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CHAPTER FIVE

The Failure of Tariff Reform, 1865–1890

The Civil War marked a major shift in US trade policy. With import duties having been pushed up to high levels during the war, the Republicans succeeded in constructing a powerful coalition that made it extremely difficult to reduce them after the war. While Democrats advocated tariff reforms, they were often politically divided and failed to gain unified control of the government for nearly thirty years. This chapter examines how the high-tariff regime became entrenched after the Civil War and explores some of the economic consequences of the protection given to import-competing industries.

THE STRUGGLE FOR POST-WAR TARIFF REFORM

The postwar Congress was overwhelmed by the enormously complex problems surrounding reconstruction, particularly the military occupation of the South and the reintegration of the Confederacy into the Union. Although the high tariffs imposed during the war had been widespread and indiscriminate, legislators had little time or inclination to consider comprehensive tax reform. Furthermore, the Civil War left the federal government with enormous debts to pay. The outstanding public debt rose from $65 million in 1860 to nearly $2.7 billion in 1865, about 30 percent of GDP.[1] The servicing of this debt precluded any immediate tariff changes that would significantly reduce customs revenue.

Still, with military expenditures having fallen sharply after the war, the federal government was able to run large budget surpluses through the 1870s and 1880s. These fiscal surpluses permitted the rapid retirement of debt and kept the idea of tariff reductions on the agenda. With time, this would put Congress under pressure to ease the tax burden on producers and consumers. The Republicans planned to reduce internal taxes first and then address import duties. Reform of internal taxes was achieved gradually in various pieces of legislation stretching from 1866 to 1872, when the income tax was finally abolished. Because import duties had been imposed to compensate for domestic taxes on producers, the prolonged phase out of domestic taxes meant that tariff adjustments were also postponed.

By leaving high import duties untouched for so long, manufacturers received an unprecedented degree of nominal protection. For example, in 1864, Congress raised the tariff on imported pig iron from $6 per ton to $9 per ton, in part to compensate for the domestic production tax of $2 per ton. Although the production tax was eliminated in 1866, the $9 duty remained in place. The postwar deflation of decline in prices also boosted the ad valorem equivalent of specific duties. About 60 percent of the 815 dutiable items in the tariff schedule were covered by specific or compound duties. Import prices fell about 16 percent from 1867 to 1870, resulting in higher ad valorem equivalents of these duties.[2] Consequently, the average tariff on dutiable imports rose from 36 percent in 1864 to 47 percent by 1870, about where it remained for the next forty years.

Many domestic producers, having been built up behind this tariff wall, feared the return of foreign competition and stood ready to oppose any significant reduction in the protection they were receiving. Many industries grew as a result of military contracts and had "become accustom[ed] to large and easy profits even when [their production] methods were inefficient," as Beale (1930, 277) writes. These producers not only wanted to keep existing duties in place, but wanted to increase them to compensate for the reduction in federal procurement spending.

Given the difficulty of scaling back the Civil War tax system while also providing enough revenue to finance the debt, Congress created a special commission in March 1865 to give advice on revenue collection, tax reform, and debt management. In its January 1866 report, the commission recommended keeping the income tax and import tariffs in place while abolishing all direct taxes on manufacturing production. Congress soon began reducing many direct taxes as suggested by the commission's report. But instead of simply maintaining import duties, Justin Morrill (R-VT) reported a bill in June 1866 that would increase some of them, particularly for wool. This sparked the first contentious debate on postwar tariff policy and produced a replay of the antebellum debate over protective versus revenue duties. Northern Republicans lined up in support of protection. Rufus Spaulding (R-OH) announced, "I wish to say I am in favor now and at all times in this House of the highest rate of protection to

American industry in every shape in which you may bring it forward."[3] "I am willing and anxious to go for the very highest duties that are necessary to protect every branch of our industry," Samuel McKee (R-KY) concurred. "We need protective duties not for revenue alone but in order that we may build up on our own soil manufacturing establishments by which we may manufacture everything that is necessary for our use, so that our own people may not be dependent upon foreign countries for their supplies."[4]

Meanwhile, Democrats and liberal Republicans attacked the bill as contrary to the goal of relieving the burden of heavy taxation and reducing the "temporary" wartime duties. "You are trying to inaugurate a protective system," Francis Le Blond (D-OH) complained. "Years ago the people of the United States settled this question, and they settled it in favor of a tariff for revenue alone."[5] John Kasson (R-IA) agreed and warned that if Congress shifted from a tariff for revenue to a tariff for protection, special interests would come to have a disproportionate influence on policy: "I know very well that the iron interest, the cotton interest, the glass interest, and many others, can send gentleman here to advocate their interests, and that they may be heard before the committee and may fill our lobbies; but the great interest of the consumers of the country is not organized into a system of mutual protective associations. That interest must be heard by members on this floor who seek to protect it. It must be heard here as much as these organizations of capital."[6]

Given the solid Republican control of Congress, the Democratic opposition was largely irrelevant. The South was still not represented in Congress, and Northern Democrats were weak and discredited because of their antiwar stance and sympathy for the South. In July 1866, the House passed the controversial Morrill proposal by a vote of 94–53; Republicans voted 87–28 in favor, and Democrats voted 25–7 against. Two days later, the Senate engaged in a spirited debate over the bill. Because of the late session, the Republicans were split over whether to stay and act on the bill or postpone consideration until after the fall election. With the support of Democrats, the Senate voted to table the measure until the next session. Although the bid to raise rates failed, the episode demonstrated that reducing import duties would be a difficult task.

Recognizing that it could benefit from further advice on postwar financial matters, Congress created the position of the special commissioner of the revenue in 1866. David A. Wells, the chairman of the earlier revenue commission, was appointed to a four-year term. Although tariff policy was viewed as the most politically sensitive postwar economic issue, Republicans believed that Wells—a well-known supporter of protection and a friend of the tariff activist Henry Carey—was a safe appointment. However, after having spent time in Washington, Wells was shocked to see that powerful special interests operating behind the scenes were having an inordinate influence on government policy. He was further surprised by the fact that politicians served those interests for what he saw as selfish political reasons and not for the best interests of the country. In July 1866, in private correspondence, Wells remarked, "I have changed my ideas respecting tariffs and protection very much since coming to Washington. . . . I am utterly disgusted with the rapacity and selfishness which I have seen displayed by Penn[sylvania] people, and some from other sections on this subject."[7]

In his first report as special commissioner, Wells (1867, 8) argued that "looking at the tariff solely and exclusively from a revenue point of view, few or no reasons can be adduced in support of a demand for any extensive changes in its existing rates and provisions." But he believed that the structure of the tariff was "exceedingly complicated and difficult of comprehension" and required revision due to the many haphazard changes made during the war. Wells recommended reducing duties on raw materials and maintaining existing duties on final goods. In his view, the provision of inexpensive raw materials was "essential to the prosperity of the manufacturing industry of the United States" and yet that principle was "almost entirely disregarded under the existing tariff" (34).

He then entered into dangerous political territory by criticizing the "excessive" duties of the recent House bill. Wells (1867, 42) argued that the bill would have reduced imports "to a point beyond what it would be either safe or expedient" and that it was "exorbitant in its rates, tending to further inflation of prices, destructive of revenue and of what little of foreign commerce yet remains, and prejudicial to the general interests of the country." He added that "admissions have been made to him by representatives of many of the producing interests of the country likely to be affected by this bill, that the rates of duty imposed by it are higher than are necessary for the adequate protection of their interests."

Wells (1867, 40–41) tried to anticipate the objections of Republicans by insisting that the issue confronting the country "is not one legitimately involving any discussion of the principles of either protection or free trade." On that question, the policy of the nation was "definitely settled. . . . With a tariff averaging nearly fifty per cent in its rates, free trade in any form is simply an impossibility." Instead, trying to frame the issue as one of restoring normal business conditions and stimulating the economy, Wells made two observations: "First, that the present tariff rates are already of an extreme character, and that any legislation in the same direction must necessarily soon reach a limit, unless the country is prepared to adopt the policy of entire prohibition and commercial non-intercourse; and, secondly, that if a tariff whose average rates (nearly fifty per cent) are higher than have ever been levied by the United States, or by any other civilized nation in modern times, fails to be reasonably protective, the remedy should be sought in remov[ing] the causes which have neutralized its protection, rather than by increasing the average of the duties."

To head off another bid to increase import duties, Wells and Treasury Secretary Hugh McCulloch collaborated in drafting a new schedule of tariff rates for Congress's consideration. They proposed modifying the House bill that was then before the Senate by reducing import duties toward their prewar levels. In particular, they aimed to provide tax relief for final-goods producers by slashing duties on raw materials they used, such as scrap iron, coal, lumber, hemp and flax, while maintaining the high existing duties on final products.[8]

In January 1867, the Senate accepted this proposal without much controversy, and it easily passed. However, the revision stumbled in the House. As the lame-duck session was drawing to a close, Morrill tried to rally support for it, arguing that it was better than no change at all. Although a majority supported the bill, a super-majority vote to suspend the rules and bring the bill to the House floor failed just short of the two-thirds needed, and the bill died. This proved to be a crucial missed opportunity for postwar tariff revision.

Wells was not just disheartened but radicalized by these events. "I have been intending to write you for some time past and tell you confidentially of the change which my recent intimate connection with tariff legislation has produced in my opinions, in respect to free-trade and protection," he confided to a friend. "Frankly, I have become thoroughly disgusted with the extreme views, which I once, and as you know quite recently, thought it heresy to disbelieve."[9] Now dismayed by what he saw as gross inequities in the tariff system, Wells kept his views to himself and was not yet prepared to publicly renounce his previous support of protection. Aware that his report had raised questions about his commitment to that policy, he tried to reassure Henry Carey by complaining of "a most persistent and determined effort on the part of some to draw me in with the ranks of the free traders. . . . You may be assured . . . that I have not turned a free trader."[10]

After Congress's failure to reform the tariff in 1867, Wells largely avoided the issue in his second report, which focused on internal taxes.

In his third report, published in January 1869, Wells (1869a, 23) bluntly observed that the matter of tariffs "involves more of prejudice and of opinion founded on private self-interest than almost any other policy issue facing the government." He continued, "It is important to recognize the fact that under the existing financial condition of the country, the old-time issues between the advocates of free trade on the one hand, and protection on the other, have ceased to be of any real practical importance—inasmuch as in the arrangement of a tariff with a view to revenue, the requirements of the government must certainly, for the present, necessitate so high an average of duties as to afford all that can be reasonably asked for on the grounds of protection."

But Wells (1869a, 46) insisted that there was considerable scope for tariff reductions, singling out salt, pig iron, and lumber as striking illustrations in which "a duty originally levied for revenue and protection, or as an offset to internal taxes, has been continued long after its object has been fully attained, for the interest of the few, but to the detriment of the many." Wells contended that the higher duties on pig iron simply padded the profits of domestic producers: "The manufacturers of pig iron have, to the detriment of the rolling-mill interest, and to the expense of every consumer of iron from a rail to a ploughshare, and from a boiler plate to a tenpenny nail, realized continued profits which have hardly any parallel in the history of legitimate industry." In his view, a tariff reduction would reduce prices paid by consumers and profits received by protected businesses without diminishing domestic production.

The main theme of Wells's critique was that tariffs on intermediate goods reduced the protection afforded to producers of final goods. Wells (1869a, 35) faulted the existing tariff for trying to provide "indiscriminate and universal protection" across all industries, arguing that universal protection was impossible because the finished product of one industry was the raw material of another. As he explained, "coal is the finished product of the miner, but the raw material for the manufacture of pig iron; pig iron, in turn, becomes the raw material for the manufacturer of bar iron; bar iron for machinery, machinery for textile fabrics, textile fabrics for clothing, and clothing for the laborer, whose efforts in the single department of agriculture determine the national prosperity." Thus, an import tax imposed on a raw material was "equivalent to a reduction in protection to the produce which results from its manufacture." Unless the entire impact of a tariff was fully examined, Wells (1869a, 36) noted, "It never can be known, whether the benefit that may follow from the imposition or increase of a particular duty will not be more than counterbalanced by the injury that the same duty may inflict indirectly."

Wells was essentially taking sides, trying to help producers of final goods as opposed to producers of raw materials and intermediate goods. Wells (1869a, 34) went on to make a scathing charge:

> In carrying out the idea of protection, but one rule for guidance would appear to have been adopted for legislation, viz, the assumption that whatever rate of duty could be shown to be for the advantage of any private interest, the same would prove equally advantageous to the interests of the whole country. The result has been a tariff based upon small issues rather than upon any great national principle; a tariff which is unjust and unequal; which needlessly enhances prices; which takes far more, indirectly, from the people than is received into the Treasury; which renders an exchange of domestic for foreign commodities nearly impossible; which necessitates the continual exportation of obligations of national indebtedness and of the precious metals; and which, while professing to protect American industry, really, in many cases, discriminates against it.

Wells (1869a, 49) again denied that he was attacking the system of protection or advocating free trade. "The question of tariff revision has nothing whatever to do with either the theory or the practice of free trade or protection," although he could not help adding that "protection implies help and defense to the weak; but in the instances cited the help has been given to the strong at the expense of the weak." Wells (1869a, 80) concluded that the current tariff system "is in many respects injurious and destructive, and does not afford to American industry that stimulus and protection which is claimed as its chief merit."

