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CHAPTER SIX

# Protectionism Entrenched, 1890–1912

The enactment of the McKinley tariff after the Great Tariff Debate of 1888 once again postponed any significant change in the post–Civil War import duties. The system of protection through high tariffs seemed politically secure and firmly entrenched. Those duties were sometimes defended on the grounds that they helped the United States to become an industrial nation, a claim that is examined in this chapter. However, the turn of the century brought a significant new development that had the potential to alter the course of US trade policy: for the first time in its history, the United States became a net exporter of manufactured goods. This dramatic shift in the pattern of trade gave many large industries an interest in promoting exports through reciprocity agreements rather than being sheltered behind high protective tariffs. Yet this ultimately failed to bring about any changes in policy: import duties remained high, Democrats squandered their one opportunity to enact lower tariffs, Congress rejected reciprocity agreements, and the partisan battle between Republicans and Democrats over trade policy continued unabated.

## PROTECTIONISM AND AMERICA'S INDUSTRIAL EXPANSION

The decades after the Civil War were a period of uniformly high protective tariffs and unprecedented economic expansion and growth in manufacturing production. One of the most controversial questions in the history of US trade policy is the relationship between the two: Were high tariffs responsible for the strong economic growth of the late nineteenth century and the emergence of the United States as an industrial power?

The basic facts of the country's expansion after the Civil War are astounding. Between 1860 and 1900, the US population doubled, railroad track mileage grew from about 31,000 miles to 258,000 miles, pig iron output increased by a factor of sixteen, and coal production grew by a factor of twenty-three. In 1870, the United States accounted for 23 percent of the world's production of manufactured goods; by 1913, that share had risen to 36 percent, largely at the expense of Britain, whose share fell from 32 percent to 14 percent.[1] By the turn of the century, the United States was the world's leading manufacturing producer.

The United States also became the world's largest economy, with one of the highest per capita incomes in the world. In 1870, the US economy was about the same size as Britain's; by the turn of the century, its GDP was twice as large. The relative standing of the two countries in terms of per capita income in 1870 is disputed—some calculations suggest that US per capita income was about 20 percent below Britain's around 1870, while others suggest that it was 20 percent above it. But there is a consensus that by 1910 US per capita income exceeded that in Britain by a substantial margin: one calculation has per capita income 26 percent higher and per worker GDP 38 percent higher in that year.[2]

Were high tariffs responsible, at least in part, for the extensive growth experienced during this period? Contemporary proponents of protection certainly thought so. In 1890, William McKinley of Ohio triumphantly stated, "We lead all nations in agriculture, we lead all nations in mining, and we lead all nations in manufacturing. These are the trophies which we bring after twenty-nine years of a protective tariff. Can any other system furnish such evidences of prosperity?"[3] If protective tariffs accelerated economic growth or promoted the country's economic development, it would be difficult to argue that protection was a costly policy or that free trade would have been a better policy.[4]

And yet most economic historians have been skeptical about whether America's rapid growth in the late nineteenth century can be attributed to protective tariffs. They note that there were many other factors driving the huge economic expansion, not least of which was that the North American continent was packed with an abundance of land and other natural resources, with few barriers to their exploitation. Congress did not carefully design the tariff schedule with industrial expansion in mind. Instead, import duties were set without much regard to the economic importance of the protected industry, because they were imposed for political reasons rather than to achieve some specific economic purpose.[5] Douglass North (1960b, 199) concludes that "on balance, it is doubtful if the tariff promoted American industrialization much more rapidly than would have occurred in its absence, and it is even more doubtful that it resulted in any net addition to national income over this period." In part, this is because "the tariff indiscriminately blanketed protection on many raw materials and manufactures, aiding and abetting those which represented a poor use of resources as well as some in which we were efficient." Nevertheless, there are several channels through which trade policy might have promoted growth during this period, and each deserves some consideration.

Of course, to say that the US economy grew rapidly in the late nineteenth century is to make a comparative statement. A common point of reference is Britain, the leading industrial nation that pursued a policy of free trade during this period. Table 6.1 compares the economic performance of the two economies from 1870–1913, based on data compiled by Angus Maddison. Over this period, real GDP grew nearly 4 percent per year in the United States, compared to about 2 percent in Britain. In terms of the underlying sources of growth, America's economic expansion was partly due to a rapid increase in population. Between 1870 and 1913, the US population more than doubled, growing from 40 million to 97 million, while Britain's population only rose from 31 million to 45 million.

Yet per capita GDP also grew more rapidly in the United States, at about 1.8 percent per year compared with 1.0 percent in Britain. The faster growth of per capita income was fueled by more rapid capital accumulation. After accounting for growth in the labor force and capital stock, the total-factor productivity "residual" appears to have been roughly comparable in the two economies. In other words, the United States grew faster than Britain in the late nineteenth century because of labor-force growth and capital accumulation, not because of increases in productive efficiency. The growth in per capita income was mainly the result of capital deepening, arising from high rates of saving and investment, rather than greater productivity.

TABLE 6.1. Comparative growth performance: United States and United Kingdom, 1870–1913 (annual average percentage growth)

| | United States | United Kingdom |
|---|---|---|
| Real GDP | 3.94 | 1.90 |
| Population | 2.09 | 1.21 |
| GDP per capita | 1.81 | 1.01 |
| Non-residential capital stock | 5.53 | 1.73 |
| Total factor productivity | 0.33 | 0.31 |

*Source*: Maddison 1995, 255.

Although growth accounting tells us where to look for the sources of growth, it does not tell us anything about the role of trade policy specifically. To say that the United States experienced strong economic growth because its labor force and capital stock grew rapidly raises the question of why this happened and whether high tariffs encouraged or discouraged these developments. In fact, the United States had an unusual policy mix: while it blocked the importation of some foreign goods, it offered virtually unimpeded entry to people, capital, and ideas into the country from abroad. In this sense, the United States was a very open economy in the nineteenth century.

In terms of the growth of the labor force, tariff policy is unlikely to have influenced fertility decisions or death rates, so it probably did not affect the natural rate of population increase or the labor force participation ratio (the percent of the work-age population employed). Nearly one-third of the population increase from 1870 to 1900 was due to immigration from abroad, and it is plausible that some of this immigration was induced by high tariffs.[6] A theorem by Robert Mundell (1957) holds that international trade in goods and the international movement of factors of production (such as labor and capital) are substitutes for one another. To the extent that the United States discouraged imports by imposing high barriers on foreign goods, it might have encouraged greater immigration by foreign nationals. Yet tariffs were probably a small factor in promoting immigration overall, except in a few cases discussed below.[7]

In terms of capital accumulation, the share of capital formation in GDP increased significantly around the time of the Civil War; net investment rose from about 10 percent of GDP before the war to nearly 20 percent of GDP after. But it is unlikely that high tariffs played much of a role in this capital-deepening. Economic historians have concluded that capital accumulation was a savings-driven rather than an investment-driven phenomenon: the relative price of capital goods and real interest rates declined sharply during this period, suggesting that a shift in the supply of savings due to the development of financial markets dominated any shift in investment demand.[8] The growth in savings was facilitated by the National Banking Acts of 1863 and 1864, which helped stabilize the financial system and encourage the entry of more than seven hundred banks during the Civil War era. These banks, spread largely across Ohio and the upper Midwest, were a major factor in promoting the growth of manufacturing in the region and the rapid increase in the nation's capital stock.[9] In addition, the biggest rise in the capital-output ratio occurred in the services sector, such as railroads and urban housing, with only a modest change in manufacturing. Furthermore, high tariffs on imported capital goods may have impeded (rather than promoted) capital investments and have been shown in other contexts to be particularly damaging to a country's growth prospects.[10]

Of course, consistent with Mundell's theorem, protective tariffs could have promoted capital investment from abroad. Since tariffs prevented foreign producers from exporting directly to the US market, they might have made foreign direct investments in the United States to serve consumers inside the tariff wall. Yet the contribution of foreign investment to total capital accumulation in the post–Civil War period was very small: foreign capital inflows financed only 6 percent of net capital formation from 1869–1914. Thus, almost all of domestic investment was financed by domestic savings. In addition, few multinational corporations were capable of making sizeable foreign investments in the United States prior to World War I.[11]

If the links between protective tariffs and the expansion of the labor force or the accumulation of capital are weak, their relationship to aggregate productivity growth is equally tenuous. Table 6.1 indicated that aggregate productivity growth was no more rapid in the United States than in Britain during this period. Table 6.2 presents total-factor productivity growth by sector and shows that productivity growth in non-traded sectors (such as transportation, services, utilities, and communications) was much more rapid than in agriculture or manufacturing, the sectors most affected by trade. Productivity growth in the service sector is usually explained by particular technological innovations—such as railroads, electrification, the telegraph—none of which depended on protective tariffs. And yet the service sector was key to US economic performance during

TABLE 6.2. US total factor productivity growth by sector (average annual percentage change)

| | 1869–1909 | 1879–1909 | 1889–1909 |
|---|---|---|---|
| Agriculture | 0.8 | 0.6 | 0.4 |
| Manufacturing | 1.2 | 1.1 | 0.9 |
| Mining | — | 1.5 | 1.0 |
| Transportation | 2.8 | 2.6 | 2.1 |
| Utilities and communications | 2.0 | 2.3 | 3.0 |
| National | 1.5 | 0.6 | 1.3 |

*Source*: Kendrick 1961, 331, 362, 396, 464, 540, 580.

this period. As Broadberry (1998) has shown, output per worker in the United States grew relative to that in Britain because US labor productivity in services converged to the higher level in Britain.

If protective tariffs did not directly affect labor-force growth, capital accumulation, or total-factor productivity, they might have increased economic growth by shifting resources out of agriculture and into manufacturing. Table 6.3 presents the contributions of three main sectors of the economy—agriculture, industry, and services—to national income and the allocation of the labor force across those sectors. Over the late nineteenth century, the share of agriculture in total output and employment declined, while the share of industry and services increased. Such a structural shift was an important feature of late nineteenth-century economic growth, because output per worker was much higher in industry and services than in agriculture.

TABLE 6.3. Structural change in the US economy, 1840–1900

A. Percentage distribution of national income

| | Agriculture | Industry | Services |
|---|---|---|---|
| 1840 | 47 | 16 | 37 |
| 1850 | 40 | 22 | 38 |
| 1860 | 38 | 22 | 40 |
| 1870 | 36 | 25 | 39 |
| 1880 | 31 | 25 | 44 |
| 1890 | 21 | 30 | 49 |
| 1900 | 19 | 31 | 50 |

B. Percentage distribution of US labor force

| | Agriculture | Industry | Services |
|---|---|---|---|
| 1840 | 67 | 9 | 24 |
| 1850 | 60 | 16 | 24 |
| 1860 | 56 | 15 | 29 |
| 1870 | 50 | 21 | 29 |
| 1880 | 48 | 21 | 31 |
| 1890 | 40 | 21 | 39 |
| 1900 | 36 | 23 | 41 |

*Source*: US Bureau of the Census 1975, series F-238-249, D-167-181.

*Note*: Agriculture includes agriculture, forestry, and fisheries; industry includes mining and manufacturing; services include construction and all other sectors.

The shift of resources from agriculture to industry could be due to the "push" of resources out of agriculture (due to productivity growth in the sector) or the "pull" of resources into industry and services (as a result of greater demand for these sectors, including tariffs that reduced imports).[12] In terms of the former, rising agricultural productivity is almost always a key part of the industrialization process. Productivity growth in agriculture allows the farm sector to release labor that can be employed in other parts of the economy where output per worker is higher. The improvement in agricultural productivity was an important factor in US economic development: output per worker in agriculture changed very little between 1800 and 1850, but then increased significantly from 1850 to 1870 and continued to grow for the rest of the century.[13] This mid-century burst in agricultural productivity is associated with the increase in American industrialization after 1850.

Trade policy can either promote or retard this structural change, in which resources are shifted from agriculture to industry. Since the United States was a large exporter of agricultural goods, international trade may have slowed the movement of resources from agriculture to industry. By contrast, protective duties might have encouraged the shift of labor and capital from agriculture to industry, a policy known as import substitution, and thereby might have increased real income.

