on total imports fell from 22 percent to 16 percent over the same period. Blaine (1884, 197) later recalled that the legislation did not spark a huge debate and was "well received by the people, and was indeed concurred in by a considerable proportion of the Republican party. . . . Some prominent Republicans, however, remained true to their old Whig traditions, opposed the reduction in duties."

However, the nation's rapid economic growth, which had given rise to large fiscal surpluses and hence the tariff revision, soon came to an end. The new tariff law took effect in July 1857, the peak of the business cycle. In August 1857, the Ohio Life Insurance & Trust Co. collapsed, and the Panic of 1857 had begun. The Panic was attributed to the aggressive financing of western railroads and to land speculation by eastern financial institutions and the sudden collapse in value of those investments. The United States fell into a recession, industrial production dropped nearly 7 percent, and the fiscal surplus quickly turned into a large deficit.[48]

Although the Treasury now recommended increasing tariff rates to raise more revenue, President James Buchanan rejected such a move. In his first annual message to Congress in December 1857, Buchanan stated that the new tariff "has been in operation for so short a period of time and under circumstances so unfavorable to a just development of its results as a revenue measure that I should regard it as inexpedient, at least for the present, to undertake its revision."[49] Taking this cue from the president, the Democratic Congress did not act in 1858.

By the end of 1858, as the deficit continued to grow and federal borrowing continued to increase, the president changed course. Denying that the tariff of 1857 had anything to do with the nation's financial troubles, Buchanan conceded that "it would be ruinous to continue to borrow" to finance the deficits and therefore import duties should be increased. In addition to raising revenue, this would "to some extent increase the confidence of the manufacturing interests and give a fresh impulse to our reviving business." Buchanan also advocated replacing the ad valorem duties with specific duties, which were a "more reliable" source of revenue that would give the American manufacturer "incidental advantages to which he is fairly entitled under a revenue tariff."[50]

This concession marked the return of tariff politics to the nation's capital and gave advocates of protective tariffs a fresh opportunity to reverse the recent reduction in duties. The economic downturn helped the Republicans capture the House in the mid-term election of 1858, and the party, sensing political opportunity, became much more sympathetic to a policy of protection. The tariff was a particularly important issue in Pennsylvania, a key swing state. The tariff on iron goods and coal had been reduced from 30 percent to 24 percent in the Tariff of 1857, a relatively small change, but many people blamed it for the state's deep recession. Henry Carey crowed about the nation's economy being in a "terrific free-trade crisis."[51]

Meanwhile, the Democrats were divided. Southern Democrats resisted any increase in tariffs and preferred to have the government borrow its way through the budgetary shortfall. Northern Democrats, led by those from Pennsylvania who had lost their seats in the 1858 election but returned to complete their term, blocked legislation authorizing additional government borrowing because they wanted to force an upward tariff revision. With Congress locked in stalemate during 1859, Buchanan renewed his plea for higher duties on imports in his December 1859 annual message.

When the new Thirty-seventh Congress open in March 1860, the Republicans had control of the House and came up with their own revenue proposal. Justin Morrill of Vermont presented a bill that substituted specific duties for ad valorem duties and supposedly set them about equal to the rates in the 1846 Walker tariff. Although Morrill rejected the "stale argument of free trade," he insisted that "there are no duties proposed on any article for the simple purpose of protection" and "the average rates of duty upon manufactured articles are not higher, but lower, than they are now." The minority Democrats were powerless to stop the House Republicans from passing the measure that spring. The motivation for the House action was chiefly revenue; indeed, Morrill himself stated that the act "was not asked for, and but rather coldly received by manufacturers, who always and justly fear instability."[52] In the Senate debate, John Sherman noted that when a colleague stated that "the manufacturers are urging and pressing this bill, he says what he must certainly know is not correct. The manufacturers have asked over and over again that they should be let alone"[53] Of course, even if the demands of industrial interests were not the motivating force behind the legislation, they still sought to influence Congress's decisions about the different rates in the bill. Yet, having been cut out of tariff policymaking since the early 1840s, manufacturers were no longer as politically influential as they had once been.[54]