This provocative report sparked an outcry in Congress and a firestorm among tariff advocates. Henry Carey compared him to Judas and insinuated that Wells had been bought by British capitalists after visiting the country in 1867. Some members of Congress tried to stop publication of his report and terminate payment of his salary. The House Committee on Manufactures launched an investigation and complained that "they do not conceive the promulgation of special theories to have been part of the duty imposed upon the commissioner." The Republican majority accused him of using "fallacious and unreliable" statistics on the cost of pig iron production and therefore reaching conclusions that were "grievously in error" and would "subvert the protective policy of our country."[11] William D. Kelley (R-PA), known as "Pig Iron Kelley" for his staunch support of iron and steel interests, repeatedly attacked Wells and charged that his statistics had been "culled and marshaled . . . [so] as to lead to conclusions false, delusive, and damaging to our country."[12]

In his final report of December 1869, Wells (1869b, 71–72) responded by noting that "it has hitherto been impossible for anyone to suggest any reduction or modification [in import duties] whatever, looking to the abatement of prices artificially maintained in the interest of special industries, without being immediately assailed with accusations of corrupt and unpatriotic motives." The goal of such slander was to "prevent discussion and . . . divert the attention of the people from the real and true issues." It was "unquestionably true" that the American people supported tariffs that protected established industries employing large numbers of workers. But "when it can be proved that any tax thus laid upon the community *is not necessary* to maintain a protected industry in a moderate degree of prosperity," he argued, "if it be one which yields its profits mainly to the capitalist, instead of dividing the returns equitably among large classes of skilled or ordinary operative[s]; and especially if it be one whose product is to become in turn the raw material of other and still more extensive industries, so that the enhancement of price at the bottom is repeated through the several successive stages, and thus becomes a tax not only on the final consumer but on each intermediate producer," then the tariff schedule should be reexamined.

Wells (1869b, 72) asserted that the prevailing tariff reflected "the will of highly organized and aggressive associations of capitalists." He again singled out pig iron as "a conspicuous example" of where "excessive and unnecessary duties have been imposed and maintained, with a view of enhancing the costs of articles indispensable to many other branches of production." Wells (1869b, 83) speculated that lower pig iron prices would enable the shipbuilding industry to sell an additional six hundred iron ships, requiring the employment of thirty thousand workers, "more than two and a half times as many [as] are at present directly engaged in the manufacture of pig iron."

Wells's outspoken reports sparked a national debate but had no immediate impact on legislation. After the failure of the Wells proposal in 1867, various tariff bills floundered in Congress in 1868 and 1869. But stalwart protectionists, such as "Pig Iron" Kelley and Gen. Robert Schenck from Ohio, objected to any reduction in protective duties, convincing the president to abolish Wells's position and thereby stop the publication of troublesome and politically inconvenient reports. Yet the renewed controversy about the tariff led to growing concerns among Republicans. Although the new Republican president, Ulysses S. Grant, initially advised Congress to postpone any action on the tariff, party members felt pressure to reduce some duties as a concession to those demanding tax relief for consumers. In particular, Midwestern Republicans still had some residual anti-tariff views from the antebellum period, and moderates, such as James Garfield of Ohio and William Allison of Iowa, wanted lower duties to safeguard the protective system against its political opponents.

In early 1870, the Republican Congress finally undertook major tax reform by abolishing inheritance taxes, phasing out the income tax, and considering changes to the tariff. The motivation was more political than economic: they feared that a failure to address the issue would give a political advantage to Democrats, who would make much more drastic tariff cuts if they regained power. Proposing a 20 percent reduction of duties on protected goods, Allison stated, "I warn those who insist so pertinaciously upon a retention of these high duties upon necessary articles of consumption that they only hasten the time when a more radical change will be made in our tariff laws."[13] Garfield supported this view: "The demand is now made from many parts of the country, and not without reason, that the war tariff shall also be adjusted to the conditions of peace."[14] Just as Henry Clay had tried in 1832, the Republican leadership attempted to head off a more drastic revision of the tariff by cutting revenue duties on consumer items, such as coffee, tea, sugar, and alcoholic beverages, while maintaining most protective duties on raw materials and manufactured goods. Advocates of protective duties were also desperate to abolish the income tax, without which Congress would have to keep import duties at higher levels to raise revenue. In early 1870, the Ways and Means Committee reported a bill doing all this. Although moderate Republicans were not convinced the measure went far enough, the House overwhelmingly passed it in June 1870. The Senate followed, and President Grant signed it in July 1870. As a result, the average tariff on dutiable imports fell from 47 percent in 1869 to 42 percent in 1871.

However, this action failed to relieve the pressure on Republicans to enact more extensive tariff reforms. When Southern states officially rejoined the Union in 1868 and 1870, Democrats gained a large number of seats in Congress. In the election of 1870, the Republican majority in the House fell sharply as Democrats attacked the Grant administration for corruption. With Democrats now posing a greater threat to their political power, Republicans decided to appease popular opinion by scaling back import tariffs even more.

In his annual message to Congress in December 1870, President Grant stated that further revenue reform "has my hearty support," proposing that "all duty should be removed from coffee, tea and other articles of universal use not produced by ourselves."[15] The House quickly responded by providing a "free breakfast table," as it was called. The Senate failed to act until 1872, when it added a 10 percent reduction in protective duties on cotton and woolens, iron and steel, and other sensitive manufactured products. "We cannot deny the fact that the duties on wools and woolens are on average from seventy to seventy-five percent," John Sherman (R-OH) noted. "To say that this industry, the manufacture of wool, which can easily be raised in this country, into woolen cloth, a simple manufacture, requires a duty of seventy per cent ad valorem, it seems to me is carrying the doctrine too far; . . . in my deliberate judgment it is better for the protected industries in this country that this slight modification of duties should be made, rather than invite a contest which will endanger the whole system."[16]

Despite opposition from "Pig Iron" Kelley and other staunch protectionists, the House followed the Senate's lead. Many Republicans believed it was an act of political necessity to save the system of protection; even Morrill conceded that "the great error of those who favor a protective tariff is that they sometimes ask too much."[17] The House passed it by an overwhelming margin, and the Senate followed just days later. President Grant signed the bill in June 1872, the first postwar reduction in the key protective duties on cottons, woolens, metals, paper, glass, and leather. Although the 10 percent reduction in rates was slight, it was about as much as the Republicans would yield to the pressure for a downward revision.

Congress's action blunted the ability of Democrats to use the tariff issue in the 1872 presidential election. Despite the informal alliance between Democrats and liberal Republicans, who opposed the corruption of the Grant administration and the harsh reconstruction measures imposed on the South, the two groups ensured their defeat by nominating an unpredictable political amateur, Horace Greeley, the publisher of the *New York Tribune*, as their presidential candidate. Greeley united the two sides in their disgust of political corruption and support for civil service reform, but he strongly supported protective tariffs, whereas most of his supporters demanded tariff reform. The Democratic platform conceded that "there are in our midst honest but irreconcilable differences of opinion with regard to the respective systems of Protection and Free Trade," and the party split meant that the issue would not be contested in the election.[18]

The disarray among the Democrats allowed the establishment Republicans to retain unified control of government with the reelection of President Grant. Furthermore, even the modest reduction in the Tariff of 1872 proved to be short-lived. Like the Tariff of 1857 before it, the legislation was passed at a peak in the business cycle. In September 1872, Jay Cooke & Co., the country's preeminent investment bank, closed its doors after becoming overextended in financing the Northern Pacific Railroad. This triggered the Panic of 1873, and the economy plunged into a recession. The downturn enabled the Democrats to capture the House in the midterm election of 1874, their first major political success since the Civil War. Although the Democratic House would be unable to change the tariff by itself, it could now block Republican legislation.

However, the old Congress was still scheduled to meet early in 1875 before the newly elected one was to convene later that year. In light of the decline in government revenues due to the slump, President Grant suggested "the propriety of readjusting the tariff so as to increase the revenue."[19] Taking the hint, the outgoing Republican Congress swiftly but narrowly repealed the 10 percent reduction in protective duties and raised duties on tobacco and spirits, sugar and molasses before the Democrats took over the House. Thus, in a move that Stanwood (1903, 2:191) described as a "bold, even audacious, defiance of the opposing party," the Republicans undid their previous, incremental tariff reform, which had been in effect for only three years.

This marked the end of any immediate postwar tariff reform. Although the Democrats controlled the House for six of the next eight years, Republicans held the Senate and ensured that no important tariff legislation would be passed during that period.

THE TARIFF COMMISSION AND THE MONGREL TARIFF OF 1883

Despite the debate over import duties in the early 1870s, the tariff was still not a major issue in presidential politics. In 1876, tariff policy merited only a brief mention in the election platforms of both parties. The Republican platform simply stated that the tariff "should be so adjusted as to promote the interests of American labor and advance the prosperity of the whole country." The Democratic platform emphasized civil service and expenditure reform, and denounced the existing tariff "as a masterpiece of injustice, inequality and false pretense" that "has impoverished many industries to subsidize a few." They demanded a tariff "only for revenue," not for the protection of special interests.[20]

The election of 1876 stands out as one of the most disreputable in American history. Democrat Samuel Tilden won 51.0 percent of the vote to Republican Rutherford B. Hayes's 47.9 percent, but lost the Electoral College by a single vote. The Democrats disputed the close election returns in three Southern states still controlled by Republicans under postwar reconstruction. (Officials in South Carolina, Florida, and Louisiana were accused of awarding their combined twenty electoral votes to Hayes when the popular vote actually supported Tilden.) Congress appointed a special Election Commission to investigate the matter, but the commission voted along party lines to award all twenty electoral votes to Hayes. After Southern Democrats planned to filibuster the commission's report, Congress reached the Compromise of 1877, wherein the South would accept Hayes as president if remaining federal troops were removed from the region. This brought the reconstruction period to an end.

By the time of Hayes's inauguration in March 1877, the economy had recovered from the Panic of 1873, and the government's budget was once again in surplus. President Hayes suggested that Congress repeal all internal taxes (except on alcohol) and rely mainly on import duties on tea and coffee for revenue, but he was cautious and made no attempt to prod Congress into considering such tariff changes. As he wrote privately, "The practical question and the theoretical may be and usually are very different. My leanings are to the free trade side. But in this country the protective policy was adopted in the first legislation of Congress in Washington's time, and has been generally adhered to ever since. Large investments of capital, and the employment of a great number of people depend upon it. We cannot, and probably ought not to suddenly abandon it."[21]

The Democrats made further political gains in the 1878 election, capturing the Senate for the first time since the late 1850s. Republicans feared the public was tiring of their rule and worried that the pro-reform message of their opponents might gain further in popularity. After the Compromise of 1877, Republicans could no longer win elections by "waving the bloody shirt" and reminding the electorate of the Democrats' disloyalty to the Union in supporting the South. As the 1880 election approached, James Blaine of Maine advised his fellow Republicans to "fold up the bloody shirt and lay it away. It's of no use to us. You want to shift the main issue to protection."[22]

Thus, the fading of Reconstruction as a political issue set the stage for intensified partisan conflict over the tariff, but that did not happen in the election of 1880. Once again, the Democrats did not help their cause by nominating a political novice—this time General Winfield Scott Hancock—as their presidential candidate. The befuddled general could not hide his ignorance of tariff policy and was roundly ridiculed for making the empty statement that "the tariff question is a local question." The political cartoonist Thomas Nast brilliantly skewered Hancock by depicting him as whispering to someone: "Who is Tariff, and why is he for revenue only?"[23]

An economic revival enabled the Republicans to regain control of both houses of Congress and retain the presidency with Chester Arthur taking over in 1881. But as the government's fiscal surplus began to swell to unprecedented proportions, Republicans found it harder to avoid the issue of tariff reform. In fiscal years 1882 and 1883, revenues exceeded expenditures by more than 50 percent, and increased public awareness of political corruption and the lobbying of producer interests in Washington put unwanted attention on the special interests supporting high duties.

Once again, moderate Republicans feared the political consequences of inaction. As John Sherman (1895, 2:844) wrote in mid-1882, after the Senate failed to reduce import duties, "If this Congress shall adjourn, whether the weather be hot or cold, without a reduction of the taxes now imposed upon the people, it will have been derelict in its highest duty. There is no sentiment in this country stronger now than that Congress has neglected its duty thus far in not repealing taxes that are obnoxious to the people and unnecessary for the public uses; and if we should still neglect that duty, we should be properly held responsible by our constituents."

In his first annual message to Congress in December 1881, President Arthur endorsed the creation of a commission to investigate the problem of excessive revenue, agreeing that the tariff needed careful revision, with a due regard being "paid to the conflicting interests of our citizens."[24] Congress accepted this recommendation and appointed a Tariff Commission in May 1882. Fearful of repeating the Wells fiasco, however, the Republican majority made sure to pack the commission with safe appointments. Chaired by John Hayes, the secretary of the National Association of Wool Manufacturers, the commission had eight other members: an iron manufacturer, a wool grower (the president of the National Association of Wool Growers), a sugar grower, an officer of the New York Customs House, a statistician from the Census Office, and three former members of Congress. The commission's mandate was "to take into consideration and to thoroughly investigate all the various questions relating to the agricultural, commercial, mercantile, manufacturing, mining, and industrial interests of the United States, so far as the same may be necessary to the establishment of a judicious tariff, or a revision of the existing tariff, upon a scale of justice to all interests."[25]

The commission held hearings in twenty-nine cities over nearly three months, producing 2,625 pages of testimony from 604 witnesses, mostly manufacturers advocating the maintenance of existing tariffs on imports that affected their business. Based on its composition, the commission was expected to propose few changes to the existing system. Instead, it stunned everyone by proposing an enlargement of the duty-free list and a reduction of about 20–25 percent in protective duties. The Tariff Commission (1882, 5) report began as follows:

> Early in its deliberations the Commission became convinced that a substantial reduction of tariff duties is demanded, not by a mere indiscriminate popular clamor, but by the best conservative opinion of the country, including that which has in former times been most strenuous for the preservation of our national industrial defenses. Such a reduction of the existing tariff the Commission regards not only as a due recognition of public sentiment and a measure of justice to consumers, but one conducive to the general industrial prosperity, and which, though it may be temporarily inconvenient, will be ultimately beneficial to the special interests affected by such reduction.

Echoing Wells's earlier reports, the commission (1882, 16) cited many instances of excessive protection that were "positively injurious to the interest which they are supposed to benefit" and "numerous inconsistencies" in the tariff code, such as "the anomaly of finished articles bearing half the duty levied on the material out of which it is made." The commission argued that "excessive duties generally, or exceptionally high duties in particular cases, discredit our whole national economic system and furnish plausible arguments for its complete subversion."