Yet structural change—the shift of resources from agriculture to industry—accounts for only a modest portion of America's overall growth in output per worker during this period. More than three-quarters of aggregate productivity growth was due to the increase in labor productivity within each sector, not the result of shifting resources between sectors. With about half of the labor force still employed in agriculture as late as 1880, overall growth in output per worker simply could not have been very high without strong labor productivity growth in agriculture. While such growth decompositions do not have a causal interpretation, this result suggests that the role of protective duties in promoting output per worker was not large. And, of course, such structural change had been occurring in the decades before the Civil War, when the average tariff was much lower.

Most arguments that emphasize the contribution of protective tariffs to economic growth put special emphasis on expanding the size of the manufacturing sector. But the role of manufacturing is often overstated. As Broadberry (1998, 400) observes, "The United States caught up with and overtook Britain in terms of aggregate labor productivity largely by shifting resources out of agriculture and improving their relative productivity position in services rather than by improving their position in manufacturing. The key role attributed by many economic historians and growth economists to developments within manufacturing as the major factor driving convergence or divergence of productivity needs to be seriously qualified, and attention needs to be shifted to developments within services."

As noted in chapter 4, the United States had a fairly large manufacturing sector before the Civil War, one that had even flourished under low protective tariffs after 1846.[14] Table 5.2 showed that imports of manufactured goods were just 9 percent of domestic consumption of manufactured goods in 1859, prior to the war, and just 3 percent after the Civil War. Even a large increase in imports would have a limited impact on the overall size of the manufacturing sector and a minor impact on the overall economy.

Consider the following calculation based on data for 1869, when manufacturing was arguably the most vulnerable to foreign competition in the post–Civil War period. In that year the United States imported $220 million of non-food manufactured goods, while producing $3,385 million worth of manufactured goods with 2.053 million workers (or $1,648 per worker in manufacturing).[15] Abolishing the 40 percent average tariff on manufactured imports would have reduced the relative price of imports by 29 percent. If the elasticity of import demand was–2.6, as estimated by Irwin (1998b), this would increase manufactured imports by 75 percent, or $163 million. If these additional imports reduced domestic production of manufactured goods on a one-for-one basis—which overstates the impact, because most imports were imperfect substitutes for domestic goods—that would have displaced 99,119 workers in manufacturing. This was about 4.8 percent of manufacturing employment, or about 1.6 percent of the total labor force, and would have reduced manufacturing employment from 2.47 million to 2.37 million.

Such a shift would have limited consequences for the overall economy. If 1.6 percent of the labor force were shifted from manufacturing, where total-factor productivity was growing 1.2 percent a year, to agriculture, where it was growing 0.8 percent a year, economy-wide productivity growth would have fallen from 1.50 percent to 1.49 percent a year. The cumulative effect starting in 1870 would have been to reduce the level of GDP in 1913 by a slight 0.2 percent. When considered this way, the impact of tariff protection on the level of national income and on aggregate productivity, in terms of shifting of labor from agriculture into industry, appears to be small.

This discussion has been based on the premise that the tariff made a positive contribution to America's economic growth. There are other reasons to believe that import duties may have detracted from US economic performance. As already noted, tariffs on capital goods made investment spending more costly and less efficient. The high cost of basic iron and steel hampered the development of downstream industries, such as tinplate (considered in chapter 5), and raised the cost of construction and transportation projects. In addition, protection tended to encourage the survival of smaller, less efficient firms in a given industry rather than larger, more efficient enterprises, thereby reducing an industry's average productivity. Unfortunately, there has been little economic research to quantify these factors.

In sum, it is difficult to make the case that high import tariffs were an important factor driving late nineteenth-century US economic growth. The reallocation of labor brought about by the tariff was relatively modest, and the productivity consequences were small as well. The service sector, which was not directly affected by import duties, generated much of the growth in employment and productivity, and played a key role in increasing the US lead over Britain in per capita income in the late nineteenth century. And agriculture laid the foundation for the farm equipment and machinery industry, an important part of the manufacturing economy. Indeed, the United States became a net exporter of agricultural implements as John Deere, American Harvester, and other producers sold large quantities to the world market. Thus, it appears that trade-related factors were not critical to the overall growth and expansion of the American economy.[16]

At the same time, it is difficult to argue that the high-tariff policy was costly and inefficient. As already noted, the static deadweight loss of the tariff was small, amounting to about 0.5 percent of GDP around the mid-1870s. Protection did not breed many inefficient industries that were far behind the technological frontier, because new firms with access to the best technology in the world could freely enter the market. This ensured that domestic competition remained robust. Falling transportation costs made the United States a large, integrated national market, and the rise of large business enterprises meant that smaller, less-efficient firms found it difficult to survive, even if foreign competition was limited by import duties.[17]

If protective tariffs were not responsible for America's economic growth, what was? The United States was an enormous continental market with an abundance of resources waiting to be filled with people. Much of the growth was extensive—adding more labor, cultivating more land, digging more mines, investing more capital—rather than intensive—improving the productivity of the currently employed resources. The nation had free internal trade and the free movement of labor and capital across states, an abundance of agricultural land and untapped mineral resources, and the enforcement of contracts and protection of property rights through a non-politicized judicial system. The size and scale of the market, knitted together with railroads and other transportation improvements, led to efficient large-scale businesses and innovative organizational structures that encouraged industry specialization and ensured robust domestic competition.[18] The federal government did not interfere with the process of creative destruction and limit competition or artificially prop up inefficient industries. The country had a well-functioning capital market that facilitated high investment rates, access to the world's best industrial technology from Britain and elsewhere, and an expanding system of high schools that ensured high levels of literacy among the general population. In short, the country was well situated for both extensive and intensive growth, regardless of the trade policy it chose.

More than any other country in the world at this time, the United States had an extraordinarily diversified economy with an abundance of prime agricultural land, a large endowment of raw materials, and growing technical expertise in manufacturing. At this point, international trade was not critical to the prosperity of the country. "Even if every port of the United States were blockaded today, and remained so for ten years, the people of the United States would suffer only some inconveniences and disturbances in values [i.e., prices]," the steel magnate Andrew Carnegie (1890, 64–65) opined. "No one desires the closing of our ports as the country is prospering too well to welcome any changes; but it is well for us to know, and for other nations to understand, that it would only be disturbing and inconvenient, not serious, nor in any way dangerous to the life and prosperity of this world within itself." Conversely, even if the United States had abolished all tariffs, foreign trade still would have been a relatively small part of the continental-sized American economy. The share of merchandise trade in GDP was just 5–6 percent during this period; setting the tariff to zero might have increased the share to 7–8 percent.

The most underrated international factor behind America's industrialization was the work done by unskilled immigrants who labored in the manufacturing industries and by skilled immigrants who facilitated the absorption of new technology. The influx of unskilled migrants transformed the workforce between 1880 and 1920. Immigrants and their children, who were willing to accept lower wages than native-born citizens, comprised more than half of manufacturing workers in 1920. The availability of these workers is thought to have accelerated the pace and scale of manufacturing in the United States by a modest amount.[19]

The migration of skilled artisans was also important during this period. A country that is behind the technological frontier can improve its productivity by adopting the world's best technology, usually by importing new capital goods or receiving foreign direct investment. For the United States, a leading conduit for technology transfer from abroad was the immigration of skilled workers. A significant number of British immigrants were craftsmen who had experience with industrial technology. "British immigrants to industrial America directly transfused the skills and experience of the premier industrial nation of the early twentieth century into the veins of the rising giant of the twentieth," Berthoff (1953, 28–29) points out. The close cultural relationship between the two countries allowed technology to diffuse rapidly across the Atlantic. The United States had the good fortune to be the former colony of the country that experienced the first Industrial Revolution. With the bond of a common history, language, and culture, the United States could easily assimilate new ideas, machinery, and other technology from the country then at the world's technological frontier, although skilled immigrants from Germany also made important contributions to the nation's technology.

For example, in metallurgy, the United States quickly copied many new technologies developed in Britain. Just a few years after Bessemer steel technology proved commercially successful in Britain, patent agreements allowed it to spread quickly throughout the United States. Even better, American engineers often improved upon the imported technology.[20] Immigrants not only started their own firms in the iron and steel industry, but the American woolen industry was founded largely on English experience. British thread, lace, and silk manufacturers from Nottingham came to set up branch mills in America, while foreign textile operatives often rose through the ranks of overseers and superintendents and eventually established their own factories. In some cases, there is a direct link between tariffs that reduced British exports and the subsequent emigration of skilled workers to the United States. "Nearly the whole English silk industry migrated to America after the Civil War," Berthoff (1953, 41) observes, when tariffs increased, and "owners of British factories crated their machinery and left for [Paterson] New Jersey with their workmen." In these cases, where import duties prompted the migration of British citizens with technical knowledge, the tariff may have increased the pace at which technology moved between the two countries.

Because the United States industrialized under a regime of high tariffs, some observers have tried to draw lessons from America's experience in the late nineteenth century that would apply to developing countries today. Unfortunately, the vast differences between the United States then and developing countries today invalidate any such comparison. The United States has never really been a developing country in the modern sense of the term: it has always been a high-wage country, not a low-wage country, and has never had difficulty attracting skilled and unskilled immigrants from abroad. In the nineteenth century, the United States had a relatively small and unobtrusive government, an enormous domestic market, and close economic and cultural ties to the country at the world's technological frontier from which it could easily adopt new innovations. Many developing countries today have large, intrusive, and often corrupt governments, relatively small domestic markets, and create barriers to foreign investment and technology transfer. These differences mean that the US experience has few policy lessons for developing countries today.

## TRADE POLITICS IN THE 1890S

In the wake of the Great Tariff Debate of 1888, as we saw in chapter 5, the Republicans raised import duties in the McKinley tariff of 1890. At a time when the public debate was about how to reduce the tariff and the fiscal surplus, this response seemed out of line with public sentiment. In fact, the "Billion Dollar Congress" had miscalculated, and electoral retribution was swift. The Democrats made big gains in the 1890 midterm elections. Although Republicans narrowly retained the Senate, the House flipped from a Republican majority of seven to a Democratic majority of one hundred forty seven. Even McKinley lost his bid for reelection after being gerrymandered out of his Ohio seat by the Democratic state legislature. Although the tariff was not entirely responsible for the Republican electoral disaster, many observers at the time believed that to be the case. In the opinion of Theodore Roosevelt, a rising Republican politician, "The overwhelming nature of the disaster is due entirely to the McKinley bill."[21] In fact, House Speaker Joseph Cannon later conjectured that any revision of the tariff would harm the incumbent party at the next election, an idea for which there is empirical support.[22]

The 1892 presidential election saw a rematch between Grover Cleveland and Benjamin Harrison. Although the tariff was again an important election issue, monetary politics—particularly the coinage of silver—dominated the campaign. Despite the apparent unpopularity of the McKinley tariff, Republicans reaffirmed their commitment to "the American doctrine of protection." The party's platform stated that "all articles which cannot be produced in the United States, except luxuries, should be admitted free of duty, and that on all imports coming into competition with the products of American labor, there should be levied duties equal to the difference between wages abroad and at home."[23] Meanwhile, the Democrats denounced "Republican protection as a fraud, a robbery of the great majority of the American people for the benefit of the few." The McKinley tariff was "the culminating atrocity of class legislation" and they vowed to repeal it. The Democratic platform repeated the party's belief that the federal government had "no constitutional power to impose and collect tariff duties, except for the purpose of revenue only."[24]

The continued unpopularity of the Billion Dollar Congress hurt Republicans and allowed Democrats to sweep into office in 1892 as the Democrats retained the House, captured the Senate, and Cleveland won the presidency. For the first time since 1858, Democrats secured unified control of government. In his inaugural address, President Cleveland proclaimed that his party finally had a mandate to introduce major changes in tariff policy:

> The people of the United States have decreed that on this day the control of their Government in its legislative and executive branches shall be given to a political party pledged in the most positive terms to the accomplishment of tariff reform. They have thus determined in favor of a more just and equitable system of Federal taxation. The agents they have chosen to carry out their purposes are bound by their promises not less than by the command of their masters to devote themselves unremittingly to this service.[25]

With their first unified government in nearly forty years, Democrats seemed poised to carry out this pledge, and expectations of major policy change ran high among reformers within the party.