Because Democrats still controlled the Senate, House Republicans had no expectation that the bill would become law. Indeed, Finance Committee Chairman Robert Hunter of Virginia declared the bill "the most monstrous piece of financial legislation that I have ever seen."[55] He did not deny the government's need for revenue, but attacked the bill for reintroducing protective duties. The Democrats narrowly succeeded in tabling the measure until the next session of Congress in December 1860. This may have been a strategic error on their part; had Democrats shown more flexibility, they might have agreed to a temporary return of the 1846 duties to address the government's fiscal deficit in exchange for a return to the 1857 rates after the downturn had passed. As Huston (1987, 265) put it, "Democrats actually had a marvelous opportunity to undermine the

Republican economic appeal and to demonstrate their concern for the material welfare of the northerners." In refusing to consider a return to the 1846 duties to generate revenue, Huston observes, Democrats could have "gutted the Republican charge of the Slave Power conspiracy. . . . Instead the southern Democrats allowed the Republicans to picture southerners as men whose only concern was to guard the economic and social welfare of the peculiar institution" (207). But Southern Democrats strongly opposed any tariff adjustment, and this intransigence gave the Republicans an electoral advantage going into the 1860 election.

Given that the Republican party was still a coalition of Whigs and free-soil Democrats, the Republican platform of 1860 broached the issue of protective tariffs with care, stating that, "while providing revenue for the support of the general government by duties upon imports, sound policy requires such an adjustment of these imports as to encourage the development of the industrial interests of the whole country."[56] Abraham Lincoln, the party's presidential nominee, recognized the political sensitivities of the tariff issue within his party. In October 1859, he described himself to a correspondent from Pennsylvania as "an old Henry Clay tariff Whig," but added that

> I have not changed my views. I believe yet, if we could have a moderate, carefully adjusted, protective tariff, so far acquiesced in, as to not be a perpetual subject of political strife, squabbles, charges, and uncertainties, it would be better for us. Still it is my opinion that, just now, the revival of that question will not advance the cause itself, or the man who revives it. I have not thought much on the subject recently, but my general impression is that the necessity for a protective tariff will ere long force its old opponents to take it up; and then its old friends can join in and establish it on a more firm and durable basis. We, the Old Whigs, have been entirely beaten out on the tariff question; and we shall not be able to re-establish the policy, until the absence of it, shall have demonstrated the necessity for it, in the minds of men heretofore opposed to it.[57]

Thus, Lincoln sought to downplay the tariff in the campaign and did not even want a party plank on the matter. As he wrote in May 1860, "The tariff question ought not to be agitated in the Chicago [Republican] convention" because Republicans were still a fragile coalition of pro-tariff Whigs and anti-tariff Democrats.[58]

Although slavery dominated the 1860 election campaign, Lincoln's supporters highlighted his tariff views in the key swing states of Pennsylvania, Illinois, Indiana, and New Jersey. In particular, Pennsylvania proved to be the "keystone state" because of its large number of electoral votes, second only to New York. And here, Huston (1987, 267) notes, "the economic issue of protectionism was absolutely essential in transforming Pennsylvania from a Democratic to a Republican state." James Blaine (1884, 207) attributed Lincoln's victory to his position on the tariff: "Had the Republicans failed to carry Pennsylvania, there can be no doubt that Mr. Lincoln would have been defeated. . . . The tariff therefore had a controlling influence not only in decoding the contest for political supremacy but in that more momentous struggle which was to involve the fate of the Union." The Panic of 1857 renewed the salience of economic issues that had been of minor importance during the sectional controversy of the 1850s, giving the Republicans an electoral boost.

Meanwhile, deeply divided between Northern and Southern factions over slavery, the Democrats had two candidates running for president. Although the combined popular vote for the Democrats was greater than for Lincoln, the split allowed the Republicans to take the White House. Just as in 1856, when the Whig/Republican split allowed a Democrat to be elected with a plurality of the vote, the Democratic split in 1860 allowed a Republican to be elected by a plurality. Lincoln received less than 40 percent of the national vote, but won a comfortable majority in the Electoral College.

Because of Lincoln's position on slavery, his victory immediately led South Carolina to secede from the Union, followed by several other states in the lower South. Even though the Democrats retained control of the Senate until the new Congress convened in the fall of 1861, Southern senators did not return to Washington when the old Congress reconvened in December 1860. The loss of a dozen Democrats put the chamber in the hands of the Republicans and Northern Democrats, thus paving the way for the passage of the Morrill tariff. The Northern Democrats favored a tariff increase and dominated a select committee appointed to consider the legislation. In February 1861, after amending the House bill extensively, the Senate passed the measure by a vote of 25–14. The House agreed to all but one of the 156 amendments, and the Senate concurred, whereupon President Buchanan, a Democrat, signed it on March 2, just two days before Lincoln's inauguration.[59] The circumstances of its passage undermine the claim that the tariff rather than slavery was the real cause of the Civil War: The South did not secede because of the Morrill tariff; the Morrill tariff was enacted because the South seceded. In addition, the bill was signed by Democrat James Buchanan, not Republican Abraham Lincoln.