Like the aim of the short-lived 10 percent tariff reduction in 1872, the commission's main objective was to make enough concessions to head off a more serious attack on protective duties. As the chairman of the commission, John Hayes, later wrote, "Reduction in itself was by no means desirable to us; it was a concession to public sentiment, a bending of the top and branches to the wind of public opinion to save the trunk of the protective system. In a word, the object was *protection through reduction*.

We were willing to concede only to save the essentials both of the wool and woolen tariff. . . . We wanted the tariff to be made by our friends."[26]

The Tariff Commission transmitted its report to Congress in December 1882, the same month as the president's annual message to Congress. Arthur used this opportunity to make tariff reform a priority. Calling attention to the ballooning fiscal surplus, the president warned that "such rapid extinguishment of the national indebtedness as is now taking place is by no means a cause for congratulation; it is a cause rather for serious apprehension." The problem was that "either the surplus must lie idle in the Treasury or the Government will be forced to buy at market rates its bonds not then redeemable, and which under such circumstances cannot fail to command an enormous premium, or the swollen revenues will be devoted to extravagant expenditure, which, as experience has taught, is ever the bane of an overflowing treasury." But Arthur went further: "The present tariff system is in many respects unjust. It makes unequal distributions both of its burdens and its benefits."[27]

Congressional Republicans resented the president's intrusion into what they believed was a matter for the legislature alone, but in light of public sentiment, they also viewed it as dangerous to be seen as doing nothing. Adding to the pressure for reform was the Democratic capture of the House of Representatives in the 1882 election. Believing that the unpopularity of high tariffs was partly responsible for their electoral defeat, Republicans sought to enact a more moderate tariff before they lost their majority. As before, they preferred to shape the tariff reduction to their own liking, rather than lose control of the issue and have the Democrats do it for them.

Just prior to the election, during the summer of 1882, the House passed a measure that reduced domestic sales taxes. After the election results became clear, the Senate picked up the bill, added significant tariff cuts based on the commission's recommendation, and passed it in February 1883. Although the House Republican leadership wanted to enact the legislation before the new Congress came to power, they also wanted much higher tariffs than the Senate had proposed. They were also annoyed by the Senate because the Constitution required that all revenue measures start in the House. Racing to beat the deadline of March 4, 1883, when Congress was due to adjourn, and after which the Democrats would take control, Republicans engaged in a highly complicated legislative maneuver involving an unorthodox manipulation of the rules to move the Senate proposal immediately to a conference committee.[28] Amid acrimony, the committee revised the bill by raising tariff rates above those in the Senate version, even though the House had not even debated or voted on any tariffs. In effect, the conference committee eliminated any significant downward revisions from the measure.

The House and Senate rushed to pass the bill in early March, whereupon it was signed by President Arthur. The bill earned the moniker the "Mongrel Tariff" because of the haste with which it had been thrown together and passed. While sales taxes on tobacco and alcohol were reduced, the tariff schedule was adjusted only slightly, reducing rates on noncompeting imports and maintaining them on protected products without much effect on the overall level of duties. The Republicans recognized that public sentiment favored lower duties, but they were determined to preserve the high protective duties. At the same time, they were under no great pressure to enact large changes, given the political weakness of the Democrats.

The Mongrel Tariff of 1883 was another missed opportunity to revise the tariff code after the Civil War. "If the committee had embodied . . . the recommendations of the tariff commission, including the schedules without amendment or change, the tariff would have been settled for many years," John Sherman (1895, 2:851) later wrote. "Unfortunately this was not done, but the schedules prescribing the rates of duty and their classification were so radically changed by the committee that the scheme of the tariff commission was practically defeated." Instead, the conference committee "restored nearly all the inequalities and incongruities of the old tariff, and yielded to local demands and local interests to an extent that destroyed all symmetry or harmony." In Sherman's view (1895, 2:854–55), the Tariff of 1883 simply postponed the battle for another day and "laid the foundations of all the complications since that time."

THE REPUBLICAN COALITION FOR PROTECTION

What underlying political factors account for the failure to achieve any meaningful tariff changes in the decades after the Civil War? As in the late antebellum period, unified government was the key to producing any change in America's tariff policy. Simply put, unified government under the Democrats was necessary to enact or maintain lower tariffs, and unified government under the Republicans was necessary to enact or maintain higher tariffs, while divided government kept the status quo intact.

For the first decade after the war, Republicans held unified control of government, enabling them to prevent any significant reductions in the tariff schedule. In Congress, the party was dominated by stalwarts who resisted any change in protective duties. Republican presidents, such as James Garfield, Rutherford Hayes, and Chester Arthur, were much more moderate. They were willing to support modest tariff reductions to provide tax relief for consumers and defuse political tensions over the issue, but they had a limited impact on policy because Congressional leaders controlled the legislative process.

The Republican political position was secure for several years after 1865 because the South was excluded from Congress. Six former Confederate states were readmitted in 1868 and another four in 1870. Republicans sought to delay this process because they "realized that a return of the South to Congress meant a union of South and West which would deprive the growing business interests of the country of the favors that radical rule would insure to them," Beale (1930, 276) notes. In the meantime, they diluted the South's strength in Congress by admitting several Republican-leaning states to the union, including Kansas (1861), West Virginia (1863), Nevada (1864), and Nebraska (1867). With their small populations, these states did not alter the balance of political power in the House, but they significantly diminished the South's position in the Senate.

Although Republicans were politically dominant in the late 1860s and early 1870s, American politics was very competitive over the next twenty years and the two parties were roughly equal in strength at the national level. From 1875–89, government was mostly divided, ensuring that no major policy changes would be made. Democrats controlled the House in six of the seven Congresses between 1875 and 1889, while Republicans controlled the Senate in six of the seven Congresses. The Republicans held the presidency until the election of a Democrat in 1884. The pattern led to an entrenchment of the status quo, since unified control of government was so rare. As the discussion in chapter 6 shows, the Democrats did not win unified control of government until the election of 1892, but they only held this position for one Congress (two years) during which time they squandered the opportunity to undertake a serious tariff revision.

In addition, partisan differences on the issue were less sharply defined after the Civil War than they had been before the war. The South's opposition to protective duties had weakened, while Northern Democrats had come to support existing duties. George Atkinson (R-WV) summarized the position of the two parties in saying that "the Democratic doctrine is a tariff for revenue with incidental protection, while the Republicans advocate a tariff protection with incidental revenue."[29]

The geographic distribution and intensity of trade-related economic interests was the primary source of Republican political strength and Democratic weakness. Exports were fairly concentrated in cotton, wheat, and provisions (bacon and ham) that came from the South and the Midwest. Cotton was still the nation's single largest export, accounting for a quarter of all exports. More than two-thirds of the cotton crop was exported, giving the South a continued strong interest in low tariffs. Although Midwestern farm products also constituted a sizeable share of exports, only a small share of domestic production was exported, meaning that farmers in the region were not very dependent on foreign markets.

Meanwhile, imports were highly diversified and competed against a wide range of industries spread across the manufacturing belt of the Northeast and upper Midwest. The core of the Republican coalition was located in the North. The production of iron and steel was highly concentrated in Pennsylvania and Ohio, and the production of cotton and woolen manufactures was highly concentrated in New England; these manufacturing industries were among the chief beneficiaries of protective tariffs. These densely populated regions gave these interests great political strength in the House. Other elements of the Republican coalition cut across several different parts of the country, including sheep farmers (wool), sugarcane and beet growers, and others. These groups did not overlap much in terms of geography, which gave the party broad appeal across the northern half of the country.[30] The Republicans used this economic geography to build a powerful coalition in support of high protective tariffs.

Economic interests were also stronger after the Civil War, because the process by which they exerted political influence changed. In the antebellum period, special-interest lobbying was done informally; politicians certainly heard from interested constituent groups through petitions and memorials, but lobbying tended to be done at a distance. During the war, the federal government began spending millions of dollars in procurement and became a political machine for dispensing lucrative contracts, land grants, and other privileges. As a result, Washington became a magnet for lobbyists and special-interest groups. The growth of the federal government led to the formation of business and labor organizations that opened offices in the nation's Capital or regularly sent agents there to ensure that their interests were represented. Producer interests began forming national organizations, in part to influence Congress's decisions about import duties. These groups—such as the National Association of Wool Growers, the National Association of Wool Manufacturers, and the American Iron and Steel Association, among many others—made campaign contributions, distributed informational literature, pressured congressional committees, and the like.

One of the most effective interest groups of the period was the American Iron and Steel Association, formed in 1864 under the leadership of the staunch protectionist James Swank. "Protection in this country is only another name for Patriotism," Swank wrote. "It means our country before any other country; the employment of American labor in preference to the employment of the labor of other countries."[31] Swank's AISA "made and unmade Congressmen, controlled Republican State committees, and lobbied in the halls of national conventions, while its spectacular success in retiring [low-tariff advocate Congressman William] Morrison had added greatly to its prestige," Allan Nevins (1932, 418) observed. "Its purse was almost bottomless, for every iron master knew that the existing tariff schedules placed millions if not tens of millions annually in the pockets of the mill-owners."

The Mongrel Tariff of 1883 created a tariff schedule with fourteen main classifications of goods, at least six of which were covered by a single trade association (metals, chemicals, paper, wool, silk, flax and hemp). As Josephson (1938, 330) wrote with respect to the Mongrel Tariff of 1883: "Lobbyists descended like a flock of buzzards upon Washington, crowding all the hotels that winter, pulling, tugging at the statesmen in the name of all the diverse, conflicting interests that employed them, . . . as committeemen in both chambers wrestled with long schedules and with the unblushing and unending demands of lobbies for sugar, iron, wool, glass, marble, and a hundred other trades." Sometimes a single member of Congress was powerful enough to ensure that constituent interests were reflected in legislation. William "Pig Iron" Kelley, the Pennsylvania Republican, resisted any change in Schedule C, the metals schedule. One member of Congress said that Kelley "thinks tariff, talks tariff, and writes tariff every hour of the day . . . a roommate of his tells me that he mumbles it over in his dreams during the night."[32] Similarly, representatives from Louisiana kept a vigilant eye on Schedule E (sugar), Massachusetts and Rhode Island concentrated on Schedule I (cotton goods), Ohio and Massachusetts focused on Schedule K (wool and manufactures), and so on.

The close relationship between business interests and government policymakers led to charges of corruption, especially during the Grant administration. Although the term *lobbying* predates this period, it supposedly refers the fact that President Grant often enjoyed a cigar and brandy in the Willard Hotel near the White House, prompting political wheelers and dealers to mill around the hotel lobby on the chance of getting a brief word with the president.[33] After leaving office, Rutherford B. Hayes complained in his diary about "the rottenness of the present system" because of the influence of special-interest money. "This is a government of the people, by the people, and for the people no longer," he wrote. "It is a government by the corporations, of the corporations, and for the corporations."[34] Stanwood (1903, 2:52) wrote that "Washington had come to be filled with as fine a band of plunderers as ever besieged a National Congress: tax swindlers, smugglers, speculators in land grants, railroad lobbyists, agents of ship companies, mingled with the representatives of industries seeking protection, until it seemed as if Congress was little more than a Relief Bureau."

A high-tariff policy could not survive politically if it just served the interests of a few industries in the North. With the addition of new states shifting the political weight of the country westward, Republicans sought to broaden political support for protectionism beyond eastern industries to include Midwestern producers of raw materials (such as wool, hemp, hides, and flaxseed). They did so by advocating the same structure of protection as the Whigs had proposed in the antebellum period: a combination of moderate tariffs on raw materials produced in the Midwest and higher tariffs on manufactured goods produced in the East. By bringing raw materials producers under the umbrella of the protectionist policy, the Republicans hoped to head off antiprotectionist agrarianism in the Midwest. "In adjusting the details of the tariff," Justin Morrill explained, "I would treat agriculture, manufactures, mining, and commerce, as I would our whole people—as members of one family, all entitled to equal favor, and no one to be made the beast of burden to carry the packs of the others."[35]

Republicans recognized that protection for raw materials producers and final-goods producers would stand or fall together. The Democrats tried to split the two interests by proposing moderate tariff protection for final-goods producers along with duty-free raw materials, which would reduce the production costs of final goods. Republicans recognized the danger that this sort of division posed to the whole system of protection. "The dogma of some manufacturers, that raw materials should be admitted free of duty, is far more dangerous to the protective policy than the opposition of free traders," John Sherman (1895, 1:191) warned. As he put it, "A denial of protection on coal, iron, wool, and other so-called raw materials will lead to the denial of protection to machinery, to textiles, to pottery and other industries. The labor of one class must not be sacrificed to secure the protection for another class."

Ironically, despite the fact that the party never received much support from industrial regions of the country, the Democratic tariff proposals of the period were actually designed to help manufacturers by putting raw materials on the duty-free list and thereby reduce their production costs. Democrats especially pushed this idea with respect to wool, arguing that free wool would improve the competitive position of domestic wool manufacturers. While this may have been a cynical ploy to undermine the political alliance between wool producers and wool manufacturers, such a policy may have helped manufacturers more than the Republican tariff structure. The Democrats used this line of reasoning to argue that import duties on steel should be reduced so that the cost of building railroads would fall and thereby accelerate transportation improvements. Samuel Cox (D-NY) added, "The protectionists know that it stands on shaky ground. They would postpone its modification, because one link in the common bond which binds its selfish enactments and mutual aggrandizement once severed the whole chain falls to pieces."[36]

Final-goods producers may have been tempted by the Democratic program of having duty-free raw materials, but they could never be sure that the Democrats might not slash tariffs on their products as well. These industrial interests recognized the importance of coalition-building across potentially conflicting constituencies to maintain the existing system of protection. These groups tried to come together and present Congress with a unified front, as opposed to squabbling with each other so that disputes had to be resolved by politicians. Therefore, raw materials producers in the Midwest and final-goods producers in the East—such as hide producers in Ohio and shoe manufacturers in Massachusetts; sugarcane and sugar beet growers in Louisiana and Michigan, and sugar refiners in New York; iron ore mining interests in Michigan and Minnesota, and iron and steel manufacturers in Pennsylvania and Ohio—tended to cooperate rather than oppose one another. To the extent that they had conflicting interests with respect to tariffs, they preferred to reach a compromise among themselves rather than have politicians make arbitrary decisions for them.