Yet the Democratic victory was inauspiciously timed. In late 1892, the failure of Baring Brothers, a major investment house in London, precipitated an outflow of gold from the United States and with it a sharp monetary contraction. The drain on the Treasury's gold reserves contributed to a financial panic that began in the closing days of the Harrison administration and led to widespread bank failures. Fears that silver agitators might force the United States off the gold standard also led to a run on the Treasury's reserves and accelerated the financial contraction.[26] Two months before Cleveland's inauguration, the stock market had collapsed, and the nation's gold reserves had dwindled to precariously low levels.

Cleveland returned to office just as this economic disaster was unfolding, ruining his chance for tariff reform. Cleveland reluctantly gave priority to the country's financial situation and called for a special session of Congress to repeal the Sherman Silver Purchase Act. Unlike most Democrats, Cleveland had conservative monetary views (he was pro-gold and anti-silver) and had to ally himself with conservative Democrats and eastern Republicans to repeal the silver act. Given the pro-silver views of most Democrats, Cleveland's position fractured party unity and alienated the very allies he would need to reform the tariff.

Although Cleveland succeeded in repealing the silver act, thereby strengthening the country's commitment to the gold standard, this failed to stimulate the economy, and the United States fell into a severe depression. The year 1893 was marked by a wave of bank runs, bankruptcies, and foreclosures. Industrial production fell 17 percent from a peak in May 1892 to the trough of February 1894, with the sharpest drop from April 1893 to February 1894. The unemployment rate jumped from less than 4 percent in 1892 to more than 12 percent in 1894.[27]

With the economy still contracting, Cleveland turned to tariff reform in his December 1893 annual message to Congress. The president noted that "after a hard struggle, tariff reform is directly before us," and "nothing should intervene to distract our attention or disturb our effort until this reform is accomplished by wise and careful legislation." The duties imposed on the necessaries of life should be reduced because "the benefits of such a reduction would be palpable and substantial, seen and felt by thousands who would be better fed and better clothed and better sheltered." Given the weakening economy, Cleveland recognized that getting genuine tariff reform through Congress would be difficult. "In my great desire for the success of this measure, I cannot restrain the suggestion that its success can only be attained by means of unselfish counsel on the part of the friends of tariff reform and as a result of their willingness to subordinate personal desires and ambitions to the general good," he urged. "The local interests affected by the proposed reform are so numerous and so varied that if all are insisted upon, the legislation embodying the reform must inevitably fail."[28]

Yet cracks in party unity appeared almost immediately when some Democrats argued that tariff legislation should be postponed until the economy was recovering. But with the president pushing Congress to act, the new Ways and Means Committee chairman, William L. Wilson of

West Virginia, a staunch supporter of tariff reform, made the decision to go forward. Thus, in the fall of 1893, the Ways and Means Committee held hearings, described by a Wilson confidant as the "customary rubbish," on a new tariff.[29] In December, Wilson reported a bill that moved many raw materials (wool, coal, lumber, iron, and copper) onto the free list, while making moderate reductions in duties on final goods, thereby posing little threat to cotton textile and steel producers.[30]

The House debate opened in January 1894, but it unexpectedly morphed into a discussion about an income tax.[31] Populist Democrats from the Midwest had long supported an income tax as a way of shifting the tax burden from consumers of imported goods to rich industrialists, such as the Vanderbilts, Rockefellers, and Carnegies. An income tax would also generate revenue for the government and allow tariffs to be reduced. Although support for such a tax had been growing among Democrats, the idea faced many political hurdles. Cleveland supported a corporate income tax, but he and Democratic leaders feared a personal income tax would split the party, because Tammany Hall Democrats in New York strongly opposed to the idea. Wilson believed the income tax was a distraction from tariff reform and might defeat his bill if attached to it. Meanwhile, Republicans denounced the income tax as "rank class legislation" that would lead to socialism, complaining that it was a sectional measure designed to extract money from only a few, high-income states, such as New York and Connecticut.

Early in the debate, Benton McMillin (D-TN) proposed amending the Wilson bill to impose a 2 percent tax on incomes above $4,000. Although strongly opposed by eastern Republicans, the McMillin amendment had broad support in the South and West and was adopted by a vote of 175–56. This cleared the way for the House vote on the tariff. Republicans were outraged. Thomas Reed (R-ME) proclaimed that "after thirty years of protection, undisturbed by any serious menace of free trade, . . . this country was the greatest and most flourishing nation on the face of this earth. . . . Those who will vote against this bill will do so because it opens our markets to the destructive competition of foreigners."[32] In reply, House Speaker Charles Crisp (D-GA) maintained that consumers paid the import tax, not foreigners, as Republicans alleged, and that consumers deserved relief from a system that favored the wealthy Eastern elites: "Whilst there may be here and there some monopolists or gentlemen of large wealth who will criticize and condemn us, yet all over the country, in the homes of the farmers, in the homes of the workers, and in the homes of the men employed in every industry in the United States, there will be rejoicing and happiness."[33]

In a rousing speech, Wilson rallied Democrats by declaring, "This is not a battle over percentages, over this or that tariff schedule; it is a battle for human freedom."[34] In February 1894, the House passed the bill in a partisan vote of 204–140; Democrats voted 191–17 in favor, while Republicans voted 122–0 against. The margin was unexpectedly large because as many as forty Democrats had been expected to vote against the measure.[35]

The Wilson bill then moved to the closely divided Senate. To expedite the legislation, Senate Democrats decided not to hold public hearings, but also stated that they would not feel bound by the House version. Senators from the Northeast immediately sought to strip the income tax provision from the bill, but they were outnumbered by those from the South and West. Then eight high-tariff Democrats under the leadership of Arthur Gorman of Maryland joined with Republicans to reinstate many of the protective duties. The Senate made a total of 634 amendments to the House version. The principle of free raw materials was watered down with the reimposition of duties on iron ore, coal, and sugar, although salt, lumber, and wool remained duty-free. Specific duties were reintroduced, and higher duties on cotton, woolens, and glass manufactures were also imposed. Matt Quay (R-PA) laboriously made the case for higher duties on dozens of goods in an address that stretched over twelve days and filled 235 pages of the *Congressional Record*. The Senate struggled over the measure until it finally passed in early July 1894 by a vote of 39–34.

House Democrats were deeply dismayed by the Senate's changes. Wilson stated that his bill was "based upon two clear and intelligent principles": that tariffs should be imposed on final goods, not raw materials, and that duties should be ad valorem, not specific. Yet in the Senate version, "these two great fundamental principles of just taxation and these two great fundamental principles of Democratic policy [were] in a large measure overridden and neglected."[36] The conference committee was deadlocked. The inability of Democrats to address the severe recession had already generated much public criticism. Now they were demonstrating that they lacked a strong commitment to reducing the tariff, aside from moving some raw materials to the duty-free list while avoiding significant rate reductions that would affect political powerful industries. Some Democrats suggested abandoning the effort, which would allow them to blame the economic slump on the McKinley duties, and then regroup for another attempt at tariff reform in 1896. But after having stressed the importance of tariff reform for so many decades, the party would have been ashamed to pass up an opportunity to do so under its first unified government in nearly forty years.

The Senate's actions also prompted Cleveland, whose relations with Congress had always been cool, to end his silence. The frustrated president blasted the Senate Democrats for abandoning the cause of tariff reform. Cleveland (1933, 365–66) insisted on "the necessity of free raw materials as the foundation of logical and sensible tariff reform" in any Democratic bill. In his view, it was simply inexcusable to put a farmer's wool on the free list while protecting a corporation's iron ore and coal with import duties. As Cleveland (1933, 365–66) explained,

> When we give to our manufacturers free raw materials we unshackle American enterprise and ingenuity, and these will open the doors of foreign markets to the reception of our wares and give opportunity for the continuous and remunerative employment of American labor. With materials cheapened by their freedom from tariff charges, the cost of their product must be correspondingly cheapened. Thereupon justice and fairness to the consumer would demand that the manufacturers be obliged to submit to such a readjustment and modification of the tariff upon their finished goods as would secure to the people the benefit of the reduced cost of their manufacture, and shield the consumer against the exaction of inordinate profits.

The president then committed a political blunder. In a letter that Wilson read on the floor of the House in July 1894, Cleveland wrote, "Every true Democrat and every sincere tariff reformer knows that this bill in its present form . . . falls far short of the consummation for which we have long labored, for which we have suffered defeat without discouragement, which, in its anticipation, gave us a rallying cry in our day of triumph, and which, in its promise of accomplishment, is so interwoven with Democratic pledges and Democratic success that our abandonment of the cause of the principles upon which it rests means party perfidy and party dishonor."[37]

Instead of trying to win Senate Democrats over to his side, the president alienated them even further by calling them, in effect, traitors to the cause of tariff reform. They viewed Cleveland's statement as a personal attack on their integrity. Arthur Gorman (R-MD) called the message "the most extraordinary, the most uncalled for, and the most unwise communication that was ever penned by a president of the United States. . . . Never in the course of my life . . . have I thought the provocation was sufficient, the abuse and misrepresentation violent enough, or the aspersion of character sufficient to induce me to talk of private matters in public."[38] He then gave his account of the Senate's deliberations, maintaining that no principles had been compromised and arguing that his fellow Democrats had done the best they could under the circumstances.

If the president hoped that Senate Democrats would be chastened and fall in line, he was sorely mistaken; his attack only hardened their views. Even the House speaker was miffed at Cleveland's insult, and the party caucus instructed Wilson, to his dismay, to accept the Senate amendments. In the end, the House leadership largely accepted the Senate version and shoved it through by limiting debate to two hours, allocating one-tenth of a second for discussion of each Senate amendment, according to one member's calculation.

Cleveland now faced the decision of whether to sign the bill or not. In a letter to Wilson, Cleveland (1933, 363) wrote, "I found myself questioning whether or not our party is a tariff-reform party." To another representative, the president complained, "Senators have stolen and worn the livery of Democratic tariff reform in the service of Republican protection." In the end, Cleveland could not bring himself to endorse the measure, but neither could he veto it, because that would simply preserve the existing McKinley tariff rates. Thus, in August 1894, the Wilson-Gorman tariff bill became law without the president's signature. In explaining why he declined to sign the bill, Cleveland stated, "There are provisions in this bill which are not in line with honest tariff reform, and it contains inconsistencies and crudities which ought not to appear in tariff laws or laws of any kind. Besides, there were . . . incidents accompanying the passage of the bill through the Congress, which made every sincere tariff reformer unhappy, while influences surrounded it in its latter stages and interfered with its final construction, which ought not to be recognized or tolerated in Democratic tariff-reform counsels."[39]

Despite Cleveland's disappointment, the Wilson-Gorman tariff of 1894 made a reasonable dent in the average tariff on dutiable imports, which was cut from 50 percent to 39 percent, a reduction of 11 percentage points, or about 20 percent. The episode reflected badly on the Democrats, however, who had squandered their first opportunity to reform the tariff since the Civil War. While making great claims to support tariff reform, the party appeared to stand for just watered-down protectionism.

Republicans were gleeful at the Democratic infighting. Two months later, in the midterm election of 1894, the Republicans captured both houses of Congress, bringing the brief period of Democratic rule to an end. Although the Republican victory was mainly due to the depressed economy, the Democrats' mishandling of the tariff issue did not put them in good light. Even the income tax passed by the Democrats proved to be a failure. In January 1895, the Supreme Court struck down the law, holding that the income tax was a direct tax and therefore unconstitutional because it was not apportioned according to population.[40]

Meanwhile, the economy continued to suffer. After briefly stabilizing in 1894, the economy slipped back into a severe recession that lasted until mid-1897. For five consecutive years, from 1894 through 1898, the unemployment rate stood at more than 11 percent. Hammered by falling commodity prices, farmers were forced into widespread foreclosures. Urban areas saw violent labor unrest, with strikes, pickets, and lockouts. Confronting large fiscal deficits, the federal government lacked the political will to provide much assistance to relieve the distress. But the root cause of the nation's economic problems was a contractionary monetary policy, as the gold standard ensured tight credit and continuing deflation.