At the same time, the Morrill tariff went well beyond its supposed purpose of restoring the duties of the Walker tariff. Many of the specific duties were set significantly higher than the equivalent ad valorem duties under the old tariff. By one calculation, the average tariff on dutiable imports rose from 19 percent under the Tariff of 1857 to 27 percent under the Morrill tariff.[60] In addition, the failure to tax coffee or tea meant that it was not really conceived as a revenue measure. Some Republicans claimed that the tariff was not high enough, while Northern Democrats thought it was much too high. Thaddeus Stevens (R-PA) complained that the House bill had been changed in the Senate and "it is no longer a protective tariff," while William Cullen Bryant, the Republican editor of the *New York Evening Post*, wrote that "the new Tariff bill effects a complete revolution in our commercial system, returning by one huge step, backward to the old doctrine of protection."[61]

While Lincoln clearly wanted more revenue to address the budget deficit, imposing high protective tariffs was not his primary concern. In February 1861, as he traveled to Washington for the inauguration, Lincoln stated, "The condition of the Treasury at this time would seem to render an early revision of the tariff indispensable. The Morrill tariff bill now pending before Congress may or may not become a law. I am not posted as to its particular provisions, but if they are generally satisfactory, and the bill shall now pass, there will be an end of the matter for the present."[62] The president-elect also professed to be open-minded about tariff policy: "I do not understand this subject in all its multiform bearings, but I promise you that I will give it my closest attention, and endeavor to comprehend it more fully."[63] Much to the consternation of Henry Carey and other tariff proponents, Lincoln appointed Salmon Chase, a former Democrat who had favored low tariffs throughout his career, as Treasury secretary. Of course, the new president entered office confronting more serious matters than whether import duties should be raised or lowered by some modest amount. The nation was in the midst of an unprecedented crisis.

THE CIVIL WAR

On April 12, 1861, just eleven days after the Morrill tariff took effect, Confederate forces bombarded Fort Sumter, a federal installation in Charleston, South Carolina. This marked the beginning of the Civil War. Although historians still debate the various factors driving the South's decision to leave the Union, the sectional tensions arising from tariff policy, as we have seen, had diminished considerably in the quarter-century before 1860. With the Compromise of 1833, the South had essentially won the antebellum battle over tariffs. In 1860, the average tariff on dutiable imports was less than 20 percent, and northern manufacturers had largely given up hope of enacting much higher ones. The Morrill tariff of 1861, partly a fiscal adjustment to the Panic of 1857, was enacted only because the South had left Congress. For these reasons, one cannot conclude that the South broke away because of a dispute over tariff policy.

Instead, as historians have made clear, the Civil War was about slavery. The election of the Republicans posed an immediate—or at least a perceived—threat to the existence of slavery. For the South, the economic stake in slavery was enormous, far exceeding that of import duties. By 1860, the economic value of slave holdings was about $2.7 billion, much greater than the combined value of capital invested in railroads and manufacturing. In the seven leading cotton states, nearly a third of the income of whites was derived from slave labor. The only real danger to this system came from the North and the growing political strength of the abolitionist movement, which sought to change existing property rights by defining slaves as free people rather than property.[64]

The Civil War was the nation's bloodiest and most destructive conflict. The economic cost of the war amounted to $6.6 billion (in 1860 dollars), or nearly 150 percent of 1860's GDP.[65] The casualties were horrific: roughly 625,000 killed and another 400,000 wounded. Naturally, the conflict severely disrupted foreign trade. Exports, which mostly came from the South, collapsed from about 7 percent of GDP in 1860 to less than 2 percent in 1865. Imports also fell sharply during the war.

The financial requirements of the war put huge demands on the revenue system of the federal government. The Morrill tariff was not designed to raise enough money to fight a major war. Once the staggering costs of the conflict became apparent, Treasury Secretary Chase reluctantly recommended further increases in import duties to raise revenue. In July 1861, the Ways and Means Committee reported a new tariff bill that added coffee and tea to the dutiable list and increased taxes on luxuries, such as sugar. With little debate, the Republican Congress passed the bill in August. With the government's budgetary shortfall growing by the day, Congress increased these duties yet again in December. These measures helped boost the average tariff on dutiable imports from 19 percent in 1861 to 36 percent in 1862.