Of these various interests, wool producers and wool manufacturers took on special importance. John Hayes, the Secretary of the National Association of Wool Manufacturers, recognized that his organization could not obtain higher duties from Congress without the cooperation of wool growers in the Midwest. Sheep raisers who were spread across Ohio, Michigan, and elsewhere had long vowed to oppose efforts by wool manufacturers to obtain higher duties if those manufacturers sought to reduce the duty on raw wool imports. In the view of the wool growers, if the manufacturers were not their friends then they were enemies. Therefore, Hayes organized a meeting of the manufacturers and growers in December 1865 to hammer out an agreement for higher duties on both goods. This proposal was presented to Congress as stand-alone legislation for the wool industry, unattached to other tariff legislation, and became the Wool and Woolens Act of 1867.[37]

As a result, the Democratic policy of low or no tariffs on raw materials and moderate duties on final goods failed to win over industrial interests. Those interests apparently preferred the security under the Republicans of having high tariffs all around. Republicans sidestepped the fact that lower raw materials prices would improve the position of downstream industries. They did not structure the tariff code to favor manufacturing in particular; rather, they wanted all sectors of the economy—from raw materials to final manufactures—protected with high tariffs and insulated from foreign competition, even if this was sometimes detrimental to final-goods producers.

However, as in the antebellum period, the Northeast-Midwest alliance was never completely secure. On balance, the Midwest's interests with respect to trade were mixed: some raw material producers demanded protection (wool and beet sugar); others had a weak interest in exporting to foreign markets (grain and meat). The Midwest never viewed protection as a singular benefit to the region and viewed with suspicion the industrialists in the Northeast. At the same time, it was willing to trade away its votes on tariff legislation in exchange for policies that would more directly serve the region's interests, such as a more liberal land policy, a more inflationary monetary policy, or greater regulation of railroads and monopolies.[38]

Republicans not only appealed to producer interests affected by imports, but pitched their message to workers in those sectors as well. By the 1880s, about a quarter of the labor force was employed in manufacturing. The Republicans argued that protective tariffs were needed to safeguard the high wages of American labor from the competition of low-wage foreign workers. Republicans would often attack Democratic proposals to cut tariffs as "bills to reduce American wages." "Reduce the tariff, and labor is the first to suffer," William McKinley (R-OH) argued.[39] This argument was not wholly accepted by organized labor. Only some industrial workers saw their jobs at risk from foreign competition, while many others worried about the impact of the tariff on their cost of living. Industries were divided in terms of their exposure to import competition. For example, the Knights of Labor was so split over trade policy that it declared itself neutral on the issue. At its first convention in 1881, the Federation of Organized Trades and Labor Unions, the precursor of the American Federation of Labor (AFL), found that one faction wanted to endorse protection, while another wanted to endorse free trade; the next year the delegates voted to take no position on the subject. In 1906, Samuel Gompers stated that the AFL's neutrality on the issue had served the organization well and therefore would remain its policy.[40]

Perhaps the greatest political threat to the high-tariff system was the government's large fiscal surplus. The Republicans sought to increase government spending as a way of reducing the surplus and maintaining political support for protective tariffs. Before the Civil War, the Whigs disposed of surplus revenue by devoting large sums to internal improvements. After the Civil War, federal expenditures on pensions for veterans of the Union army served the same purpose. The Republicans first introduced a disability pension program for veterans and their dependents in 1862. This proved to be a brilliant political strategy for both eliminating the surplus revenue and tying large numbers of voters (Union soldiers and their dependents) to the Republican party.

As a result, the federal government spent staggering sums on military pensions in the decades after the Civil War. The Grand Army of the Union became a major political force for the Republican party and encouraged the growth of transfer payments for its members. With the Arrears of Pension Act of 1879, the Republicans expanded the program to cover not only combat injuries and deaths, but also disability and old-age benefits. This encouraged applicants with "newly discovered Civil War related disabilities," and new claims rose from 1,600 per month to 10,000 per month, putting thousands of new beneficiaries on the dole. Federal expenditures nearly doubled in one year when lump-sum payments were made to all the newly eligible veterans for the retroactive benefits. The Republicans then enacted the Dependent Pension Act of 1890, which severed the link between war-related injuries and government pensions. This produced another sharp rise in the number of pensioners and the cost of disbursements. At its peak, in the early 1890s, pensions accounted for nearly 40 percent of federal spending, although it subsequently declined as the Civil War generation passed from the scene.[41]

Democrats attacked the pension system as "a shrewd scheme by which the protected interests proposed to use up the surplus and prevent a revision of the tariff." In the words of James Beck (D-KT), "They want to save the soldiers from going to the poorhouse by absorbing all the surplus revenue, when in fact they are really seeking to save the tariff in order to enrich a few men that are making princely fortunes out of it at the expense of the great mass of the people."[42] Abuse of the government program was rampant: after the 1879 expansion in benefits, about a quarter of all pensions were thought to have been based on fraudulent claims. The Pension Bureau became viewed as "a graft-ridden political machine identified with and controlled by the Republican party," Bensel (1984, 63) notes. This compelled Democrats, under the leadership of President Grover Cleveland, elected in 1884, to enact administrative and civil service reform. Although Democrats sought to base pension eligibility on proof of veteran status and an objective assessment of injury or disability, they were largely unsuccessful in taking on the entrenched interests that fought to preserve the generous benefits.

While formidable political forces stood in defense of high tariffs, those that favored a significant tariff reduction were ineffective and divided. The core of the Democratic party was still in the South, which continued to believe that it was subjected to a double injury: its exports were being implicitly taxed by the high import duties, and the revenue was being spent in the North (this time on pensions, not internal improvements). But a North-South split over tariffs repeatedly undermined attempts to achieve party unity on the matter. Southern Democrats favored returning to the rates of duty in the Walker tariff of 1846; Northern Democrats, many of whom came from industrial constituencies, wanted to maintain existing tariffs. This split was candidly acknowledged in the Democratic platform in 1872, which stated, "There are in our midst honest but irreconcilable differences of opinion with regard to the respective systems of protection and free trade."

The individual most responsible for the intra-party split was Samuel Randall, a Pennsylvania Democrat and House speaker from 1875–80. An ardent supporter of protection, Randall consistently enlisted twenty or more Northern Democrats to block any action by his party to reduce tariffs. Like "Pig Iron" Kelley, Randall was considered "immoveable" on the subject of high tariffs. "I am an American, and therefore I am a protectionist," he reasoned.[43] As speaker, Randall used his power to ensure that the Ways and Means Committee, even under the Democrats, would slow any bid to reduce tariffs. Randall met fierce resistance from the party's rank-and-file in the South and Midwest. The Democrats achieved greater unity on the issue after a party caucus denied Randall the speakership in 1883, but even then the party still had difficulty forming a united front to tackle tariff reform.

Democrats also faced rhetorical disadvantages in attacking existing policy. Republicans argued that high tariffs were the foundation of the nation's industrial prosperity. By contrast, the Democratic position—"a tariff for revenue only"—was hardly an inspiring rallying cry. The bland pitch worked in the late antebellum period, when tariffs were already low, and Democrats wanted to signal their commitment to small government. Now that import tariffs were substantially higher, Democrats had to confront voters' fears that a reduction in import duties would severely disrupt the economy. Unfortunately for the Democrats, the logic of the protectionist catechism—that tariffs increased output in protected industries, which increased the demand for labor and led to higher wages—seemed more persuasive to the public than trying to explain its flawed logic. As William Morrison (D-IL) put it, "The trouble with the tariff question is that the Republicans have the advantage on catch words, and the people as a rule do not understand the question, and it is too hard a study for them."[44]

Democrats argued that tariff reform meant tax relief. As Roger Mills (D-TX) put it, "Enormous taxation upon the necessaries of life has been a constant drain upon the people—taxation not only to support all the expenditures of Government, but taxation so contrived as to fill the pockets of a privileged class, and taking from the people $5 for private purposes for every dollar that it carries to the public Treasury." The Democrats maintained that tariffs increased the cost of living and reduced the purchasing power of wages. "The benefits of the tariff all go one way," as Mills asserted, "from the consumer to the manufacturer, but not from the manufacturer to the consumer."[45]

Democrats had some success in portraying the system as corrupt. Samuel Cox of New York, one of the more colorful orators in Congress, argued that the tariff was nothing less than the odd collection of individual tariffs and amounted to "petty larceny" as every interest tried to exact some income at the expense of others. As he put it, "Let us be to each other instruments of reciprocal rapine. Michigan steals on copper; Maine on lumber; Pennsylvania on iron; North Carolina on peanuts; Massachusetts on cotton goods; Connecticut on hair pins; New Jersey on spool thread; Louisiana on sugar, and so on. Why not let the gentleman from Maryland steal coal from them? True, but a comparative few get the benefit, and it comes out of the body of the people. True, it tends to high prices, but does not stealing encourage industry?"[46]

As much as Democrats were dismayed by the corrupt politics behind tariffs, they ran up against a simple problem: the policy delivered tangible benefits to important constituencies, which in turn gave their political support to the Republicans. Democrats floundered in their attempts to find a way to break the Republican's deep political support for maintaining the existing policy. They particularly suffered from the fact that the "tariff reform" movement had no organizational basis to counterbalance such producer lobbies as the American Iron and Steel Association and the National Association of Wool Manufacturers. Indeed, no major industrial or agricultural producer association advocated significant tariff reductions. "Compared with the realistic business men on the Republican side, the reformers who aided the Democrats seemed amateurs," Nevins (1932, 420–21) observed. "The American Free Trade League, with David A. Wells as president, distributed tariff reform documents, but its activities were feeble beside those of the Iron and Steel Association." Indeed, the League "was all facade, for it did nothing to raise campaign funds, sent out a few pamphlets, and aroused little attention." Although Southern exporters of cotton and tobacco were well represented by southern Democrats in Congress, they were not formally organized and were largely discredited because of their association with the Confederate South.

In Congressional debates, Republicans and Democrats brought out the same arguments about trade policy again and again, year after year, decade after decade. Republicans asserted that high tariffs protected domestic industries from foreign competition and ensured that workers had employment at high wages. Democrats maintained that tariffs were taxes that imposed a heavy burden on consumers and farmers, while also impeding exports. For every argument on one side, there was a counter-argument on the other. Republicans saw protective tariffs as helping all producers facing foreign competition and ultimately strengthening the economy as a whole, whereas the Democrats saw those policies as redistributing income to one group at the expense of another. For Republicans, protective tariffs led to general economic progress. For Democrats, such protection gave special interests a privileged position at the expense of the general welfare. Republicans saw a harmony of interests with a strong and growing manufacturing sector as a benefit to farmers and landowners. Democrats saw societal conflicts that pitted capital against labor, big business against the consumer, industry against agriculture, bankers and railroads against small farmers, urban manufacturers against rural farmers and planters. For Republicans, protective tariffs made the country stronger and more powerful. For Democrats, protection led to political corruption and a growing concentration of wealth.

Not only did the two parties have different visions about how tariff policy affected the nation's polity, they disagreed about its specific consequences. For example, the two parties disputed whether tariffs would increase or decrease domestic prices. Democrats contended that taxes on imported goods raised domestic prices and hurt consumers. Republicans conceded that tariffs might increase prices in the short run, but argued that protection would stimulate more domestic production that would eventually reduce prices and benefit consumers. As Binger Hermann (R-OR) put it, "Protection begets production, production begets competition, and competition begets cheap prices."[47] Because the late nineteenth century was one of deflation, Republicans could always point to the falling price level as evidence in favor of their assertion. Of course, the country's monetary policy under the gold standard, not the tariff, was responsible for the deflation of this period.

Conversely, Republicans held that a tariff reduction would leave the United States at the mercy of foreign monopolists who would exploit American consumers. Lower tariffs would not reduce consumer prices, they reasoned, because foreign producers would simply exploit their market power and raise their prices. "The day the telegraph announces that we have reduced the duty on pig and railroad iron will be the day on which the price of British iron will go up," Kelley stated.[48] Yet this contention created a contradiction for the protectionist position: if a lower tariff simply allowed foreign exporters to raise their prices, then domestic producers would not be harmed by the tariff reduction because prices would not fall. And there was no evidence that British iron and steel exporters or other producers behaved this way; they appear to have been highly competitive with one another and with other producers in Germany, Belgium, and elsewhere. Lower tariffs did lead to lower prices and greater imports, which is precisely why domestic producers facing foreign competition feared the prospect of tariff reductions.