The ongoing economic disaster made monetary policy and silver coinage the nation's dominant political issue once again. The recession fueled agrarian hostility to the gold standard and enabled populist free silver supporters, led by William Jennings Bryan, to gain control of the Democratic party. Many farmers believed that a silver standard, a bimetal standard, or even a paper (greenback) standard would lift prices and ease the heavy burden of debt that grew as prices fell. A more expansionary monetary policy, which would have required that the United States leave the gold standard, would have ended the deflation or even have led to inflation. It would have also resulted in a fall in the value of the dollar against other currencies, which would have discouraged imports (like a tariff) but also boost exports (unlike a tariff).

When the Republicans won control of Congress in the 1894 midterm election, divided government ensured that there would be few legislative accomplishments for the next two years. This set the stage for the presidential election of 1896 that pitted Democrat William Jennings Bryan against Republican William McKinley. Given the party's bungling of tariff reform, Bryan downplayed the tariff issue during the campaign and focused instead on silver and monetary policy. The Democratic platform stated that "until the money question is settled we are opposed to any agitation for further changes in our tariff laws."[41] Meanwhile, as a supporter of the gold standard and tariff protection, McKinley sought to unite Eastern hard-money interests with Midwestern protectionist interests. With the American economy suffering, Republicans were only too happy to "renew and emphasize our allegiance to the policy of protection, as the bulwark of American industrial independence, and the foundation of

American development and prosperity." The platform stated bluntly, "The ruling and uncompromising principle is the protection and development of American labor and industries," making all the usual claims about supporting the true American policy of taxing foreign products and encouraging home industry in order to uphold the American standard of wages for the workingman.[42]

McKinley tried to make the election a referendum on tariff policy, where he was confident of victory, but Bryan kept the campaign focused on monetary policy. The Republicans managed to defuse that issue by pledging to reach an international agreement on the monetization of silver. In the event, McKinley won the popular vote by 51.0 percent to Bryant's 46.7 percent. As usual, Republicans ran strong in the industrial North and Midwest, while Democrats continued to hold their base in the South and West. Historians debate whether the 1896 election resulted in a political realignment, but the election did usher in a sixteen-year period of Republican political dominance.[43]

Having recaptured unified control of government, the Republicans' first order of business was to reverse the Democratic tariff reduction in 1894. In his inaugural address, President McKinley stressed the need to reduce the fiscal deficit and strengthen tariff protection for American industry. As he stated, "The controlling principle in the raising of revenue from duties on imports is zealous care for American interests and American labor. The people have declared that such legislation should be had as will give ample protection and encouragement to the industries and the development of our country."[44] McKinley argued that the inadequate revenues received by the government under the Wilson-Gorman tariff made it difficult to maintain the nation's gold reserves. Higher tariffs would improve the fiscal balance and reverse the outflow of gold, helping to restore the nation's prosperity, as well as give industry further protection from foreign competition. He called for a special session of Congress on the grounds that the ailing economy urgently required higher import duties.

Even before the new president took office, House Republicans began preparing new tariff legislation. On the day Congress convened, Ways and Means Committee chairman Nelson Dingley (R-ME) reported a tariff bill to restore the rates of the 1890 McKinley tariff. Western silver interests demanded protection for raw materials, so imports of wool, hides, iron ore, and lumber were moved off the free list and once again made subject to duties. Duties on most final goods were increased, although those on cotton goods and basic iron and steel products remained unchanged. Given their minority position, Democrats only put up modest rhetorical opposition to the bill, although they insisted that silver coinage held out greater hope for promoting economic recovery than higher taxes on consumers. In March 1897, after four days of debate, the House passed the bill by a partisan vote of 205–122; Republicans voted 198–0 in favor and Democrats voted 118–5 against.

In the Senate, Nelson Aldrich (R-RI) and the Finance Committee completely rewrote the bill to increase duties even further. They acted because the House bill had "free-trade tendencies" that would "cripple or destroy numerous industries." They substituted specific duties for ad valorem duties "to protect honest importers and domestic producers from the disastrous consequences resulting from fraudulent undervaluations of imported merchandise." On the floor, senators went over the bill laboriously, schedule by schedule, in the spring and early summer of 1897, with dozens of roll call votes on specific commodities. A total of 872 amendments were made to the bill, most of which pushed tariffs higher. The majority leadership resisted these increases, which they regarded as excessive. Aldrich began to look like a moderate when he stated that "industrial conditions in this country with a very few exceptions do not demand a return to the rates imposed by the act of 1890."[45] The president's close associate, Mark Hanna (R-OH), scolded the chamber: "Mr. McKinley stands for protection, not exclusion," and he privately remarked that manufacturers were "squatting behind the tariff like a lot of God damn rabbits."[46]

The Senate passed its version by a vote of 38–28; Republicans voted 35–0 in favor and Democrats voted 25–1 against. The conference committee quickly adopted nearly all of the Senate's amendments, allowing McKinley to sign the measure into law in late July 1897. The legislation took just four months of Congress's time, almost all of which was in the Senate.

Stanwood (1903, 2:364) called the Dingley tariff "the most universally and comprehensively protective tariff ever enacted" to date. It remained in effect for thirteen years, until 1909, making it the longest-lasting piece of tariff legislation in US history. Although the stated goal was to restore the same nominal specific rates of duty in the 1890 tariff, the fall in the price level meant that those duties had a higher ad valorem equivalent. Indeed, the average tariff rose from 42 percent in 1897 (before the enactment of the Dingley tariff) to 52 percent in 1899, slightly higher than the 47 percent in 1891 after the McKinley tariff was enacted.

Around the same time, the world supply of gold began to grow more rapidly with increased supplies coming from Australia, South Africa, and Alaska. The easing of global monetary conditions fostered a strong economic recovery, and world prices began to rise again. As in the past, this timing gave rise to the popular perception that the McKinley tariff was responsible for the economic resurgence.

With the new Republican tariff in place and the economy finally growing, the issue of tariff policy fell off the nation's political agenda once again. McKinley was happy to put the matter to rest: "We have quit discussing the tariff and have turned our attention to getting trade wherever it can be found."[47] Indeed, policymakers began to shift their focus away from closing the market to imports to opening foreign markets for exports. This new attention to exports was driven by new developments, to be discussed shortly, but proved to be controversial. Some Republicans were willing to seek greater market access abroad, while others feared that agreements to do so might require a reduction in protective duties. Meanwhile, Democrats worried that government efforts to take advantage of commercial opportunities might lead the United States into becoming a colonial power like European countries.[48] As William Howard (D-GA) stated, "I am in favor of the extension of commerce, but I do not regard commercial extension of our commerce as synonymous with territorial aggrandizement."[49]

The case of sugar illustrates how America's commercial expansion came with new foreign policy entanglements. In 1876, the United States signed a limited reciprocity treaty with Hawaii (for political not commercial reasons) that gave preferential access to its sugar in the United States in exchange for Hawaiian preferences for selected American products. Bilateral trade soared after the treaty and transformed Hawaiian politics, enriching the islands' planter class, which had made large investments in sugar production. The McKinley tariff of 1890, however, granted duty-free access to all imported sugar. Having lost its preferential access to the US market, Hawaii plunged into a deep recession. This led to political instability, and a group of Americans on the island overthrew the Hawaiian monarch in 1893. A few years later the United States annexed the territory.[50]

Meanwhile, Cuba benefited from having been granted duty-free access for its sugar under the McKinley tariff. But when Congress reimposed duties on imported sugar (except from Hawaii) in 1894, Cuba's sugar production plummeted. The collapse of the Cuban economy led to an insurrection against Spanish rule in 1895, which Spain brutally suppressed. Eventually this led to US military intervention in the Spanish-American War of 1898.[51] Thus, the tariff on just one commodity—sugar—deeply embroiled the United States in the domestic politics of two island territories.

The United States was just beginning to learn that its tariff policies could have significant international consequences. But contrary to the suggestions of some revisionist historians, the United States was not bent on establishing a commercial empire and had no grand imperial designs regarding trade.[52] As Palen (2015, 185) notes, "Republican imperialism of economic nationalism encountered strong opposition from both stalwart home-market protectionists and American free traders." In general, American business interests were only somewhat interested in seeking foreign markets as an outlet for their surplus products and were not interested in the acquisition of foreign territory.

## AMERICA'S EXPORT BOOM IN MANUFACTURED GOODS

Despite the steady expansion of US industry in the late nineteenth century, the commodity composition of foreign trade remained remarkably stable. Exports continued to be dominated by agricultural goods, particularly raw cotton, grains (wheat and corn), and meat products, which together accounted for nearly two-thirds of total exports in 1890. Manufactured goods comprised about 20 percent of total exports, a figure that had been stable for many decades. Meanwhile, America's imports consisted of a wide variety of consumer products (coffee, tea, and sugar), raw materials (tin and silk), and manufactured goods, imported primarily from Britain but increasingly from Germany and other European countries. Throughout this period, the overall growth in trade was slow: export volume crept up only 30 percent in the fifteen years between 1880 and 1895.[53]

In the mid-1890s, however, US trade underwent a remarkable transformation. Exports of manufactured goods surged, jumping to 35 percent of total exports by 1900 and reaching nearly 50 percent by 1913. As figure 6.1 shows, after having been a large net importer of manufactured goods since the colonial period, the United States quickly became a large net exporter around the turn of the century. Between 1890 and 1910, the United States reversed a century-old trade pattern based on exporting agricultural products and importing manufactured goods.

The export surge began in the early 1890s. Exports of manufactured goods doubled in value between 1895 and 1900, increasing their share of total exports from 26 percent to 35 percent. In this five-year period, the volume of manufactured exports rose an astounding 90 percent, partly due to a worldwide economic boom. Growth in manufactured exports paused before surging again between 1908 and 1913, bringing their share of total

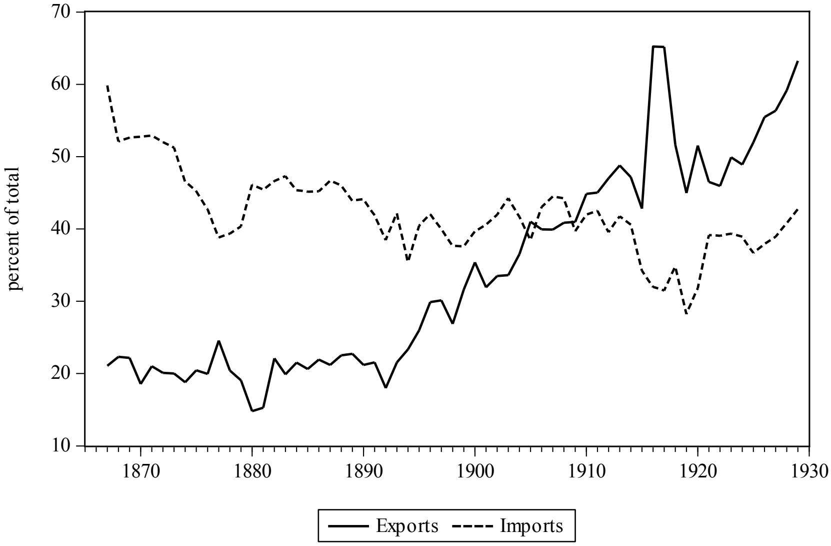


Figure 6.1. Trade in finished manufactured goods, 1870–1930: Share of total exports/imports. (US Bureau of the Census 1975, series U-213–224.)

exports to nearly 50 percent. World War I pushed the net export position in manufactured goods to even higher levels that were maintained in the 1920s, but the key transition for this development was the decade after 1895.[54]