Despite these tariff increases, it quickly became apparent that import duties could not even come close to financing the North's enormous wartime expenditures. As a result, the Internal Revenue Act of 1862 imposed a wide array of new domestic taxes, including an income tax, an inheritance tax, and high taxes on domestic production of goods and services, such as railroads and telegraphs. James Blaine (1884, 1:433) described the Internal Revenue Act of 1862 as

> one of the most searching, thorough, comprehensive systems of taxation ever devised by any Government. Spirituous and malt liquors and tobacco were relied upon for a very large share of revenue. . . . Manufactures of cotton, wool, flax, hemp, iron, steel, wood, stone, earth, and every other material were taxed three percent. Banks, insurance and railroad companies, telegraph companies, and all other corporations were made to pay tribute. The butcher paid thirty cents for every beef slaughtered, ten cents for every hog, five cents for every sheep. Carriages, billiard-tables, yachts, gold and silver plate, and all other articles of luxury were levied upon heavily. Every profession and every calling, except the ministry of religion, was included within the far-reaching provisions of the law and subjected to tax for license. Bankers and pawn-brokers, lawyers and horse-dealers, physicians and confectioners, commercial brokers and peddlers, proprietors of theaters and jugglers on the street, were indiscriminately summoned to aid the National Treasury."

At the same time as it imposed these domestic taxes, Congress also undertook a major upward revision of the duties in the tariff schedule. The main purpose of this revision was to equalize the tax burden on imports and domestic producers; since the latter were now being directly taxed, the former had to be taxed as well so that there would be no discrimination in favor of foreign producers. In supporting the bill, Justin Morrill (R-VT) stated, "It will be indispensable for us to revise the tariff on foreign imports, so far as it may be seriously disturbed by any internal duties—on some things the tax proposed is more than the present tariff—and to make proper reparation, otherwise we shall destroy the goose that lays the golden egg. . . . If we bleed manufacturers, we must see to it that the proper tonic is administered at the same time."[66] Thaddeus Stevens (R-PA) simply stated, "We intend to impose an additional duty on imports equal to articles. It was done by way of compensation to domestic manufacturers against foreign importers."[67]

The bill, which reduced the number of items on the free list and raised duties on most imports, was rushed through Congress with little debate.

Supporters of the measure, sometimes called the second Morrill tariff, argued that this "war tariff" would be temporary. In July 1862, the large Republican majorities in the House easily passed it by a vote of 69–36. The Senate followed and, after a brief conference committee to resolve the differences, President Lincoln signed the act later in the month.

As expenditures continued to grow and the fiscal deficit continued to expand, Congress was forced to enact additional revenue measures in June 1864, including an enormous increase in internal taxation, another large hike in import duties, and the authorization for further federal borrowing. Once again, Morrill argued that an increase in tariff rates was needed to compensate domestic producers for the heavy burden of domestic taxes levied upon them:

> Its primary object is to increase the revenue upon importations from abroad, and at the same time to shelter and nurse our domestic products, from which we draw much the largest amount of revenue, so that the aggregate amount shall not be diminished through the substitution of foreign articles for those which we have been accustomed to find at home. . . . When we impose a tax of 5 per cent upon our manufactures and increase the tariff to the same extent upon foreign manufactures, we leave them upon the same relative footing they were at the start, and neither has cause of complaint.[68]

Once again, the legislation was passed quickly, with little debate. As Stanwood (1903, 2:129) reports: "The objects of the measure were so well understood, the methods of accomplishing what was desired were so fully agreed upon, and the majority of the dominant party was so large, that the debates upon it were quite uninteresting and almost as brief as a discussion of a private pension bill." The House and Senate discussed the tariff bill for two days each and passed it with overwhelming majorities. Another smaller increase in selected import duties, on goods ranging from cotton textiles to liquors, was enacted in April 1865. The 1864 and 1865 legislation helped push the average tariff on dutiable imports up to 48 percent in 1865.