Finally, Republicans branded all opponents of protective tariffs or advocates of tariff reform as "free traders" who represented foreign interests that only wanted to weaken the United States. Anglophobia figured prominently in late nineteenth-century American politics. Advocates of lower tariffs, such as David Wells, were often smeared as being foreign agents conspiring to open up the American market on behalf of British monopolies. Those unpatriotic enough to believe in "free trade" were simply part of a British plot to destroy the nation's industries and compromise its economic independence.[49]

Advocates of protective tariffs and proponents of tariff reform both looked to intellectuals to provide a justification for their position. The leading figure for protective tariffs was Henry Carey. The son of Mathew Carey, a leading proponent of the American System in the antebellum period, Carey believed in free trade until the economic recovery that occurred after the Tariff of 1842 persuaded him of the merits of protectionism. In his book *Harmony of Interests* (1851), Carey denied that agriculture and manufacturing were opposing interests, contending instead that there was a "harmony of interests" between them: when one flourished, all would benefit. In his view, international trade disrupted this domestic harmony and ought to be discouraged. Carey held that the home market should be developed at the expense of the world market to create a web of economic association that would bring farmers and manufacturers together. Carey also attacked merchants for the wasteful activity of transporting goods between markets. His three volume *Principles of Social Science* (1858) became the principal text of the Philadelphia School of Political Economy that embraced protectionism as its key doctrine.[50]

Despite being the leading thinker for the protectionist cause, Carey was a turgid writer whose arguments were often convoluted.[51] Yet Carey's energetic efforts gave him an international reputation and even gave protectionism a veneer of intellectual respectability. The era's leading economist, John Stuart Mill, took Carey seriously as "the only writer, of any reputation as a political economist, who now [1865] adheres to the Protectionist doctrine." But Mill pointed out basic errors in Carey's analysis and concluded that his argument for protection was "totally invalid"; privately, Mill wrote that Carey's *Principles* was "about the worst book on political economy I ever read."[52] The hostility was apparently mutual: one contemporary remarked that Carey was "a man of plain speech, and swears like a bargeman whenever Mill's name is mentioned."[53]

Meanwhile, tariff reformers looked to David Wells, who founded the American Free Trade League after his government service, for intellectual leadership. Academic economists were also largely in favor of free trade, and some wrote popular books on the subject.[54] For the most part, however, the economists received little attention in Washington, and their views were usually dismissed by politicians. James Garfield, who was sympathetic to their views, noted, "As an abstract theory of political economy, free trade has many advocates and much can be said in its favor; nor will it be denied that the scholarship of modern times is largely on that side; that a large majority of the great thinkers of the present day are leading in the direction of what is called free trade." Despite this, "there is a strong and deep conviction in the minds of a great majority of our people in favor of protecting American industry."[55] More frequently, academic opinion was bitterly attacked and ridiculed in Congress. Republicans rejected the theory of comparative advantage as the "refinement of reasoning to cheat common sense" and accused economists of poisoning the minds of the nation's youth with "academic theories."[56] As Speaker of the House Thomas Reed (D-ME) stated, "Every boy who graduated from college graduated a free trader, and . . . everyone one of them who afterwards became a producer or distributor of our goods became also a protectionist."[57]

ECONOMIC EFFECTS OF TRADE PROTECTION

Despite the impressive expansion of the US economy in the three decades after the Civil War, the nation's foreign trade showed surprisingly little change. Exports and imports slowly recovered from the war and stabilized at around 6 percent of GDP. Cotton and other agricultural products continued to dominate exports, while imports consisted of a diversified mix of consumer goods, raw materials, and manufactured products.

The average tariff was also stable during this period. Between 1860 and 1900, the average tariff on dutiable imports was about 40–45 percent. As figure I.1 showed, it never fell below 38 percent nor rose above 52 percent. The distinction between dutiable and nondutiable imports became important after 1872, when coffee and tea were put on the duty-free list. From this point, about a third of imports entered the country duty-free.

A key question regarding trade policy during this period is how much domestic producers competing against imports benefited from the protection they received and how much of a burden this protection put on other sectors of the economy. This straightforward question is actually very difficult to answer. The rate of import duty listed in the tariff schedule is known as the "nominal" rate of protection, which is often taken to indicate the implicit subsidy given to domestic producers. For example, if there is a 30 percent tariff on imported goods that pushes the domestic price of those goods above the world price by that amount, then domestic producers of similar goods implicitly receive a 30 percent subsidy as a result of the tariff. However, this conclusion is not entirely accurate: If imported goods are imperfect substitutes for domestic goods, or the world price falls as a result of the tariff, then the implicit subsidy to domestic producers would be less than 30 percent.

More importantly, nominal rates of protection are a misleading indicator of the assistance given to domestic producers because they ignore the structure of duties across different goods. For example, if pig iron is subject to high import duties, while machinery built with iron is subject to low import duties, the machinery industry would suffer rather than benefit from the tariffs in place. The "effective" rate of protection, defined as the percentage change in value added in an activity as a result of the tariff structure, takes into account the duties on intermediate and final goods in determining the degree to which producers of final goods are protected from foreign competition.[58] One implication of low tariffs on intermediate goods and high tariffs on final goods, which was the general tendency of tariff code in the nineteenth century, is that the effective rate of protection for final goods is much higher than indicated by the nominal rate. Of course, the effective rate of protection can also be lower than the nominal rate of protection—or even negative, meaning that the final-goods industry is being taxed, not subsidized, by the tariff system. As David Wells always stressed, many protected goods were intermediate products used in the production of other final goods. High tariffs on these materials raised the production costs of final-goods producers, reducing the demand for their products and harming their competitive position vis-à-vis foreign competitors. For example, the high price of steel rails significantly raised the cost of laying railroad tracks, thereby reducing railroad investment.

Unfortunately, the nominal and effective rates of protection do not reveal anything about the incidence of the tariff. In other words, did the burden of the tariff fall primarily on consumers in the form of higher prices, or exporters in terms of reduced foreign sales? The "net" rate of protection, defined by Sjaastad (1980) as the proportionate change in the domestic price of importable and exportable goods relative to non-traded goods, helps determine the degree of assistance given to import-competing producers and the burden placed upon exporters. In this framework, the imposition of an import tariff raises the domestic price of importable goods relative to exportable goods and, initially, relative to non-traded goods as well. But the expansion of the import-competing sector creates greater demand for non-traded goods and drives up their price as well. The higher price of non-tradeable goods reduces the protection given to domestic producers competing against imports and puts an additional burden on exporters because the price of exportables declines relative to the price of non-tradeables. (An alternative adjustment to a higher tariff would be a nominal exchange-rate appreciation, which would also lower the relative price of tradeable goods, but this was not possible under the gold standard.)

Thus, a higher tariff increases the price of non-traded goods and inflates the cost structure of the economy. In the late nineteenth century United States, Irwin (2007) found that a 10 percent increase in the price of imported goods would raise the price of non-traded goods by 6 percent. In this case, a 30 percent average tariff on total imports would push up the price of non-traded goods by 18 percent. As a result, the net subsidy to import-competing manufacturers would be 10 percent (measured as the increase in the price of importable relative to non-traded goods), and the net tax on agricultural exporters would be 15 percent (measured by the decline in the price of exportables relative to non-tradeables).[59] Thus, import-competing producers captured only about a third of the benefits of the tariff, while export-oriented producers faced a tax amounting to about half the tariff rate. This means that a relatively high nominal rate of protection did not necessarily translate into a high degree of net protection to import-competing industries.

This framework can also be used to reveal the income transfers associated with the incidence of protection. Table 5.1 presents a matrix that records the implied income transfers among five domestic groups: import-competing producers, exporters, consumers, taxpayers, and the government. According to these results, the 30 percent average tariff on imports was responsible for reshuffling about 9 percent of GDP between various agents in the economy. The implicit export tax cost exporters 4.3 percent of GDP and forced consumers to pay 3.1 percent of GDP in terms of higher prices for importable goods, 2.5 percent going to import-competing producers and 0.5 percent going to the government in revenue. In terms of the beneficiaries, import-competing producers gained 2.5 percent of GDP from consumers, while consumers gained the equivalent of 3.2 percent of GDP at the expense of exporters by virtue of the lower prices of exportable goods. The government collected 1.6 percent of GDP in customs revenue, much of which was paid to Civil War veterans. Thus, the redistribution of domestic income brought about by the high-tariff policy was sizeable and justified its status as one of the most controversial issues in national politics during this period.

A key question is whether American consumers (households) gained or lost from high tariffs. Republicans claimed that protection created jobs in

TABLE 5.1. Intersectoral transfers as a result of tariff protection, c. 1885

From \ To	Import-competing industries	Consumers	Taxpayers	Government	Total
Exporters	0.0	3.2	0.0	1.1	4.3
Consumers	2.5	—	0.0	0.5	3.1
Government	0.0	0.0	1.6	—	1.6
Total	2.5	3.2	1.6	1.6	8.9

Source: Irwin 2007.

Note: As a percentage of GDP, figures may not sum to totals due to rounding.

protected industries and kept the real wages of workers higher than they would be otherwise. Democrats claimed that protection increased the cost of living and reduced real wages. Of course, protective tariffs were not the primary reason that wages in the United States exceeded those in Europe and elsewhere: America's high ratio of land per worker was the primary reason for the higher wages. (High wages were not unique to the United States but were found in other countries, such as Australia and Canada, that had a similarly large endowment of land per worker.)[60] But even though trade protection was not responsible for the country's high wages, the question is whether protection increased or decreased the real income of workers. Import duties almost certainly increased nominal wages by increasing the general price level, but whether real wages were higher or lower as a result of the tariff is an open question.

Unfortunately, economic theory does not lead to precise conclusions about the impact of protection on real wages. The famous Stolper-Samuelson (1941) theorem holds that the factor of production that is scarce (in comparison to other countries) benefits unambiguously from protection, but this result assumes that there are just two factors of production. This assumption is inappropriate, because the United States at this time is more accurately characterized as having three primary factors: land, labor, and capital. In a standard "specific factors" trade model, where land is a specific factor in the agricultural sector, capital is a specific factor in manufacturing, and labor is a mobile factor of production used in both sectors, the effect of protection on real wages is ambiguous: consumers gain from the lower price of exportables but lose from the higher price of importables. This "neoclassical ambiguity" of the specific-factors framework means that the change in real wages depends upon the weights of goods in the consumption bundle.[61] If consumer spending was concentrated on imported goods, then protection would reduce real wages; if consumer spending was concentrated on exported goods, whose relative price fell with protection, then real wages would rise.

The available evidence indicates that consumer spending was skewed toward expenditures on exportable rather than importable goods. Food, which accounted for more than half of exports in the mid-1880s, accounted for about 40 percent of an average household's consumption expenditures. Only about 15–20 percent of consumer expenditures went to clothing, the major importable good in the consumption bundle.[62] Table 5.1 suggests that consumers roughly broke even as a result of protection, paying about 3 percent of GDP to import-competing producers and the government but gaining about 3 percent of GDP at the expense of exporters. If consumers' gains and losses from protection were roughly equal, and the revenue from import duties was redistributed to specific groups, such as Union veterans, this implies that northern consumers who received a disproportionate share of the tariff revenue may have gained from the policy, while southern consumers may have lost.

High taxes on imports not only redistributed income, but distorted production and consumption decisions, resulting in an inefficiency known as the deadweight loss. Immediately after the Civil War, because of the higher duties imposed on all imports, the deadweight loss from the taxation of imports was relatively high: about 1–1.5 percent of GDP in the late 1860s and early 1870s.[63] After coffee and tea were put on the duty-free list in 1872, however, the deadweight loss fell to less than 1 percent of GDP and continued to fall until World War I. By contrast, the static deadweight loss of tariffs was only about 0.25 percent of GDP in 1859. Of course, all taxes create deadweight losses, and it is not clear that another form of taxation during this period would have been more efficient.[64]

These deadweight losses would be smaller still if the tariff improved the terms of trade, either reducing the price of imports or increasing the price of exports. Unlike the antebellum period, the postbellum period has seen little consideration given to the possibility that import tariffs improved the terms of trade during that time. In terms of export market power, the United States lost much of its ability to influence the world price of cotton after the Civil War because of the rise of other foreign suppliers. In addition, when the McKinley tariff abolished the sugar duty in 1891, taking the average tariff from about 70 percent to zero overnight, the tariff reduction was passed through completely to consumer prices with no impact on the world price, although subsequent increases in the sugar tariff reduced the world price somewhat.[65] Therefore, the evidence casts doubt on the idea that the tariff had a significant impact on the terms of trade.

How much would a tariff reduction have affected domestic manufacturers competing against imports? Unlike the antebellum period, which saw the large 1846 Walker tariff reduction, in the postbellum period import duties were not significantly changed. Therefore, we do not observe what would have happened to imports and domestic production if tariff policy had been significantly different. As a result, economists have used counterfactual simulations to speculate about the possible impact of a large reduction in tariffs. The magnitude of the impact depends critically on the elasticity of substitution between domestic and imported products. If imported and domestically produced goods are nearly perfect substitutes for one another, meaning the elasticity of substitution is very large, then a tariff reduction that reduces the domestic price of imported goods will have a big impact on the domestic industry. If imported and domestically produced goods are imperfect substitutes for one another, meaning the elasticity of substitution is small, then a tariff reduction will have a small impact on the domestic industry.

In the case of pig iron, a relatively homogeneous product, the elasticity of substitution was relatively high. One simulation by Irwin (2000a) indicates that, had the 1869 Wells proposal for cutting the tariff on imported pig iron from 60 percent to 20 percent been implemented, domestic pig iron production would have fallen by about 7 percent, and the import market share would have risen from about 7 percent to about 18 percent. What is striking about this result is that even a large tariff change and a large elasticity of substitution had a relatively muted impact on the domestic industry, suggesting that most of the pig iron industry would have survived even a fairly steep tariff reduction. Why is the impact so modest? Even though the tariff is reduced by two-thirds, from 60 percent to 20 percent, the domestic price of imports at most falls by 25 percent.[66] Although the volume of imports would rise by 200 percent, imports of pig iron were quite small in comparison to domestic production.

It is also hard to make the case that tariffs were of decisive importance for other industries. As noted in chapter 3, the cotton textile industry was firmly established well before the Civil War. Economic historians have suggested that the role of the tariff in helping the wool and woolens industry was greatly exaggerated in the political debate over trade policy.[67] Leather manufactures, such as shoes, were resilient industries that were not very dependent on protection from foreign competition and were even exporting successfully. By the late nineteenth century, imports of manufactured goods were only about 3 percent of domestic production of manufactured goods (see table 5.2). And the United States was a leader in many food-manufacturing industries, particularly with the rise of the meatpacking industry. Nearly 20 percent of US exports consisted of manufactured goods, suggesting that some industries would have continued to succeed even if protective tariffs had been reduced. The question of whether the tariff increased the rate of economic growth is considered in chapter 6.