European observers dubbed the dramatic change the "American Commercial Invasion." The US share of world manufactured exports jumped from 4 percent in 1890 to 11 percent in 1913, reaching 18 percent by 1929. This reflected an enormous increase in domestic production: in 1913, the United States accounted for 36 percent of the world's manufacturing production, up from 23 percent in 1870. The fraction of manufacturing output that was exported, by contrast, was relatively small and stable over this period. For example, in 1914, manufactured exports were about 6 percent of manufacturing production, about the same as they had been in 1879. The share of domestic production exported was much higher in certain sectors, such as petroleum, chemicals, and manufactured foods, but it never reached more than 10 percent in most industries.[55]

What accounts for the abrupt change in the structure of exports? Why were the 1890s a transitional decade for US trade rather than some earlier or later period? A shift in comparative advantage toward manufactured goods could result from changes in factor endowments or technology relative to other countries. Yet these explanations seem unable to explain the change: capital per worker and total-factor productivity in manufacturing did not grow unusually fast in 1890s, nor did agricultural exports experience a noticeable collapse. Instead, the leading explanation for America's export success in manufactured goods is the country's improved ability to exploit its abundance of raw materials. While commodity exports before the Civil War were primarily agricultural, exports after the war shifted toward raw materials, particularly minerals. The newly emergent comparative advantage in certain manufactured goods resulted from the growing abundance of such primary resources as iron ore, copper, and petroleum used in the production of these manufactured goods.[56]

Although all manufactured exports grew rapidly during this period, the rapid growth of iron and steel exports was the main driving force behind the dramatic change in the composition of exports. Iron and steel products rose from 4 percent of total exports to 9 percent between 1895 and 1900 as export volume soared. The largest single category was machinery, which included engines, electrical machines, farm equipment, sewing machines, cash registers, and printing presses. Other key products included steel rails, pipes and fittings, wire, tools, locks and hinges, billets, and structural iron and steel. Exports of innovative new goods–such as automobiles, phonographs, office equipment (typewriters), and electrical products—surged as well, but started from such a small base that they constituted a tiny part of overall export growth prior to World War I.

Why did iron and steel products suddenly became competitive on world markets after 1895? Here is where the link between the exploitation of natural resources and manufactured exports can be seen. The surge of iron and steel exports can be traced to the bountiful supply of iron ore that appeared once the Mesabi range in Minnesota was opened in 1892. The commercial development of these enormous mineral deposits had dramatic consequences: Minnesota's share of the country's iron ore production jumped from 6 percent in 1890 to 24 percent in 1895, and then to 51 percent in 1905.[57] The domestic price of iron ore plunged by half when the Mesabi shipments hit the market. Because iron ore accounted for more than half the materials costs of producing blast furnace products, the steep fall in the price of iron ore significantly reduced the cost of producing pig iron and thus final iron and steel products. This price reduction significantly improved the competitive position of domestic producers vis-à-vis British producers, which were then the leading exporters of iron and steel goods.[58] Having an abundance of natural resources at home, particularly iron ore and coal, gave domestic producers access to cheap raw materials and allowed supply to expand without encountering resource constraints. By 1900, the United States accounted for 34 percent of the world's pig iron production and 37 percent of the world's steel output.[59]

The second largest category of manufactured exports was copper, also a minerals-based product. Exports of copper manufactures rose from 0.3 percent of exports in 1890 to 6 percent of exports in 1913, as electrification generated a huge demand for copper wire and other copper-based products. Massive copper extraction in the West allowed this growth to occur. Another large category of manufactured exports was petroleum, which became an article of export only after the oil discoveries in the 1860s. Although refined in the United States, petroleum was the least processed of these new natural resource–based exports.

Despite its abundance of natural resources, the United States never exported its minerals in their raw state; the country was even a small net importer of both iron ore and copper throughout this period. Instead, the United States exported the final, processed goods that used those minerals. There were two reasons for this. First, large domestic producers were vertically integrated and kept the cost advantage of raw material abundance within the firm. For example, US Steel owned the major iron ore mines, and Standard Oil of New Jersey owned the major oil fields. Second, many of these minerals were not easily traded, which had major implications for trade flows. If the world market for iron ore was perfectly integrated, the abundance of natural resources would not necessarily favor domestic producers, because those resources would be available to producers in all countries at the world price. But the Lake Superior iron ores were not an internationally traded commodity, because of high transportation costs; the St. Lawrence Seaway linking the Great Lakes to the Atlantic Ocean was not yet open. Hence, the price impact of the Mesabi Range was not transmitted to the world market except through the price of final iron and steel goods produced in the United States.

The contrast with raw cotton is instructive. Cotton was also a raw material, but one that was easily transportable and hence exported in huge quantities.[60] One reason the United States never developed an internationally competitive, export-oriented textile or apparel industry was that cotton was available to foreign producers at roughly the same price as domestic producers. The enormous production of cotton in the South did not give a particular cost advantage to the domestic textile industry: US firms had the same raw materials costs and technology as their British rivals, but had to pay higher wages.

Another important feature of the export surge was that it was driven almost entirely by the largest firms in an industry. US Steel Corporation by itself accounted for 90 percent of the country's iron and steel exports in 1909.[61] Similarly, International Harvester dominated exports of farm equipment, Standard Oil dominated exports of petroleum, Westinghouse dominated exports of electrical machinery, and Armour dominated exports of processed food. Because the export surge was concentrated in just a few large firms in a few industries, it had a limited impact on US trade policy. While the increase in exports was substantial, it still amounted to a modest share of the total production of those firms. The exports were not broadly based and did not create a large constituency in favor of major policy changes.

Yet the export boom did bring some subtle changes to American trade politics. Iron and steel producers, who had been at the center of political battles over tariff policy since before the Civil War, began to lose interest in protection. Instead, they began to focus on the importance of export markets, which in turn gave rise to increased interest in reciprocity as an alternative to protectionism. Some exporting firms began organizing in support of promoting exports through a policy of reciprocity. The National Association of Manufacturers (NAM) was formed in 1894 by small and medium-sized businesses that were interested in selling in foreign markets. Other smaller groups formed as well, such as industry-specific export groups or broader entities, such the National Reciprocity League (1902) and the American Export Association (1909). But these interest groups had virtually no impact on policy. Although large firms no longer needed protective tariffs, such duties still had enormous value for smaller producers that did not export and remained vulnerable to residual competition from imports, and who were therefore prepared to lobby vigorously to limit foreign competition. Most small businesses remained vulnerable to competition from imports and feared a reduction in tariffs. Consequently, NAM proposed reciprocity trade agreements "only where it can be done without injury to any of our home interests."[62]

Finally, we should note that the export expansion occurred without any significant government support. The federal government did not play a direct role in bringing about the change in the composition of exports and was almost entirely passive when it came to promoting exports. As Becker (1982, xiv) notes, "The expansion of the exports of American manufactured goods between 1893 and 1921 is remarkable more for the lack of close government cooperation than for closer ties between business and government in the making of these sales."

## THE RECIPROCITY MOVEMENT

The growth in manufactured exports was too recent a development to have influenced the congressional debate over the Dingley Tariff of 1897. Yet the increasing exports of manufactured goods brought into question the necessity of high protective tariffs to restrict imports and strengthened the hand of domestic producers with a stake in opening foreign markets for exports. This gave rise to the idea of reciprocity as a new approach to trade policy.

The reciprocity movement was spearheaded by the influential Republican James Blaine, who had served as speaker of the House and was twice secretary of state. Once an ardent protectionist, Blaine became an enthusiastic proponent of promoting exports through reciprocity agreements, particularly with Latin America. Blaine's idea was to offer tariff reductions on tropical goods that did not compete with domestic producers, in exchange for lower foreign tariffs on manufactured and agricultural goods produced by the United States. Blaine saw several advantages to this approach. First, reciprocity agreements would strengthen the economy by expanding manufactured exports without exposing domestic industries to foreign competition. Second, by reducing some import duties, reciprocity would quell the Democratic attacks against high tariffs and thereby bolster domestic political support for protective duties. If the advocates of protection did not act to moderate the system, Blaine feared that Democrats might destroy it completely if they regained power. "The enactment of reciprocity . . . is the safeguard of protection," he argued. "The defeat of reciprocity is the opportunity of free trade."[63] Third, reciprocity agreements would strengthen ties with Latin America and serve American foreign policy interests in the region. Blaine's advocacy of reciprocity gained a foothold among a minority of Republicans, but was generally viewed with suspicion by the party's establishment, which did not want to see any deviation from existing policy.

Blaine first advocated reciprocity in 1881, when he served as secretary of state in the Garfield administration. Blaine observed that Latin American countries sold their raw materials to the United States but purchased most of their manufactured goods from Europe. Blaine saw an opportunity to displace Europe as Latin America's main supplier of manufactured goods by offering concessions on the tariffs the United States imposed on its imports from the region. Blaine hoped to strengthen regional trade cooperation, but his short tenure in office did not allow much to be accomplished.

Blaine resumed his efforts to promote closer ties with Latin America in 1890, when he returned as secretary of state in the Harrison administration. He convinced the president that the pending McKinley tariff bill should include a reciprocity provision. Such a provision, as he saw it, would allow the executive branch to negotiate agreements reducing foreign barriers to US exports in exchange for concessions on noncompeting imports. Blaine was particularly adamant that the tariff bill not put sugar on the duty-free list, because it was a valuable bargaining chip whose duty could be reduced in such negotiations. "The charge against the protective policy which has injured us most is that its benefits go wholly to the manufacturer and the capitalist, and not at all to the farmer," Blaine noted. "Here is an opportunity where the farmer may be benefited—primarily, undeniably, richly benefited. Here is an opportunity for a Republican Congress to open the markets of forty million of people to the products of American farmers," but "there is not a section or line in the entire [McKinley] bill that will open a market for another bushel of wheat or another barrel of pork."[64]

Blaine failed to convince the Ways and Means Committee about the merits of his proposal. Most Republicans were too attached to existing policy and too jealous of Congress's constitutional authority to give the executive branch the ability to reduce duties in negotiated agreements. However, President Harrison supported Blaine and forwarded to Congress a report from him about a Pan American conference in which great interest had been expressed in closer commercial ties with the United States.[65] Harrison noted that almost 90 percent of imports from Latin America already entered the United States free of duty, making it difficult to offer concessions that would persuade those countries to reduce their barriers against American exports. If Congress decided that it could not offer concessions on dutiable imports from Latin America, Harrison suggested imposing penalty duties on countries that did not give fair market access to American goods.

The Senate Finance Committee accepted this recommendation. While keeping coffee, tea, hides, sugar, and molasses on the free list, it amended the House bill to allow the president to suspend duty-free treatment of imports from countries imposing "unequal or unreasonable" duties on US exports. This provision was accepted by the conference committee. Thus, Congress adopted a punitive form of reciprocity: the United States did not offer tariff concessions to other countries, but demanded better treatment for its exports under the threat of penalties and retaliatory duties.

This provision enabled Blaine, assisted by John W. Foster, a State Department aide, to undertake negotiations with Central and South American countries to secure better access for US products. If they did not cooperate, the countries would risk having higher tariffs imposed on their exports of sugar and other commodities to the United States. In 1891–92, Blaine reached ten agreements, all but two of which were with countries in the Western Hemisphere. For example, Brazil eliminated its duties on US wheat, flour, pork, and farm equipment, and reduced its tariffs on other American goods so that it would continue receiving duty-free access in the United States for its hides, sugar, and coffee. Three countries—Colombia, Venezuela, and Haiti—failed to respond satisfactorily and were slapped with penalty duties, although duties were not imposed on Argentina or Mexico, despite their reluctance to conclude agreements. The US Tariff Commission (1919, 28) later concluded that this provision of the McKinley tariff had been "moderately effective both as a measure of retaliation and as a means of securing tariff favors."