These wartime tariff increases were enacted with little opposition. Although some Northern Democrats griped about the high level of taxation—the burden on consumers and merchants, and the "crude and defective" approach taken in the hastily drafted legislation—the necessity for additional revenue was so obvious, and the Republicans so dominated

Congress, that opposition was pointless. In Taussig's view (1931, 166), Congress had "neither the time nor disposition to inquire critically in the meaning and effect of any proposed scheme of rates. The easiest and quickest plan was to impose the duties which the domestic producers suggested as necessary for their protection. Not only during the war, but for several years after it, all feeling of opposition to high import duties almost entirely disappeared."

Despite these heavy tax increases, the revenue they raised covered only one-fifth of total federal expenditures during the war; most of the spending was financed by borrowing. Consequently, the need to service the enormous public debt would make it very difficult to reduce tariffs and other domestic taxes after the war. In fact, the import duties enacted in 1864 essentially remained in place until 1883. As we shall see, the government's pressing revenue requirements and Congress's reluctance to dispense with a program favored by vested interests, contributed to the maintenance of high import duties for many decades after the war. Another consequence of the Civil War was that the federal government was never again as dependent upon import duties as it had been in the antebellum period. Before the war, about 90 percent of federal income came from customs revenue; after the war, the scope of domestic taxation, particularly excise taxes on alcohol and tobacco, had expanded so much that only about half of federal revenue came from customs duties.

What were President Lincoln's views on the tariff during this time? Although he is often portrayed as a strong supporter of protective tariffs, Lincoln's presidential papers show that he had virtually no interest in tariffs other than as a way of paying for the war. "After he reached Washington to assume the presidency in 1861, Lincoln rarely considered the tariff other than as a method to raise money," Luthin (1944, 629) observes.[69] Lincoln did not care about the indiscriminate protection enacted during this period as a way of encouraging industry; for him, the tariff was simply a means to an end, a way of mobilizing the financial resources necessary to win the war. Henry Carey, "who had repeated consultations with Lincoln during the war, was keenly disappointed at the lack of attention manifested toward the [tariff] question by the President, who was always so deeply absorbed in the political and military aspects of the war," Luthin (1944, 629) notes. Indeed, in early 1865, Carey bitterly wrote, "Protection made Mr. Lincoln president. Protection has given him all the success he has achieved, yet has he never, so far as I can recollect, bestowed upon her a single word of thanks."

NORTH-SOUTH TRADE WARFARE

With the formation of the Confederacy, the South was now free to choose its own tariff schedule. The Confederate Constitution, adopted in March 1861, mandated an explicit "tariff for revenue only" policy. The Constitution gave the Confederate Congress the power "To lay and collect taxes, duties, and imposts and excises, for revenue necessary to pay the debts, provide for the common defense, and carry on the Government of the Confederate States; but no bounties shall be granted from the treasury; nor shall any duties or taxes on importations from foreign nations be laid to promote or foster any branch of industry, and all duties, imposts, and excises shall be uniform throughout the Confederate States." Ironically, unlike the US Constitution, the Confederate Constitution permitted export taxes if passed with a two-thirds majority.[70]

The first Confederate tariff schedule was simply the one that was in effect for the United States in November 1860, which was the Tariff of 1857. The Confederacy did not set its own duties until May 1861, when it modeled its tariff code after the Walker tariff of 1846, but with a maximum of 25 percent duties in Schedule A, 20 percent duties in Schedule B, and so on, dropping five percentage points in each classification. The tariff on key manufactured goods (iron, textiles, and shoes) was set at 15 percent, and most imported products were assessed with duties of 10 or 15 percent. Low duties were imposed on war materiel, such as arms, ammunition, and gunpowder. The duties also applied to goods coming from the North, although the South permitted duty-free imports of breadstuffs from the Midwest to temper the region's dismay at the South's secession.

Free-trade sentiment was still very strong in the South. In fact, the Confederate House voted to abolish the tariff completely by a vote of 67–16 in May 1862, but the proposal died in the Senate.[71] Having broken away from the Union, however, many Southerners now began to see the benefits of protecting local manufacturers and establishing the industries necessary to fight the war and preserve its independence.[72] Thus, the South could not avoid having a debate about its own protective tariff strategy. Fearing that the war would end quickly and their businesses would be ruined once northern and foreign competition returned, Southern manufacturers were reluctant to make significant investments in production facilities. While the Confederate House considered a proposal to use import duties to encourage investment in iron production, it did not pursue the matter.