THE GREAT TARIFF DEBATE OF 1888

A quarter-century after the Civil War, Congress had still not significantly altered the tariff schedule as set during the war. In fact, tariffs had crept

TABLE 5.2. Selected data on trade and production of manufactured goods, 1859–1899 (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
1859	191	46	–145	1,886	9%
1869	220	61	–159	4,232	5%
1879	180	133	–47	5,370	3%
1889	327	166	–161	9,372	3%
1899	262	381	119	13,014	2%

Sources: Imports and exports of manufactured goods, US Bureau of the Census 1975, series U-223–224; semimanufactures and finished manufactures (excludes manufactured foodstuffs). Value of domestic production, US Bureau of the Census, Census Reports, 1900, *Manufacturing, United States by Industries*, vol. 7, Part I, xlvii (Washington, DC: Government Printing Office, 1902). Imports as a share of domestic consumption calculated as imports divided by production minus exports plus imports.

up because of the post–Civil War deflation that lasted until the mid-1890s. The average tariff on dutiable imports, which stood at 38 percent in 1873, reached about 47 percent by the late 1880s, partly because of the slow but steady decline in prices.[68]

Furthermore, despite the reduction in many internal taxes and the rise in government spending on veterans, fiscal surpluses continued to swell to unprecedented proportions. During the 1880s, the federal government took in $1.40 for every dollar it spent. In fiscal year 1888, for example, the federal government ran a budget surplus of $111 million above that year's $268 million in expenditures, which included debt-service payments and contributions to the sinking fund. Callable debt was completely retired by 1887, forcing the government to purchase noncallable debt in the open market at premiums as high as 29 percent above par. The Treasury spent $45 million in such premiums to bondholders between 1888 and 1890.[69] Democrats were appalled that the import duties and internal taxes paid by consumers, laborers, and farmers were not only funding generous pensions for veterans and their families, but providing large, unearned windfalls to wealthy investors in New York as well.

The enormous fiscal surplus was viewed as a major economic problem in the 1880s. Some forecast that if the surpluses continued, they would extinguish the national debt, resulting in the accumulation of assets in the Treasury, thus draining liquidity from the financial system and disrupting the nation's economy. At one point, nearly a third of the nation's circulating money stock was sitting dormant in the vaults of the Treasury Department. The budget surplus energized advocates of tax cuts and tariff reductions to press their case.

Both Democrats and Republicans agreed on the goal of reducing government revenue, but they disagreed about how to accomplish it. The Democrats maintained that cutting tariff rates would reduce customs revenue while giving consumers a well-deserved tax cut on the goods they purchased. Republicans countered that lower tariffs would simply encourage more imports and thereby increase customs revenue; instead, they advocated higher tariffs to squeeze imports and reduce the revenue collected. In fact, it is not obvious which position was correct, because the revenue impact of a change in tariff rates depends on the elasticity of import demand. If import demand is elastic, then higher duties will reduce tariff revenue; if import demand is inelastic, then higher duties will increase tariff revenue. Irwin (1998b) estimated the revenue-maximizing tariff rate was, on average, more than 60 percent during this period, suggesting that the Democratic position, that tariff revenue would fall with a reduction in the tariff rate, was correct.

Having recaptured the House in the 1882 congressional elections, the Democrats were poised to take advantage of the growing public sentiment in favor of lower taxes. Though they did not have unified control of government, the Democrats were prepared to score some political points by passing a tariff reduction that the Republicans would be forced to defeat in the Senate. In March 1884, William Morrison (D-IL), chairman of the Ways and Means Committee, reported a bill that proposed a 20 percent across-the-board reduction of all duties (except those on liquors and silk) and put some raw materials on the duty-free list. The reduction was proposed "as a measure of partial relief to the people from unnecessary taxes, as a measure of justice to consumers, and conducive to the general industrial prosperity."[70] Despite having a majority of nearly eighty, House Democrats were unable to pass the bill because an internal split undermined party unity: Samuel Randall of Pennsylvania led a band of Northern Democrats who represented industrial constituencies and staunchly opposed any crack in the tariff wall. To the dismay of the party leadership, Randall managed to find forty Democrats, mainly from the northeast, to strike the enabling clause from the bill by a vote of 159–155.

In the presidential election campaign of 1884, the Democrats attacked Republicans for their failure to reform the tariff along the lines suggested by the Tariff Commission. In their platform, they "pledged to revise the tariff in a spirit of fairness to all interests" and "denounce[d] the abuses of the existing tariff" that "impoverished many to subsidize a few." However, the Democrats weakened their position considerably by conceding that "the necessary reduction in taxation can and must be effected without depriving American labor of the ability to compete successfully with foreign labor, and without imposing lower rates of duty than will be ample to cover any increased cost of production which may exist in consequence of the higher rate of wages prevailing in this country."[71] Republicans responded by vowing to correct the inequities in the tariff and reduce the budget surplus, "not by the vicious and indiscriminate process of horizontal reduction, but by such methods as will relieve the taxpayer without injuring the laborer or the great productive interests of the country." Under a Republican administration, they insisted, "the imposition of duties on foreign imports shall be made, not 'for revenue only,' but . . . to afford security to our diversified industries and protection to the rights and wages of the laborer."[72]

The 1884 election gave the country its first Democratic president, Grover Cleveland, since the Civil War. The Democrats retained control of the House, but fell short of capturing the Senate, thereby depriving them of unified government and thus dooming the chance for tariff reform. Cleveland himself did not enter office well informed about the issue. Shortly after the election, the president-elect asked one of his supporters,

> what big questions he ought to take up when he got into the White House. I told him I thought he ought to take up the tariff. I shall never forget what then happened. The man bent forward and buried his face in his hands on the table before him. After two or three minutes he straightened up and, with the same directness, said to me: "I am ashamed to say it, but the truth is I know nothing about the tariff . . . Will you tell me now how to go about it to learn?"[73]

Initially, the Cleveland administration did not propose any tariff changes, choosing instead to concentrate on administrative and civil service reform, and ending corruption in the pension system.[74] Although his Treasury secretary criticized the tariff code as "chaos rather than a system," President Cleveland, in his first annual message to Congress, sounded a cautious note:

> The proposition with which we have to deal is the reduction of the revenue received by the government, and indirectly paid by the people, from customs duties. The question of free trade is not involved, nor is

> there now any occasion for a discussion of the wisdom or expediency of a protective system. Justice and fairness dictate that in any modification of our present laws relating to revenue, the industries and interests which have been encouraged by such laws, and in which our citizens have large investments, should not be ruthlessly injured or destroyed.[75]

Stung by their legislative failure in 1884, House Democrats were reluctant to resurrect the issue because they could count on opposition from the Randall renegades. But pressure from party activists encouraged the Ways and Means Committee to try again, which it did. Once again, however, Randall enlisted the votes of enough Democrats, mainly from New Jersey, New York, and Pennsylvania, to join with Republicans in killing the bill, frustrating the party's efforts.

Outraged by this obstruction, the president and his congressional allies set out to outmaneuver the high-tariff Democrats in the House. The party leadership denounced Randall and packed the Ways and Means Committee with southern Democrats, while the president stepped up his rhetoric against the existing system. In his annual message of December 1886, Cleveland called the fiscal surplus "a perversion of the relations between the people and their Government and a dangerous departure from the rules which limit the right of Federal taxation." The tariff should be modified, the president insisted, to allow for a more equitable distribution of income. While farmers were forced to sell in competitive markets and pay stiff taxes on their purchases, manufacturers piled up fortunes because their market was protected from foreign competition.[76] Like the two previous attempts, this one also failed: Although Democratic opposition to a tariff reduction was weaker, Republicans could still count on enough of them to help block any new legislation.

In September 1887, just before the start of a new session of Congress, Cleveland met with Speaker John Carlisle (D-PA) and the new Ways and Means Committee chair Roger Q. Mills (D-TX). They agreed to try to destroy the party's tariff dissidents. As Cleveland (1933, 158) wrote, "From my standpoint, there is but one policy to be pursued: we have got to take Mr. Randall by a flank movement, and if possible draw his supports from him one by one."

In December 1887, Cleveland took the unusual step of devoting his entire annual message to Congress to the issue of tariff reform. The president delivered a brisk statement that blasted the tariff as an "indefensible extortion and a culpable betrayal of American fairness and justice."[77]

Warning of the danger to the financial system from the enormous fiscal surplus, the president insisted that

> our present tariff laws, the vicious, inequitable, and illogical source of unnecessary taxation, ought to be at once revised and amended. These laws, as their primary and plain effect, raise the price to consumers of all articles imported and subject to duty by precisely the sum paid for such duties. Thus the amount of the duty measures the tax paid by those who purchase for use these imported articles. Many of these things, however, are raised or manufactured in our own country, and the duties now levied upon foreign goods and products are called protection to these home manufactures, because they render it possible for those of our people who are manufacturers to make these taxed articles and sell them for a price equal to that demanded for the imported goods that have paid customs duty. So it happens that while comparatively a few use the imported articles, millions of our people, who never used and never saw any of the foreign products, purchase and use things of the same kind made in this country, and pay therefor nearly or quite the same enhanced price which the duty adds to the imported articles. Those who buy imports pay the duty charged thereon into the public Treasury, but the great majority of our citizens, who buy domestic articles of the same class, pay a sum at least approximately equal to this duty to the home manufacturer. This reference to the operation of our tariff laws is not made by way of instruction, but in order that we may be constantly reminded of the manner in which they impose a burden upon those who consume domestic products as well as those who consume imported articles, and thus create a tax upon all our people.[78]

Although tariff reductions should be undertaken without "imperiling the existence of our manufacturing interests," Cleveland continued, this "should not mean a condition which, without regard to the public welfare or a national exigency, must always insure the realization of immense profits instead of moderately profitable returns." Indeed, he ridiculed the notion that American manufacturers were still infants that required extensive support through high tariffs: "It suits the purposes of advocacy to call our manufacturers infant industries still needing the highest and greatest degree of favor and fostering care that can be wrung from Federal legislation," but that did not reflect the reality that American producers had a strong and entrenched position in the domestic market.[79] As he pointed out, only 2.6 million workers were employed in industries protected by the tariff, with 14.8 million employed elsewhere, so a vast majority of workers was being taxed for the benefit of a small minority.[80]

Recognizing that Congress would face political difficulties in attempting yet another tariff revision, Cleveland asked the legislature to take a "broad and national contemplation of the subject and a patriotic disregard of such local and selfish claims as are unreasonable and reckless of the welfare of the entire country." Cleveland denied that his proposals had anything to do with the theoretical principles of free trade and protection, but were based simply on the situation confronting the country: "It is a *condition* which confronts us, not a theory. . . . The question of free trade is absolutely irrelevant, and the persistent claim made in certain quarters that all the efforts to relieve the people from unjust and unnecessary taxation are schemes of so-called free traders is mischievous and far removed from any consideration of the public good."[81]

Cleveland's powerful message ensured that tariff policy would be at the top of the nation's political agenda in 1888, a presidential election year. Following the president's message, the Democratic majority on the Ways and Means Committee once again began to formulate new tariff legislation. To expedite matters, no hearings were held; instead, Mills simply crafted a bill to reduce the average tariff on dutiable imports from 54 percent to 33 percent by once again moving raw materials to the duty-free list and reducing the protective tariffs on final goods.

Led by William McKinley of Ohio, the Republican minority vigorously attacked what they described as "a radical reversal" of government policy and "a direct attempt to fasten upon this country the British policy of free foreign trade." They contended that any reduction in protective duties would also slash wages and destroy domestic industries. They particularly attacked the idea of putting raw wool on the free list because that would expose "our flocks and fleeces to merciless competition from abroad" and would "break down one of the most valuable industries of the country." They even objected on fiscal grounds, arguing that a tariff reduction would encourage more imports and hence swell the government coffers with even more revenue.[82]

In the spring of 1888, with an eye to the fall presidential election, the House engaged in a heated debate over the Mills bill. "As long as our government shall endure, it shall be known as 'the Great Tariff Debate of 1888,'" William Springer (D-IL) declared.[83] Mills gave the opening speech for the Democrats and argued that the protective tariffs should be reformed because they taxed the consumption of the great masses of people instead of the income of the wealthy few, created trusts and monopolies that exploited consumers, and generated excessive revenues at a time when the budget surplus needed to be reduced. Acknowledging that the fiscal surplus was excessive, William "Pig Iron" Kelley responded that all internal taxes on alcohol should be lowered but protective tariffs be preserved because otherwise American industry would shrivel up, creating massive unemployment, if left undefended against "overwhelming foreign assaults." He denied that high tariffs led to higher prices for consumers, because, rather than creating trusts and monopolies, they spurred domestic competition that actually reduced prices. Finally, using a now-dated emotional appeal, Kelley waved the "bloody shirt" and tied the Democrats to free trade, slavery, and the Civil War.

The standard Democratic and Republican arguments were repeated by other members in one hundred fifty speeches—described as "dry and flavorless" by Stanwood (1903, 1:234)—that took more than a hundred hours. The stakes were high: "It is the entire system which is on trial," McKinley warned. Seeing "each industry . . . as a pillar in its structure," one member of Congress warned that if the country "let some free trade Samson pull down one of these pillars, . . . the whole temple of American industry must fall."[84] In July 1888, the House passed the Mills bill by a partisan vote of 162–149. The Democratic leadership finally succeeded in overcoming the Randall renegades, and only four Democrats voted against the bill.

Of course, the House's action was largely symbolic because the Mills bill was dead on arrival in the Republican-controlled Senate. The Republican leadership met to decide whether to ignore what the House had done or to fashion their own legislation. The party caucus, led by William Allison of Iowa and Nelson Aldrich of Rhode Island, decided to go on the offensive and prepare a bill that would raise tariff rates instead. The Allison bill would preserve high protective duties while cutting internal taxes on whiskey and tobacco. Although reported from the Finance Committee in October, the bill never came to a vote. Congress adjourned in the final weeks of the fall election campaign without taking action on the bill.