Meanwhile, Democrats opposed the reciprocity provision on the grounds that it avoided any change in protective duties on goods that competed with domestic producers. They believed it merely fiddled with a tariff system that needed a thorough overhaul. Charles Crisp of Georgia argued that "no amount of juggling, no amount of sophistry, no amount of theory will prevent them from understanding really what this protective system is; that its effect is to take from one class to give to another, to take from the masses to give to a class."[66] In their 1892 election platform, Democrats denounced "the sham reciprocity which juggles with the people's desire for enlarged foreign markets and freer exchanges" by maintaining protective duties.[67] Consequently, the Democratic electoral victory in 1892 ended the Republican reciprocity experiment. The Wilson-Gorman Act of 1894 reimposed uniform duties on sugar and terminated the Blaine program. This quick reversal of American policy outraged Latin American countries; they complained bitterly about the abrogation of the reciprocity agreements and retaliated by imposing higher duties on American goods.

Yet the idea of reciprocity did not disappear. The depression of 1893–96 gave rise to the mistaken view that the nation's economic difficulties were caused by "overproduction" and that therefore exports were the only way of dealing with excess production. The hope that the country could export its way out of the slump helped shift the domestic debate away from using high tariffs to reduce imports toward expanding foreign markets for exports. The rapid expansion of manufactured exports after 1895 demonstrated the potential for foreign consumers to be an important source of demand for US goods, as long as producers had access to those markets.

Foreign discrimination against US exports also became more pronounced in the 1890s, adding to concerns about whether American goods were treated fairly in foreign markets. Over that decade, Germany concluded many bilateral trade agreements that included tariff concessions that were not extended to the United States. France's Meline tariff in 1892 created a two-tiered, maximum-minimum schedule of import duties; US goods were subject to the maximum duties because the two countries did not have a trade agreement. And countries of the British Empire began granting preferences to one another. In 1897, for example, Canada gave a 25 percent tariff preference to British goods, a margin that increased to 33 percent three years later. The discrimination against the United States by a large, neighboring market held back the growth of exports. More generally, colonial trade networks expanded and had become more exclusive by the end of the nineteenth century. Competition between colonial powers for territorial control in Africa and Asia meant that European countries could establish dominant positions in certain regions of the world, guaranteeing export markets for themselves or, equally troubling, gaining preferential access to raw materials.

These problems made American officials increasingly concerned about ensuring equal access to markets around the world. For example, in 1899, Secretary of State John Hay issued the "Open Door" notes with respect to China, which European powers had carved into different spheres of influence. Hay sought assurances that Europe would respect China's territorial integrity and guarantee "the benefits of equality of treatment of all foreign trade throughout China." Although it had its own preferential trade arrangements with Hawaii (and soon with Cuba and the Philippines after the Spanish-American War), the United States wanted to guarantee that all countries "shall enjoy perfect equality of treatment for their commerce and navigation within such spheres."[68] The Open Door notes reaffirmed the American interest in establishing equality of treatment as a fundamental principle guiding trade policy, but involved no concrete actions on the part of the United States.

Many believed that the only way the United States could combat the spread of these exclusionary policies was by adopting some form of reciprocity and taking a more active role in negotiating trade agreements with other countries. Yet reciprocity was a minor issue in the 1896 election. Having disposed of Blaine's reciprocity provision in the 1894 Wilson-Gorman tariff, the Democratic platform was silent about the matter. The Republican platform attacked the elimination of reciprocity as "a National calamity," arguing that "Protection and Reciprocity are twin measures of

American policy and go hand-in-hand."[69] Furthermore, the incoming Republican president, William McKinley, had become a convert to the cause of reciprocity. In 1890, as chairman of the Ways and Means Committee, McKinley had been cool to the idea, but Blaine gradually convinced him of its merits. By 1895, McKinley favored the policy on the condition that it not compromise protection for domestic industries. As he put it, "We want a reciprocity which will give us foreign markets for our surplus products and in turn that will open our markets to foreigners for those products which they produce and we do not."[70]

The Dingley tariff of 1897 experimented once again with reciprocity. Section 3 of the act authorized the president to reduce duties by a limited amount on a specified list of commodities—including argol (crude tartar), wine, brandy, champagne, and paintings—for countries that made "reciprocal and equivalent concessions" for US goods. The section also reintroduced the penalty duties of the McKinley tariff, giving the president the discretion to withdraw duty-free treatment for imports of coffee, tea, and vanilla beans from any country deemed to be "reciprocally unequal and unreasonable" in its trade policy. In addition, section 4 authorized, for the first time, the president to reduce import duties (within two years, by no more than 20 percent, in agreements lasting no more than five years) on a limited number of articles (that were "natural products of such foreign country . . . and not of the United States") for countries giving equivalent tariff concessions to the United States. Although the section did not grant any real authority beyond the president's existing treaty-making power, Congress's invitation to negotiate trade agreements with other countries marked a break from the past and implied that it would favorably receive them. But the invitation was also carefully circumscribed, as the many qualifications suggest.

In October 1897, President McKinley appointed John Kasson, a former congressman and veteran diplomat, to head a special State Department reciprocity division that would be responsible for negotiating the agreements.[71] Under section 3, the United States concluded argol agreements (as they were called) with Germany, France, Italy, Portugal, and Switzerland. For example, Germany removed restrictions on American meat exports and applied its conventional tariff to most American goods. Under the broader section 4 authority, Kasson concluded agreements with eleven countries, mainly small Central American nations but also France and Argentina. In December 1899, the president submitted most of these agreements to the Senate for approval.

Though they covered just a few commodities, the Kasson treaties encountered stiff opposition. Sheep farmers vehemently opposed the Argentine agreement, which would have cut duties on Argentine wool by 20 percent. An agreement with France would have allowed most US exports to enter under the country's minimum tariff schedule rather than the maximum, while the United States would have to reduce duties on 126 goods by between 5 and 20 percent. But the proposed reduction in duties on French undergarments provoked enough resistance from the hosiery industry to scuttle the entire deal. Export interests that would benefit from the improved market access abroad were not engaged in the political fight because the economic stakes for them were too small.[72]

As a result, the Kasson treaties languished in the Senate Foreign Relations Committee, never to be voted upon. In his annual message of December 1900, McKinley urged Congress to approve them: "The policy of reciprocity so manifestly rests upon the principles of international equity and has been so repeatedly approved by the people of the United States that there ought to be no hesitation in either branch of the Congress in giving to it full effect." Yet the president did not force the issue, because he worried about splitting his party before the presidential election.[73] After his reelection, McKinley used his inaugural address in March 1901 to press for ratification of the agreements once again. Because the nation's production was "increasing in such unprecedented volume," the country had to seek foreign markets as an outlet for its products. Therefore, the president said, "reciprocal trade arrangements with other nations should in liberal spirit be carefully cultivated and promoted."[74]

But the Republican leadership in Congress was too attuned to domestic political opposition to move the treaties forward. As a result, these and other reciprocity treaties failed to gain support throughout the nineteenth century, as table 6.4 shows. In fact, these piecemeal treaties, which would only affect a small amount of trade with just a few countries, had little appeal for either party. While Republicans did not want to remove the few trade barriers protecting small- and medium-sized firms in various industries, Democrats dismissed the proposed reductions as a sham because they were mainly limited to noncompeting tropical goods and failed to address the core protective duties for cotton, woolen, and iron and steel manufacturers. Secretary of State John Hay lamented to Kasson, "What a lot of fine things we could do if it were not for the Senate," because there had never been "a period in our history so pregnant with opportunity."[75] Dismayed by the Senate's inaction and McKinley's lukewarm support, Kasson resigned in March 1901.

By this time, with America's export boom in full swing, McKinley

TABLE 6.4. The fate of reciprocity treaties, 1840–1911

| Year | Country | Outcome | In effect |
|---|---|---|---|
| 1844 | Germany | Senate rejects | |
| 1854 | Canada | Senate approves | 1855–1866 |
| 1855 | Hawaii | Senate rejects | |
| 1856 | Mexico | Senate rejects | |
| 1867 | Hawaii | Senate rejects | |
| 1871 | Canada | Senate rejects | |
| 1875 | Hawaii | Senate approves | 1876–1900 |
| 1883 | Mexico | Senate ratifies treaty, rejects authorizing legislation | |
| 1884 | Dominican Republic | Negotiated by President Arthur, withdrawn by President Cleveland | |
| 1888 | Canada | Senate rejects | |
| 1890 | Great Britain | Great Britain rejects | |
| 1899 | France | Senate withholds vote | |
| 1899 | Argentina | Senate withholds vote | |
| 1899 | Ecuador | Senate withholds vote | |
| 1899 | Nicaragua | Senate withholds vote | |
| 1899 | Great Britain | Senate withholds vote | |
| 1901 | Russia | Senate rejects | |
| 1902 | Great Britain | Senate amendments unacceptable to Britain | |
| 1902 | Cuba | Senate approves | 1902–1934 |
| 1909 | Canada | Senate approves, Canada rejects in 1911 | |

*Source*: Compiled from US Tariff Commission 1919.

had decided to endorse the idea of reciprocity more forcefully. Speaking at the Pan American Exposition in Buffalo on September 5, 1901, McKinley declared that economic "isolation is no longer possible or desirable." He noted that "our capacity to produce has developed so enormously and our products have so multiplied that the problem of more markets requires our urgent and immediate attention. . . . We must not repose in fancied security that we can forever sell everything and buy little or nothing." Instead, policymakers would have to build on the phenomenal growth in manufactured exports over the preceding decade and start cultivating foreign markets for American goods. As the president argued,

> Reciprocity is the natural outgrowth of our wonderful industrial development under the domestic policy now firmly established. . . . The period of exclusiveness is past. The expansion of our trade and commerce is the pressing problem. Commercial wars are unprofitable. A policy of good will and friendly trade relations will prevent reprisals. Reciprocity treaties are in harmony with the spirit of the times, measures of retaliation are not. If perchance some of our tariffs are no longer needed, for revenue or to encourage and protect our industries at home, why should they not be employed to extend and promote our markets abroad?[76]

In short, McKinley proposed a fundamental shift in US trade policy. Of course, his success would depend upon having the political courage to take on congressional Republicans who were strongly opposed to such a change. We will never know if McKinley could have been successful, because, just a day after delivering the address in Buffalo, he was shot by an assassin and died shortly thereafter. Yet it is unlikely that McKinley would have succeeded in making reciprocity a cornerstone of US trade policy. To judge by the difficulties that his successors had, even determined presidential leadership would have failed to convince the conservative Republican leadership in Congress to deviate from the status quo.

## NEW ARGUMENTS AGAINST PROTECTIVE TARIFFS

The political support underlying the Republican policy of high protective tariffs had been very stable since the Civil War. But as the economy grew and changed shape, old coalitions began to fracture. Big industrial firms, especially in the iron and steel industry, were now exporting to the world and no longer needed protection from foreign competition. Civil War veterans were passing from the scene, making pension expenditures a less compelling justification for high tariffs. And within the Republican party, progressive "insurgents" from Midwestern agricultural states began sharply criticizing the tariffs that favored manufacturing industries. Progressive Republicans supported a protective tariff in principle, but believed the structure of duties was biased in favor of big business in eastern states that did not need government assistance. They wanted to reduce the burden of tariffs on consumers and farmers by cutting rates on industrial goods while raising rates on agricultural goods and raw materials. Thus, cracks started to emerge in the Republican Northeast-Midwest protectionist coalition.

The progressive movement arose out of the social upheavals that accompanied the nation's industrialization and gained political strength around the turn of the century. Dismayed by government favoritism and the political power of big business, progressives wanted to take policy decisions out of the hands of corrupt politicians in Congress and give them to impartial experts working in independent government agencies. These agencies, it was thought, could establish regulations to protect labor (working hours and conditions) and consumers (railroad rates and food and product safety), free from the influence of business interests and party politics. The progressive insurgents originally arose within the Republican party, which favored a larger and more active economic role for the government than Democrats did at the time.