The Confederacy faced much graver financial problems than the North because its economy was much smaller and more dependent upon foreign commerce, giving it a limited domestic tax base on which to finance wartime expenditures. In his first report, Confederate Treasury Secretary Christopher Memminger expected that a 12.5 percent average import duty would raise $25 million in revenue annually. In fact, the Confederacy raised just $3.4 million in customs duties over the entire war. During the war, the Confederate government collected only $258 million in taxes and loans but spent $1.5 billion, resorting to monetary inflation to make up the difference.[73]

The South's one economic advantage was Britain's dependence on its cotton, but Southern leaders were uncertain about how to exploit this. Some thought that the South should exercise its economic leverage and restrict cotton exports, forcing Britain to support the Confederate cause. Others believed that cotton exports should be encouraged to maximize export earnings and allow the Confederacy to import critical supplies from abroad. Whatever the merits of these alternatives, the Confederate authorities never settled on a consistent strategy. At first, the Confederacy sought to restrict exports of cotton to put pressure on Britain to provide military support. But cotton planters resisted any mandatory scheme to cut production, and so it was left to state governments and private citizens to enforce an informal embargo on cotton exports. This was a remarkable success: cotton exports shrank from 3.6 million bales in 1860 to just 10,129 bales in 1861, even though domestic production remained high. Yet the embargo was completely ineffective in influencing British policy: Lancashire textile producers, long concerned about their excessive dependence on US cotton, had been able to diversify their sources of supply to India, Egypt, and Brazil. The South's embargo also came at a time when there was a glut of cotton on the world market.[74]

Having played a large part in driving the South toward secession, cotton planters failed to support the Confederate government with the resources it needed to fight the North. Plantation owners rejected any reduction in the production or export of cotton as part of the war effort, insisting "on their right to grow unlimited amounts of cotton; to retain it for sale whenever they chose; and to sell it whenever, and to whomever, they chose."[75] For example, the taxation of exports was an obvious source of revenue, an option left open by the Confederate Constitution. In February 1861, the South imposed an export tax of one-eighth of a cent per pound on raw cotton in the hope that it would raise tens of millions of dollars. But this minuscule tax amounted to just 1.5 percent of the specie value of cotton. The tax was so widely ignored and so easily evaded that it was only collected on 5 percent of cotton exports and yielded just $28,000 to the Confederate treasury.[76]

The Confederate government also considered creating a marketing board that would buy the entire cotton harvest and negotiate foreign sales itself, but this option was ruled out as being too expensive. Planters also refuse to link Confederate bonds to cotton sales abroad and resisted attempts to divert slaves from the cotton fields into other uses, such as food production or military service. Instead, they simply continued to produce cotton.[77]

Thus, all efforts by the South to restrict cotton exports were opposed or would likely have failed for domestic political reasons. Plantation owners liked to boast about the economic power of "King Cotton," but they were afraid of actually exercising that power. They feared that any export restraint would promote the cultivation of cotton in other regions of the world, undermining the sale of American cotton after the war. Producers hoped that the mere threat of withholding southern cotton supplies would scare Britain into providing support, but it failed to do so.

The North's naval blockade was another key reason for the South's failure to benefit from any export leverage. In April 1861, President Lincoln announced that southern ports would be blockaded from Virginia to Texas. Of course, the blockade was never perfectly enforced: the capture rate on in-bound and out-bound vessels was only about 35 percent during 1862–65, higher for sailing ships and lower for steam ships. Although the blockade was porous, the effort significantly raised the cost of foreign trade to the South despite the efforts of blockade runners, who did their best to evade the Union navy. Over the course of the Civil War, the South is estimated to have exported only 0.5 million bales of cotton to Europe, despite producing 6.8 million bales. Nearly a million bales were smuggled, captured, or sold to the North, another half a million used in the South, and nearly two million kept as inventory and sold after the war. Still, the high price of cotton in Britain made for large profits for those who successfully evaded the blockade; more than 90 percent of steam powered vessels that ran the blockade attempted a second voyage.[78]

Of course, the war was a disaster for the South. By 1865, its economy lay in ruins. The destruction of wealth and income was enormous. In 1860, the South's per capita income was 72 percent of the national average; in 1880 it was 51 percent of the national average. The South took nearly a century to recover its prewar economic position relative to the North.[79]

While the Civil War had a temporary impact on foreign trade, the impact on US trade policy was long-lasting. The "temporary" duties that were imposed during the war became the new status quo. Not only had special interests arisen that wanted to maintain those tariffs, but the South was now a much weakened force in American politics and lost the influence that it previously had over the country's tariff policy. As a result, the wartime tariffs would remain in place for many decades to come.