The Congressional tariff battle set the stage for the presidential election campaign of 1888. In their election platform, the Democrats declared, "Upon this great issue of tariff reform, so closely concerning every phase of our national life, and upon every question involved in the problem of good government, the Democratic party submits its principles and professions to the intelligent suffrages of the American people." The party emphasized the need for frugality in public expenditure, maintaining that "all unnecessary taxation is unjust taxation" and stressing the inequity of protection: "The interests of the people are betrayed, when, by unnecessary taxation, trusts and combinations are permitted and fostered, which, while unduly enriching the few that combine, rob the body of our citizens by depriving them of the benefits of natural competition." They called for the support of farmers (since "the price of nearly everything they buy is increased by the favoritism of an unequal system of tax legislation") and sought to reassure established industries that they "should not, and need not, be endangered by a reduction and correction of the burdens of taxation."[85]

Meanwhile, the Republicans stood their ground. In the 1884 campaign, they had reluctantly conceded that tariff reform was necessary; now, with the unified Democrats posing a strong and credible threat to the policy, the Republicans felt compelled not just to defend the existing system but to promise its extension. In their platform they announced, "We are uncompromisingly in favor of the American system of protection; we protest against its destruction as proposed by the President and his party. They serve the interests of Europe; we will support the interests of America. . . . We denounce the Mills bill as destructive to the general business, the labor, and the farming interests of the country." The protective system "must be maintained" because "its abandonment has always been followed by general disaster to all interests." To deal with the fiscal surpluses, Republicans promised to abolish all domestic taxes on tobacco and spirits: "We favor the entire repeal of internal taxes rather than the surrender of any part of our protective system at the joint behests of the whiskey trusts and the agents of foreign manufacturers."[86]

The election of 1888 was a national referendum on the country's tariff policy.[87] Although the issue was as much one of excessive taxation as excessive trade protection, the outcome would determine the fate of tariff reform and the protective system. Republicans tried to paint the president and his party as "free traders," something Cleveland (1933, 189) dismissed as a "pure unadulterated fabrication." Still, despite their recent political gains, the Democrats lacked the aggressiveness and resourcefulness of the well-organized Republicans. The election is also considered to be one of the most corrupt in American history, with reports of vote-buying and other irregularities, particularly in the pivotal swing states of New York and Indiana.[88]

When the final votes had been tallied, Cleveland outpolled his Republican opponent, Benjamin Harrison, by the slim margin of 90,000 votes, earning 48.6 percent of the vote to Harrison's 47.8 percent. But the result was a bitter blow to the Democrats: Harrison captured enough votes in the populous northern states to win the Electoral College decisively by 233 to 168. Not surprisingly, the electoral map showed a sharp North-South division: the South voted overwhelmingly for the Democrats, while the Republicans captured every state in the North and Midwest. Even worse for the Democrats, the Republicans regained control of the House by a slim margin and retained control of the Senate.[89]

Although the electorate had been closely divided, the campaign for tariff reform suffered an enormous setback. The country seemed to have endorsed Republican protectionism, or at least failed to embrace Democratic tariff reform. This allowed Republicans to weave the system of protection even further into the nation's political and economic fabric. Of course, the election was so close that the issue would not disappear from the political scene. In December 1888, Cleveland delivered a parting shot in his annual message to Congress, arguing that "to the extent that the mass of our citizens are inordinately burdened beyond any useful public purpose and for the benefit of a favored few, the Government, under pretext of an exercise of its taxing power, enters gratuitously into partnership with these favorites, to their advantage and to the injury of a vast majority of our people." Cleveland viewed the situation as "injurious to the health of our entire body politic" because it was based on "selfish greed and grasping avarice."[90]

THE MCKINLEY TARIFF OF 1890

The Republican electoral triumph in 1888 restored unified government for the first time in six years. The Republicans consolidated their hold on power by admitting six western states—Washington, Idaho, Montana, Wyoming, North Dakota, and South Dakota—to the union in 1889 and 1890. Just as they had done during the Civil War, the Republicans admitted territories that favored their party and denied statehood to more heavily populated but Democratic-leaning territories, in this case Arizona and New Mexico.[91] The addition of twelve new Republicans to the Senate further diluted Democratic strength in the chamber, but did not significantly affect the balance of power in the House.

However, admitting these states also created some problems for the Republicans. The new states shifted the geographic distribution of political power to the West and heightened existing tensions within the party between western producers of raw materials and eastern producers of final goods. In addition, tariff politics became entwined with, and even overshadowed by, monetary politics that contributed to the sectional tensions. The United States experienced many years of deflation after joining the gold standard in 1873, and Midwestern farmers and Western mining interests pressed for the coinage of silver. Agrarian populists believed that the federal purchase and minting of silver would increase farm prices and stop the deflation that raised the cost of servicing farm mortgages and other debts. Thus, farmers wanted rising prices to reduce their debts, while mining states simply wanted higher prices for their minerals. The coinage of silver would accomplish both objectives. This brought agrarian and mining regions together, but put them at odds with eastern Republicans, who opposed a bimetallic monetary standard and favored a strict adherence to the gold standard.

After his election victory, President Benjamin Harrison called on the new Republican Congress to revise the tariff code to ensure the "just and reasonable protection of our home industries." In his December 1889 message to Congress, he stated, "The preparation of a new schedule of customs duties is a matter of great delicacy because of its direct effect upon the business of the country, and of great difficulty by reason of the wide divergence of opinion as to the objects that may properly be promoted by such legislation. . . . The inequalities of the law should be adjusted, but the protective principle should be maintained and fairly applied to the products of our farms as well as of our shops."[92]

This message opened the contentious Fifty-first Congress, led by House Speaker Thomas Reed (R-ME). This Congress dealt with a wide range of controversial issues, from tariffs and the trusts to veteran pensions and silver purchases. To advance their policy agenda in the Senate, however, the Republicans needed the cooperation of the West. This meant that silver had to be a part of the legislative package. As Senator William Stewart of Nevada flatly stated, "There will be no tariff legislation this session unless a silver bill is passed."[93] Addressing the National Silver Convention in 1889, another Nevada Republican described the region's perspective:

> Protection is not a great moral principle in whose behalf men can be expected to sacrifice their personal interests. It is a coalition in which results should be mutual, and thus far the wheat and silver States have not received their share. In all Nevada there is neither a spindle nor a loom, and the prairies of the Dakotas stretch for hundreds of miles unlit by furnace fire. How can Massachusetts expect that the people of the Northwest will continue to vote for a high protective tariff to sustain New England factories when both political parties in Massa-

> chusetts openly avow hostility to the great exporting industries of the Northwest? . . . Free coinage would, as you know, not only restore silver to its former value, but it would . . . add 35 percent to the present prices of wheat, of cotton, and of farm produce, and it would increase the wages of the laborer and add to his opportunities for obtaining employment.[94]

If eastern interests wanted to enact a higher tariff, they would have to compromise with western silver interests. John Sherman of Ohio was the key Republican legislator who orchestrated the passage of the silver and antitrust legislation in 1890 to help secure the passage of a new tariff act. In essence, eastern Republicans voted for the silver purchase act in exchange for western Republican votes on the tariff. The Sherman Silver Purchase Act of 1890 required the government to buy 4.5 million ounces of silver a month using paper money and to keep the price of silver at parity with gold.

At the same time, the Republicans moved quickly in preparing new tariff legislation. Having criticized the secret drafting of the Mills bill by Democrats, the Republican Ways and Means Committee decided to hold open hearings on the tariff revision. Dozens of industry representatives appeared before the committee, generating fourteen hundred pages of testimony. Of course, the hearings were mainly a public relations exercise. Interested parties could speak on the issue, and those testifying almost invariably favored higher rates, but, as before, the real drafting of the bill was done in secret session by the Republican majority.

In April 1890, Ways and Means Chairman William McKinley reported a bill that proposed a significant increase in import duties on protected items. "We do not conceal the purpose of this bill—we want our own countrymen and all mankind to know it," McKinley proclaimed. "It is to increase production here, diversify our productive enterprises, enlarge the field, and increase the demand for American workmen. What American can oppose these worthy and patriotic objects?"[95] Julius Burrows (R-MI) proudly noted that the bill was "to be a measure of protection from its enacting clause to its closing paragraph."[96] The bill proposed to raise the average tariff on dutiable imports from about 41 percent to 52 percent, increasing most rates on raw materials, such as wool, and final goods, such as metals, with the exception of sugar (for reasons discussed below). The goal was both to reduce customs revenue and "to enlarge our own manufacturing plants and check those supplies from abroad which can be profitably produced at home. . . . We have not been so much concerned about the prices of the articles we consume as we have been to encourage a system of home production which shall give fair remuneration to domestic producers and fair wages to American workmen."[97]

The McKinley tariff had four novel features: a full tariff schedule for agricultural goods; the placement of sugar on the duty-free list, with a subsidy to domestic sugar producers as compensation; a new tariff on imported tinplate to create a new domestic industry; and a provision for reciprocity agreements (to be discussed in chapter 6).

First, even though imports of commodities such as wheat, corn, and barley were negligible, Republicans began imposing duties on agricultural goods in an attempt to bring Midwestern farm states into the protectionist coalition. Given that the United States was a major net exporter of these products, imposing import duties on them was largely a symbolic gesture to give the appearance of tariff equality between agriculture and industry, and supposedly balance eastern and western interests. The duties would have a marginal effect in reducing imports from Canada of barley, eggs, meat, potatoes, and butter to benefit some farmers, mainly in Minnesota and North Dakota near the border, but most producers of these crops would be unaffected by them.

Second, the McKinley tariff put sugar on the free list to slash the fiscal surplus. Sugar duties alone accounted for nearly a quarter of all customs revenue. The move harmed sugarcane growers in Louisiana, a Democratic state, but helped sugar refiners in the Northeast. To cut the fiscal surplus even further, as well as offset the harm to western sugar beet farmers, domestic growers were granted a bounty of two cents per pound, equivalent to the previous import duty. The sugar duty yielded $55 million in government revenue, and the sugar subsidy cost about $7 million in additional spending, so the change in sugar policy resulted in a budgetary swing of more than $60 million. McKinley proclaimed, "We have thus given the people free and cheap sugar, and at the same time we have given to our producers, with their invested capital, absolute and complete protection against the cheaper sugar produced by cheaper labor of other countries."[98]

Third, the McKinley bill imposed a higher duty on imported tinplate, a thin sheet of iron or steel coated with tin and used to make cans to preserve food, drums to store and ship petroleum, sheets for roofing, and various household utensils. At the time, there was no domestic production of tinplate, and the United States was entirely dependent upon imports from Britain. McKinley represented the district in eastern Ohio where potential tinplate producers were located and ensured that the provision, specifically designed to create a domestic tinplate industry by making foreign tinplate prohibitively expensive, was included in the bill. However, tinplate consumers—the Standard Oil Company, the food-canning industry, and the roofing industry, all of which used tinplate extensively—were well organized and opposed the increased duty. This made it difficult even for Republicans to muster political support for the higher tariff, and the House approved the increase by only a single vote. Democrats took a dim view of the action, saying that it "involved a new and distinct perversion of the Federal taxing power by making present, tangible, and profitable industries the sport and prey of prospective, conjectural, and speculative adventures."[99] (The next section of this chapter discusses whether tinplate was an infant industry and whether the policy worked.)

In May 1890, McKinley opened the House debate with a ringing endorsement of protection. The Republican majority and Speaker Reed's rules limited the floor debate over the bill, with no possibilities for amendments, ensuring that the outcome was no surprise. The House quickly passed the bill in a partisan vote of 164–142; Republicans voted 163–2 in favor of the bill, while Democrats voted 140–1 against it.[100] Figure 5.1 shows the House vote. As in the antebellum period, the North-South division stands out, although now the upper Midwest was also strongly in the Republican camp.

The bill was then sent to the Senate, where the chair of the Finance Committee, Nelson Aldrich (R-RI), took responsibility for ushering it

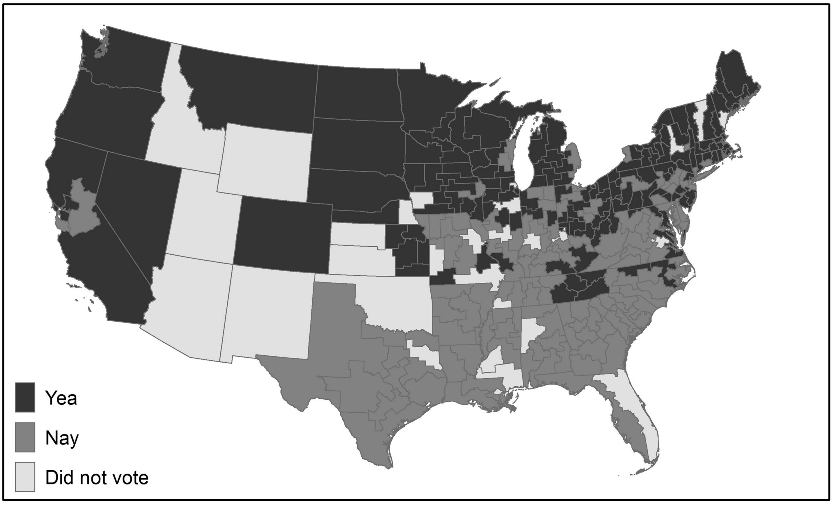

Figure 5.1. House vote on the McKinley tariff, May 21, 1890. (Map courtesy of Citrin GIS/Applied Spatial Analysis Lab, Dartmouth College.)

through the chamber. The bill was reported from the committee in mid-June, but was held up by demands from western Republicans and Democrats for the coinage of silver. This is when John Sherman stepped in with a compromise to satisfy the western silver interests—the Sherman Silver Purchase Act—which allowed the tariff bill to move forward.

In July and August, in dozens of roll-call votes on individual commodities, the Senate made 496 amendments to the House bill. The higher tinplate duty was one of the more controversial provisions, and tinplate-using industries—such as the Standard Oil Company, which purchased oil drums, and food processors who purchased cans made from tinplate—opposed the new tariff on the grounds that it would raise their costs. To allay the fear that the duty would burden tinplate-consuming industries without fostering any domestic production, William Spooner (R-WI) introduced an unusual provision in which the tinplate duty would expire in six years unless domestic production reached one-third of imports. This is the only instance in which Congress made tariff protection contingent on the performance of the domestic industry.