The progressives succeeded in shifting the debate over tariff policy. Led by such figures as William Borah of Idaho and Robert LaFollette of Wisconsin, the insurgents complained that the existing tariff schedule was unfair: tariffs were far too high on eastern manufactured goods and not high enough on agricultural goods and raw materials produced in the Midwest. They argued that this promoted industrial monopolies that exploited farmers and consumers. As a result, Republican insurgents from the corn and wheat belt across the upper Midwest began to oppose Republican stalwarts from urban, industrial constituencies in the East. As Sarasohn (1989, 67) notes, however, "the [progressive] insurgents were not opposed to protection, but to excessive protection, a term that they seemed to define anew with each vote."

The regional split within the party occurred not just on tariff policy, but over other issues as well, such as the income tax. The Old Guard Republican establishment from the East opposed the income tax because it would fall heavily on their constituents and would weaken the justification for high import duties. Progressive Midwestern Republicans supported an income tax for precisely those reasons. Although there were few progressive Republicans in the House, there were enough of them in the Senate, where the Republican majority was relatively slim, so that a shift of three to five votes to the Democratic side could have a decisive impact.

While Democrats praised the efforts to reduce tariffs on industrial goods, the Republican insurgents did not return the compliment. While insurgents were often at odds with the Republican leadership, they were not about to align themselves with low-tariff Democrats. Although they sometimes voted together, the insurgents were generally hostile to Democrats; it was not an alliance but an occasional marriage of convenience. While Democrats professed to believe in low tariffs in general, progressive Republicans were half-hearted and inconsistent in their opposition to excessive duties, maintaining their support for a "reformed" protective tariff. For example, Borah used standard arguments about the benefits of protection to justify a high duty on imported barley.

Of course, while the East-West Republican split on tariff policy was emerging as a relatively new phenomenon, the Democrats had always been seriously divided over the issue, only on a North-South basis. Northern Democrats representing industrial constituencies had always resisted tariff reductions, while southern Democrats representing more rural districts wanted extensive tariff cuts. As we have seen, the party's difficulties with this division went back to the 1870s when Samuel Randall of Pennsylvania thwarted several Democratic attempts to reduce duties.

With the United States having become a net exporter of manufactured goods, and the idea of progressive reform emerging as a growing force in American politics, the tariff seemed ripe for renewed political conflict. Unless the Republicans could come up with new justification for maintaining existing levels of protection, these new developments promised to benefit the Democrats, who had been associated with the idea of tariff reform for many decades.

Furthermore, by the turn of the century a new generation of tariff critics was making two main arguments against protective tariffs: that they were responsible for the high cost of living and put an unfair tax burden on workers, and that they were distorting the American economy by promoting monopolies and increasing industrial concentration. Although these criticisms were largely inaccurate, the arguments gained wide currency and fed the public's growing misgivings about high tariffs while putting Old Guard advocates of protection on the defensive.

Regarding the cost of living, tariffs clearly increased the domestic price of imported goods above what they would have been without the tariffs.[77] Ida Tarbell, the muckraking journalist, was the person most responsible for driving this message home. In a six-part series entitled "The Tariff in Our Times," published in the periodical *The American* in 1906–7 and later as a book, Tarbell sought to expose the corrupt politics and special interests that operated behind the scenes and influenced Congress in setting the tariff. In 1909, Tarbell published two widely noted articles—"Where Every Penny Counts" and "Where the Shoe Is Pinched"—in which she popularized the notion that protection inflated the profits of manufacturers while raising the cost of living and reducing the standard of living of working families. For the working class, "every penny added to the cost of food, of coal, of common articles of clothing means simply less food, less warmth, less covering." She noted that the buying and mending of shoes accounted for a quarter of consumer spending on clothing. "It was hard enough for the poor to buy shoes ten years ago before the Dingley tariff, but with every year since it has been harder," she complained. The high cost of shoes was based on the duties on imported leather and thread, which benefited the beef trust and the leather trust, let alone the even higher tariff on shoes, which benefited the United Shoe Company. All of these added costs were borne by the consumer. "At a time when wealth is rolling up as never before, a vast number of hard-working people in this country are really having a more difficult time making ends meet than they have ever had before," she concluded.[78]

Reformers also charged that duties on consumer goods were regressive and hit poor households with higher prices for basic consumer goods while increasing profits for rich industrialists. While this story was plausible, there is almost no empirical evidence on the distributional burden of taxation during this period. As we saw in chapter 5, the tariff may have been broadly neutral with respect to consumers overall, although the tariff was almost certainly more regressive than an income tax. This argument helped resurrect the idea that an income tax would be a more equitable way of raising government revenue.

Critics sometimes took the argument about the cost of living further and blamed the tariff for rising prices. After decades of deflation following the Civil War, the consumer price index rose nearly 20 percent between 1899 and 1913. Of course, the tariff was not responsible for this development. As already noted, the United States was on the gold standard, and the overall price level was determined by global monetary conditions. Inflation appeared in the late 1890s because new gold discoveries increased the worldwide supply of gold. That the tariff was not responsible for the rising price level is evident from the fact that every country on the gold standard, even those that practiced free trade, such as Britain, also experienced rising prices. (And, of course, high tariffs had not prevented deflation from occurring during 1873–96.) Still, the argument that tariffs were responsible for the higher cost of living resonated with the general public.[79]

Finally, tariff critics complained that, by protecting domestic firms from foreign competition, high tariffs gave rise to monopolies that earned large profits at the expense of consumers and farmers. A brief but frenzied merger wave—which started in 1896, peaked in 1899, and subsided by 1903—led to the consolidation of many industries and transformed the landscape of American business. The most dramatic example was the creation of the US Steel Corporation in 1901, which at one point accounted for about 90 percent of domestic iron and steel production. Other large industrial firms also emerged, such as American Tobacco, Diamond Match, International Harvester, and Standard Oil. These corporations dominated the domestic market, absorbing smaller firms or driving them out of business.[80]

Critics had long complained that import duties reduced competition and encouraged monopolies. As Benton McMillin (D-TN) argued, "While the Government has thrown up its tariff walls without, monopolists have joined hands within for the purpose of putting up prices and plundering the people through the devices known as trusts, pools, and combines."[81] Republicans vigorously denied any connection between the tariff and the growth of big business. In 1902, President Theodore Roosevelt maintained that "the cases in which the tariff can produce a monopoly are so few as to constitute an inconsiderable factor in the question. The question of regulation of the trusts stands apart from the question of tariff revision. The only relation of the tariff to big corporations as a whole is that the tariff makes manufactures profitable. . . . To remove the tariff as a punitive measure directed against trusts would inevitably result in ruin to the weaker competitors who are struggling against them."[82]

The fact that the Dingley tariff of 1897 was immediately followed by a huge wave of industrial consolidations lent credibility to the accusation that the tariff encouraged monopolization. In 1899, testifying before Congress on the trust movement, Harry Havemeyer, the president of the American Sugar Refining Company (the sugar trust), famously pronounced that "the mother of all trusts is the customs tariff bill." Havemayer's widely publicized statement became the populist rallying cry that "the tariff is the mother of the trust," but he was widely misinterpreted. He did not mean that the tariff gave rise to the trust movement, but rather that the tariff gave much greater security to domestic firms than did monopolization, which was always being disciplined by the entry of new competitors.[83]

Did protective tariffs promote the monopolization of the domestic market? In theory, an import quota might reduce foreign competition in a way that facilitates collusion among domestic firms, but import quotas were not used at this time. A nonprohibitive import tariff simply raises the price of imports and enables domestic firms to capture a larger share of the market, but does not necessarily promote industry consolidation or facilitate collusion. Import tariffs might even have reduced domestic concentration by allowing smaller, less efficient firms to survive.

Economic historians have been skeptical about whether protective tariffs led to the rise of big business during this period. High tariffs had been in place for many decades prior to the merger wave of the late 1890s. Furthermore, business consolidations also occurred in sectors that were dependent on exports, not just those protected from imports. American Tobacco, International Harvester, the meat-packing trust, the Standard Oil Company, as well as US Steel were exporters and did not fear imports. Trusts were also created in industries that were completely unaffected by international trade.[84]

So what led to the great merger wave from 1897 to 1903, if not the tariff? Ironically enough, the antitrust laws may have been a contributing factor. In 1890, Congress passed the Sherman Antitrust Act prohibiting contracts or combinations in restraint of trade. Three key Supreme Court decisions in the late 1890s ruled that cartels, or horizontal agreements to fix prices, were illegal, but mergers that accomplished the same result were legal. By making informal business cartels illegal, the Sherman Antitrust Act may have triggered the mergers that resulted in legal consolidations.[85]

While protective tariffs were not a major factor behind the consolidation, tariffs on raw materials and intermediate goods may have promoted some firms to become vertically integrated. As McCraw (1986, 53) notes, "If a steelmaker located on the Atlantic Coast had to pay a protected market price for pig iron and coking coal from Western Pennsylvania, rather than importing it cheaply by ship from Canada, he would more likely integrate backward and acquire these inputs at their unprotected cost." Beyond this, there were more important technological factors and market incentives to create larger corporations.[86]

In sum, economists have been skeptical about the argument that protective tariffs were responsible for the rising cost of living or the increase in industrial concentration, while granting that duties were regressive in comparison to an income tax. Yet all of these arguments gave Democrats and progressive Republicans political ammunition that they could use to attack the Old Guard Republicans. The Old Guard denied that high tariffs were protecting special interests, arguing that protective duties helped maintain high wages for workers and promoted the growth and stability of the economy. They refused to repudiate the Dingley tariff: House Speaker Joseph Cannon (R-IL) drew fire for calling it, "all things considered, the most perfect and just customs law ever enacted."[87] Unable to put forward fresh arguments to justify existing duties, the Republican establishment exploited the ever-present fear that reducing tariffs would expose large segments of the economy to a flood of imports, driving firms out of business, workers out of jobs, and wages down to lower levels.

Unfortunately for them, this argument had lost credibility at a time when American manufacturing was increasingly dominated by large, firmly established corporations that were now exporting to the world. Aside from exaggerating the importance of protection for the manufacturing sector, it also exaggerated its impact on labor income. As we have seen, wages had always been much higher in the United States than in Europe because of its large per capita endowment of land.[88] And the steady growth of real wages was tied to the growth of labor productivity; between 1890 and 1913, real wages increased roughly 30 percent because labor productivity increased by about 30 percent.[89]

With the tremendous strides that American manufacturers were making in world markets, the argument that high tariffs were needed to save jobs and protect high wages was becoming less credible over time. By the turn of the century, the American economy was populated by large corporations that were many times bigger than their European counterparts. And they were highly efficient because they were forced to compete in the large, integrated, and highly competitive American market, unlike European producers, who still faced trade barriers within the continent that kept the size of markets much smaller.[90] As a result, many large manufacturers had become uninterested in the tariff. Indeed, political support for the tariff was found not so much among big businesses but among the many small manufacturers who were the most vulnerable to foreign competition.

The loss of the iron and steel industry as a major source of protectionist agitation was symbolic of how the old Republican coalition was changing. In 1908, the steel magnate Andrew Carnegie publicly stated that the tariff on imported iron and steel could be safely eliminated without any significant effect on domestic production. He argued that the iron and steel industry was well past the point of being an infant industry, and the industry could fend for itself without fear of foreign competition. Steel producers no longer needed protection "because steel is now produced cheaper here than anywhere else, notwithstanding the higher wages paid per man," Carnegie (1908, 202) argued. "That there is a cult who regard [the doctrine of protection] as sacrosanct and everlasting, none knows better than the writer; but its members are few and not likely to increase, since our country has admittedly developed and gained, and is to continue gaining, manufacturing supremacy in one department after another until it reaches a position where free trade in manufactures would be desirable for it, all the markets of the world open to her, and hers to the world," he continued. "Our difficulty will then be to get other nations to agree to free trade."