After prolonged debate, the Senate passed the bill in September 1890 in a straight party-line vote of 40–29. A House-Senate conference committee worked for ten days going through the four thousand items in the tariff code and accepted 272 of the 496 Senate amendments. "I have been hard at work for a week or more on this tariff conference committee," Sherman sighed. "I trust I will not live long enough to have any connection with another." McKinley was not entirely pleased with the final result, particularly after the Senate cut some duties in the metals schedule: "Many of the changes I do not like, but you see there is no time to specify. I scarcely know what will be the end of it."[101] After both chambers approved the conference version, President Benjamin Harrison signed the bill on October 1, 1890.

The McKinley tariff was the first major overhaul of the entire tariff schedule since the Civil War. Of course, the revision was not designed to reduce duties; in fact, it raised the average tariff on dutiable imports by about 4 percentage points. It sharply reduced the federal budget surplus by making sugar duty-free, which was part of the Republican strategy to insulate protective tariffs from any major reduction. The Republicans also passed the Disability and Dependent Pension Act to extend pension benefits to noncombatants and their children as another way of reducing the budget surplus. Enacted twenty-five years after the end of the Civil War, this legislation doubled government spending on military pensions between 1889 and 1893. Consequently, the Fifty-first Congress became known as the "Billion Dollar Congress" for its lavish spending on veterans' benefits, silver purchases, and sugar bounties. If the fiscal surpluses of the 1880s were viewed as a problem, the Republicans solved it. The fiscal surplus soon disappeared completely when a severe economic downturn struck in 1893 and pushed the federal budget into a large deficit.

Republicans had chosen to increase tariffs at a time when public sentiment, as revealed in the presidential election of 1888, was closely split over whether to reduce them or not. If the electorate had been uneasy about Cleveland's proposal to cut tariffs in 1888, it had not necessarily endorsed a significant increase. Some Republicans worried about the public's reaction to their work. James Blaine (R-ME) warned that the tariff hike was "injudicious from beginning to end. . . . Such movements as this for protection will protect the Republican party only into speedy retirement."[102] Even McKinley seemed to distance himself from the tariff that bore his name. When asked why he approved of such high rates in the House proposal, McKinley replied, "for the best reason in the world, to get my bill passed. My idea was to get the act through Congress, and to make necessary reductions later. I realized that some things were too high, but I couldn't get my bill through without it. . . . No tariff bill was ever framed that was not largely made up by compromises."[103]

The bill also had international ramifications in rattling the British Empire. The tariffs shut out Canadian agricultural products and, by blocking imports of British woolen goods, also reduced demand for Australian wool. The United States was by now the world's largest economy, and its actions had repercussions around the globe. The McKinley bill contributed to a rise in protectionist sentiment in Britain and its dominions, leading to calls to establish a trade bloc with tariff preferences within the British Empire. While some Americans thought high tariffs against its goods would "starve Canada into annexation" and force Canada to join the United States, Canada was instead pushed into closer ties with Britain.[104] Members of Congress did not fully appreciate that the United States had become a global economic power and that its trade policies were increasingly felt in other countries.

DID TARIFFS PROMOTE INFANT INDUSTRIES?

One reason that Republicans gave for supporting protective tariffs is that they would help nurture "infant industries" by protecting them against their more established (usually British) rivals. The idea behind infant industry protection is that new firms suffer from an initial cost disadvantage that prevents them from starting production in an industry already dominated by foreign producers. If new firms were given the chance to gain production experience, it was thought, they could reduce their costs and compete effectively against their more established foreign rivals. Without temporary protection from foreign competition giving them time to mature, some domestic industries, it was feared, would never arise.[105] For the protection of an infant industry to improve welfare, however, the industry must at some point be able to survive without government assistance and generate some long-term economic benefits that exceed the costs to consumers from the higher prices that they paid when imports were restricted. If it fails to reduce its costs and is unable to survive on its own, the infant industry will remain an inefficient, high-cost industry that burdens the economy.[106] Unfortunately, infant industry policies are very difficult to assess: *ex ante*, it is almost impossible to know whether an industry is an "infant" that has the chance of growing up to be successful, and *ex post*, it is difficult to determine if import protection (as opposed to other factors) was required to allow it to develop.

The debate over infant industries centered on three issues: whether tariff protection would (1) create new wealth and capital or merely divert it from other more profitable activities; (2) stimulate domestic producers to acquire new technology and reduce costs, or inhibit competition and stifle the incentive for such improvements; and (3) generate long-term net benefits for the economy or simply give rise to inefficient industries that would require ongoing government support and forever burden consumers with high prices. Of course, the two political parties took opposing positions on the desirability of protecting infant industries. To Republicans, any protected industry that started or increased domestic production was beneficial, even if it never became competitive on world markets and even if the policy harmed consumers and downstream user industries. Their goal was simply to keep the domestic market for domestic firms and eliminate imports. Meanwhile, Democrats rejected this view as unfair government interference in the economy that helped some industries at the expense of others, harmed agriculture and export-oriented producers, reduced competition, and forced consumers to pay high prices.

The United States never really had an infant industry policy in the sense of deliberately identifying and targeting assistance to specific industries. Instead, the post–Civil War tariff code provided across-the-board protection to every industry facing foreign competition, whether it produced raw materials, capital goods, or final goods. And surprisingly few candidates have been put forward as good examples of infant industry protection. Cotton and woolen manufactures were, by this time, mature industries that had been protected for decades. The silk industry was sometimes mentioned as having successfully matured under protection, but it remained vulnerable to foreign competition and required substantial, ongoing protection.

The iron and steel industry is more frequently cited as illustrating the benefits of protective tariffs. Although the industry was well established before the Civil War, it received significant protection after the war and grew to an enormous size, eventually proving to be competitive on world markets (see the discussion in chapter 6).[107] The question has always been whether the industry grew rapidly after the Civil War because of protection from foreign competition, or whether America's abundance of natural resources—particularly iron ore and coal in western Pennsylvania—would have allowed it to develop even without the need for tariffs. In their study, Berglund and Wright (1929, 134) concluded that "whatever had been our policy with respect to the tariff, the United States would have developed a great iron and steel industry," although they conceded that "without the tariff, the initial steps might have been delayed, and the growth might have been slower."[108]

Figure 5.2 gives a sense of proportion for the threat posed by foreign

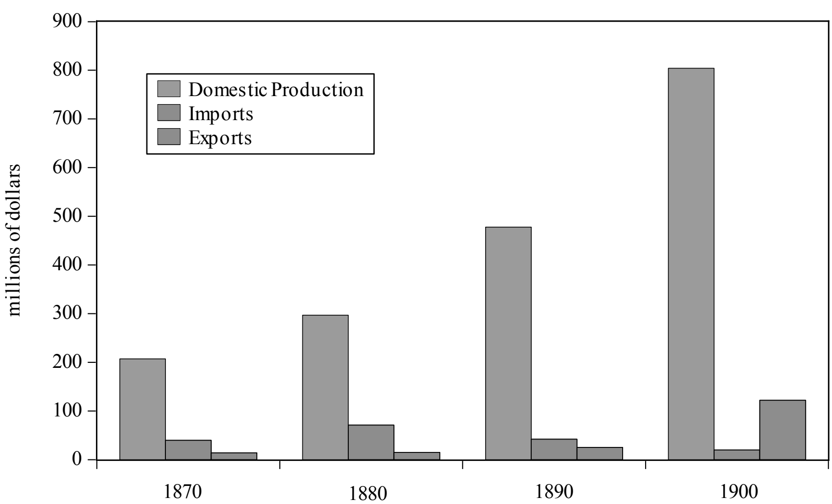

Figure 5.2. Iron and steel manufactures, value of domestic production, imports, and exports, 1870–1900. (*Statistical Abstract of the United States* 1913, 665.)

competition by showing the value of domestic production of iron and steel manufactures, along with imports and exports. Even in the 1870s, imports comprised a relatively small percentage of domestic consumption. By 1890, the United States produced more pig iron than Britain. Even if the United States had completely abolished its tariff, Britain simply did not have the production capacity to supply the entire American market, except at significantly higher prices. Over the whole period, Berglund and Wright (1929, 116–17) "find it hard to believe that foreign competition is a matter of any great concern to the domestic industry as a whole" because imports were so small in relation to domestic production and "neither the general trend nor the annual fluctuations [in domestic production] appear to be perceptibly influenced by downward changes in the tariff."

A more plausible case of a successful infant industry policy may be steel rails, which were the backbone of the country's rapidly expanding railroad network. The United States imposed a 45 percent tariff on imported rails until 1870, when a specific duty of $28 per ton was imposed. The sharp decline in steel rail prices meant that the ad valorem equivalent reached more than 100 percent, an enormous burden on railroad construction but a tremendous stimulus to steel rail production. Imports were completely squeezed out of the market, and the United States began exporting rails after the turn of the century. Despite this train of events, Taussig (1915, 154) believed that factors such as technological improvements and new iron ore discoveries "were much more important than the protective tariffs" in accounting for the growth of the industry. By contrast, Head (1994) suggested that protection could have enabled domestic producers to gain production experience, resulting in declining production costs that eventually allowed the industry to become competitive on world markets. In a counterfactual simulation, Head found that country-specific learning by doing was so important to the steel rail industry that, under free trade, domestic production would not have begun until 1913. By blocking imports, the tariff allowed domestic firms to acquire the production experience that was critical to reducing their production costs. Although steel rail consumers were hurt in both the short and long run, Head finds that overall welfare (which includes the industry's profits) was slightly positive over the long run as a result of protection.

However, this simulation model assumes that the benefits of production experience spill over between domestic firms but not between countries—that is, that learning-by-doing is country-specific. The assumption of no international spillovers of learning-based knowledge implies that subsequent entrants cannot adapt or build upon the production experience of the British leaders. This ensures that the first producers in an industry have an entrenched and virtually insurmountable advantage over subsequent rivals. If there are international spillovers of production knowledge, due to labor mobility or other reasons, the case for infant industry policies is weakened considerably. In that case, experienced producers no longer have an entrenched advantage over potential entrants who can take advantage of existing knowledge generated by other producers. In fact, US producers were able to borrow from and adopt British technological advances, including those arising from learning by doing.[109]

Another supposedly successful case of infant industry protection was the tinplate industry. Unlike many manufacturing industries, tinplate failed to receive significant tariff protection because of a mistaken interpretation of the tariff code in 1864 by the secretary of the Treasury, who erroneously moved a comma in the tariff act by just two words. Instead of receiving a tariff of more than 50 percent, as implied by the 1864 act, imported tinplate was construed as falling under a different section of the tariff code and received a duty of only 15 percent.[110] The Treasury's decision meant there was almost no domestic production in the 1870s and 1880s, and the United States was entirely dependent on imports from Britain.

Congress remedied the error in 1890, as we have seen, but made protection contingent on the successful growth of the industry. The experiment appeared to succeed: the McKinley tariff sharply increased duties; many firms entered the industry, and domestic production soared after 1891, matching the quantity of imports by 1896 and capturing nearly 90 percent of the domestic market by 1899. To evaluate whether the tinplate industry was truly an infant industry, however, requires answering the question: Was protection necessary for the establishment of the industry, or would it have happened at some point anyway?

The two obstacles preventing the establishment of domestic tinplate production were the high cost of raw materials and the lack of production experience. The iron and steel sheets that were to be coated with tin accounted for nearly three-quarters of the cost of producing tinplate. On this score, British producers had a significant cost advantage, because the price of iron and steel inputs were roughly 50 percent higher in the United States. As a result, domestic iron- and steel-using industries paid a significant premium for their inputs, compared with their foreign counterparts, leading to negative effective protection.[111] This premium declined rapidly in the early 1890s, for reasons to be discussed in chapter 6, and the prices of iron and steel raw materials were roughly equivalent in the two countries by the turn of the century. This is the basis for the belief that domestic tinplate producers would eventually have entered the industry even without the aid of the tariff.

Another obstacle to the establishment of domestic tinplate production was the lack of previous production experience. But because there were international spillovers of knowledge, the obstacles to entrants who lacked production experience were less severe because they could learn from the experience of other established producers. The tinplate industry appears to have been characterized by both domestic and international technological and learning-based knowledge spillovers. The international spillovers arose from the migration of skilled tinplate workers from Wales to the United States, partly as a result of the tariff.[112] Indeed, the early US plants were partly owned or managed by Welsh immigrants who carried with them the technical knowledge of tinplate production. They essentially transplanted Welsh production methods into the United States.

Taussig (1915, 178) was skeptical that the tinplate industry was really an infant industry, arguing that its growth after 1890 "was due chiefly to the cheapening of the fundamental raw material," namely rolled iron and steel sheets. Irwin (2000) confirmed Taussig's view: the benefits of cheaper iron to the industry were much greater than the effect of greater production experience in lowering production costs. This analysis suggested the tinplate industry would have developed in the United States around 1901, instead of 1891, in the absence of the McKinley tariff, as the domestic price of basic iron and steel converged to the British price. In other words, the high domestic price of iron and steel raw materials was the primary reason why the domestic tinplate industry failed to develop sooner: the tariff accelerated the development of the industry but did not ultimately account for its success. The McKinley tariff also failed to improve economic welfare: the initial large losses of consumers were not offset by the stream of profits received by domestic producers, because tinplate production was a low-margin business in which entry was relatively easy.

Judging the impact of tariffs in promoting infant industries has always been controversial. Taussig (1915, 153) concluded that "there is a *prima facie* case for the protectionist, again an apparent confirmation of the validity of the young [infant] industries argument, from the nature and extent of the industrial development during the last two decades of the nineteenth century." And yet, he continued, "the same doubt may be expressed: would not all this growth have taken place in any case?" In fact, there are many reasons to entertain doubts: after the Civil War, most manufacturing industries were no longer "infants."

In sum, protective tariffs were maintained after the Civil War because of the strong political coalition that stood behind them. However, that did not leave the policy immune from criticism. In fact, objections to the tariff would only increase in the early twentieth century.