Carnegie's widely publicized remarks enraged Old Guard Republicans, who subpoenaed him to appear before Congress. Republicans were prepared to grill him over his heretical and inconvenient views on protection, but Carnegie turned the table on them. He proceeded "to alternately mystify, baffle, bamboozle, and infuriate committee members by ridiculing their attempts to understand the steel industry, disputing the figures they had gathered, and assuring them they were in over their heads when it came to business," Nasaw (2006, 705) writes. With a sharp wit and incomparable command of business details, Carnegie humiliated his inquisitors and made them seem like ignorant, misinformed fools who were way out of their league in arguing that American industry still needed protection.

All of these factors put Republicans under increasing pressure to rethink their support for old-fashioned, high-tariff protectionism. With the death of President McKinley, the question was whether his successor, Theodore Roosevelt, a promising young reformer associated with the progressive wing of the party, would take on the party establishment and propose tariff reforms.

## TARIFF STANDPATTERS: ROOSEVELT AND TAFT

Although President Roosevelt was a passionate progressive reformer in many areas, tariff policy was not one of them. Roosevelt began his career sympathetic to the idea of free trade, but changed his position to advance in the party. By the time he became president, Roosevelt adhered to the mainstream Republican position on protection.[91] More accurately, and perhaps uncharacteristically, he was indifferent to the whole issue. In 1894, he described himself as not "very keen about the tariff business myself, having, as you know, a tinge of economic agnosticism in me." Roosevelt often remarked that tariff policy was simply a matter of political expediency, not of principle. "My feeling about this tariff question is . . . that it is one of expediency and not morality," he once noted. "There is nothing any more intrinsically right or wrong in a 40 percent tariff than in a 60 percent tariff."[92] Roosevelt (1924, 8:51) argued that tariff policy "should be decided solely on grounds of expediency. Political economists have pretty generally agreed that protection is vicious in theory and harmful in practice, but if the majority of the people in interest wish it, and it affects only themselves, there is no earthly reason why they should not be allowed to try the experiment to their heart's content."

Roosevelt came into the presidency wary of proposing any tariff changes, because he knew the issue was a political minefield. "There is no question that there is dynamite in it," he observed. "There is a widespread feeling that [the tariff] should be altered, but there is equally widespread difference as to what the alterations should be, and there is no doubt whatever that if they are too extensive, or if anything in the nature of a general revision takes place, there will be a panic or something approaching to it, with consequent disaster to the business community and incidentally to the Republican party. Personally I think it of very much less consequence what tariff we have than it is to have continuity of tariff policy."[93]

Roosevelt's term in office, from 1901–09, was one of general economic prosperity and a period of unified Republican government. With economic growth strong and the budget in surplus, the conservative Republican Congress, led by Speaker Joseph Cannon of Illinois, had no compelling reason to revise the tariff code. Roosevelt fought the Old Guard Republicans over business regulation, conservation, and naval expansion, but he was unwilling to take them on over tariffs. "On the interstate commerce business, which I regard as a matter of principle, I shall fight," Roosevelt vowed. "On the tariff, which I regard as a matter of expediency, I shall endeavor to get the best results I can, but I shall not break with my party."[94]

In his first annual message to Congress in December 1901, Roosevelt signaled that he would not push Congress for a change in tariff policy in deference to the party's Old Guard "standpatters" who opposed any change. There was, he said, a "general acquiescence in our present tariff system as a national policy." Although he put in a kind word about reciprocity, he qualified it by adding that "reciprocity must be treated as the handmaiden of protection."[95] Roosevelt considered asking for the passage of the Kasson reciprocity treaties, but Senator Nelson Aldrich of Rhode Island, a powerful Old Guard Republican, advised him against it. Roosevelt backed down and said that he would simply call the Senate's attention to them. With such a lackluster endorsement, the treaties died a quiet death in the Senate. By postponing action on reciprocity in 1902, Roosevelt effectively deferred any action on tariffs for years to come.[96]

Roosevelt dismissed public criticism of protection as "irrational" and held that "ninety-five percent of the complaints about the tariff had no basis whatever."[97] "The country has acquiesced in the wisdom of the protective-tariff principle," he reiterated in 1902. "It is exceedingly undesirable that this system should be destroyed or that there should be violent and radical changes therein." Despite his reputation as a reformer, Roosevelt put his reform efforts elsewhere. Having repeatedly stated that the tariff "should be decided solely on grounds of expediency," he found it expedient to do nothing.

After his landslide victory in the 1904 presidential election, however, Roosevelt began to think that some tariff revision might be necessary to appease public opinion. "In my judgment," he wrote shortly after the election,

> "if we do not amend or revise the tariff, . . . we will be putting a formidable weapon in the hands of our opponents. I am aware that there are dangers in the attempt to revise it, but I am convinced that there are more dangers if we do not attempt to revise it. You cannot be aware of how many Republicans bitterly resent the proposition that there should be no change in the tariff. . . . I am convinced that the mere standpatters, if they have their way, will come pretty near to smashing the whole Republican party; . . . it will be the greatest mistake, from the standpoint of the protectionists, if the protectionists refuse to have the tariff amended."[98]

Still, he approached the issue without enthusiasm. He did not think "it at all a vital matter to reduce [tariffs], so far as the welfare of the people is concerned"; he wanted simply "to meet the expectation of people that we shall consider the tariff question. . . . I am going to make every effort to get something of what I desire in the way of an amendment to the present tariff law; but I shall not split with my party on the matter, for it would be absurd to do so."[99]

In November 1904, Roosevelt sent a letter to Speaker Cannon with some draft language for discussing the tariff issue in his annual message to Congress. Roosevelt proposed saying that, although doing away with tariffs "would be a ruinous calamity" for the nation, the time had come for Congress to reconsider the tariff schedule, "not radically to revise or alter it, but to see if there are not points where it can with advantage be amended."[100] Cannon and Aldrich insisted that the president remove any mention of the tariff from his message or they would block the expansion of the Interstate Commerce Commission's power to regulate the railroads, something the president desperately wanted.[101] Mark Hanna, a powerful Republican senator from Ohio, explicitly warned the president, "As long as I remain in the Senate and can raise a hand to stop you, you will never touch a schedule of the tariff act."[102] Without the support of Republican leaders in Congress, Roosevelt abandoned the idea of modifying the tariff: "At present the party is so far from being a unit in favor of amendment or reduction of the present tariff that there is a strong majority against it—a majority due partly to self-interest, partly to inertia, partly to timidity, partly to genuine conviction—these motives operating differently in different States or with different individuals."[103]

Roosevelt's unwillingness to challenge the status quo did not end the demands in some quarters for tariff reform. In 1906, looking toward the next presidential election, Roosevelt privately predicted that "the tariff is of course what will cause us the most trouble. . . . The demand for its immediate revision is entirely irrational; but this does not alter the fact that there is a strong demand; and as Cannon and the Congressional leaders will not—and I believe really cannot—say that there will be an immediate revision, I should not be surprised to see this issue used to defeat us."[104]

Sensing the shift in public sentiment, William Howard Taft, the Republican candidate in the 1908 presidential election, signaled his willingness to take on the party's inflexible position on tariffs. As Roosevelt's secretary of war, Taft went against the grain of his party by talking up tariff reform and allying himself with those who favored a downward revision of duties. The Republican platform even pledged that the party was "unequivocally for a revision of the tariff by a special session of Congress immediately following the inauguration of the next President," but did not explicitly endorse a downward revision and explicitly denied that protective duties would be abandoned. The purpose of the Republican policy was "not only to preserve, without excessive duties, that security against foreign competition to which American manufacturers, farmers and producers are entitled, but also to maintain the high standard of living of the wage-earners of this country, who are the most direct beneficiaries of the protective system."[105]

So on what basis would tariff rates be revised? According to the platform, "The true principle of protection is best maintained by the imposition of such duties as will equal the difference between the cost of production at home and abroad, together with a reasonable profit to American industries." This became the new credo for the Republicans: the tariff should be set to "equalize the differences in the cost of production between domestic and foreign producers." This standard gave the appearance of being an objective and "scientific" way to set tariffs, thus ruling out special favors or excessive protection to politically influential industries. As we shall see in chapter 7, however, the principle was largely meaningless and impossible to implement.

Taft endorsed this idea, even as he supported the idea of tariff reform. "The Republican party has in times past laid down the rule that the amount of protection which should be allowed is that which represents the difference between the conditions prevailing in Europe and those which prevail in this country, [and] the time has come for a readjustment," he wrote to Roosevelt in 1907. "There are individual instances known to me and known to everyone in which the amount of the tariff is greatly in excess of this difference. . . . These inequalities ought to be remedied."[106]

Given his experience with the obstructionist Congress, Roosevelt warned Taft to "move with great caution" on the tariff issue. This did not stop Taft from announcing during the campaign, "It is my judgment that a revision of the tariff in accordance with the pledge of the Republican platform will be, on the whole, a substantial revision downward." Roosevelt later recalled telling Taft "that he was making pretty drastic promises, and that there might be difficulty in having them kept, . . . but [Taft] was perfectly breezy and cheerful, and declined to consider the possibility of trouble ahead."[107]

In their 1908 election platform, the Democrats welcomed "the belated promise of tariff reform now offered by the Republican party in tardy recognition of the righteousness of the Democratic position on this question; but the people cannot safely entrust the execution of this important work to a party which is so deeply obligated to the highly protected interests as is the Republican party."[108] The Democrats advocated giving duty-free treatment to imports of all goods that competed with the products of "trust-controlled" industries, something known as the "Iowa idea" for its Midwest origins. The party also pledged to reduce the cost of living by slashing tariffs on the necessities of life.

Just as they had in the three previous presidential elections, the Republicans cruised to victory in 1908. Taft easily defeated his Democratic opponent, William Jennings Bryan, who lost his third presidential election, and the Republicans retained control of Congress. In his March 1909 inaugural address, Taft called for a special session of Congress to expedite the revision. The new tariff schedule "should secure an adequate revenue and adjust the duties in such a manner as to afford to labor and to all industries in this country, whether of the farm, mine or factory, protection by tariff equal to the difference between the cost of production abroad and the cost of production here," the president stated. "It is thought that there has been such a change in conditions since the enactment of the Dingley Act, drafted on a similarly protective principle, that the measure of the tariff above stated will permit the reduction of rates in certain schedules and will require the advancement of few, if any."[109]

Whatever hope that Taft had for a downward tariff revision should have been tempered after considering the Republican leadership in Congress. The speaker and the chairmen of the key committees were Old Guard conservatives and no friends of tariff reform. Speaker Cannon had no patience for progressives and opposed regulation and reform for fear that it would muddy the Republican message, but he also recognized the advantages of allowing the passage of a bill that would appear to satisfy the public sentiment for a tariff adjustment.

Just days after Taft's inaugural, Ways and Means Committee Chair Sereno Payne (R-NY) reported a bill that the committee had been working on since the election. The majority report conceded that "there has been a popular demand, more or less widespread, for the general cutting of rates."[110] The bill's approach was like the old Democratic approach: to reduce rates on raw materials while keeping high duties on final manufactured goods. As a result, coal, iron ore, wood pulp, and hides were put on the duty-free list, and tariffs on pig iron, steel, and lumber were cut by about one half. Duties on wool and woolens, cotton goods, and refined sugar were left largely intact, while those on fabrics, gloves, hosiery, and glass were increased. In general, the bill reshuffled rather than reduced most duties and thus proposed only modest changes overall.[111] The Republicans wanted to dispense with the matter quickly without fundamentally revising the protective duties. "I do not think it worthwhile at this time to engage upon any academic discussions of the tariff question," Payne said. "The country is overwhelmingly in favor of a protective tariff."[112]

The minority Democrats dismissed the bill as a failure, charging that "most of the changes in a downward direction are more apparent than real" and that it would do nothing to reduce the cost of living for consumers and workers. They argued that the Republican bill could not "be defended on any ground whatsoever, even by a standpatter. In all, the reductions, both apparent and real, fall far short of the substantial relief which the people were led to expect."[113] Hopelessly outnumbered in the House, Democrats had no chance of blocking the bill, and their opposition was perfunctory. In April 1909, the House approved the Payne bill by a partisan vote of 217–161; Republicans supported passage 213–1 while Democrats opposed it 160–4.

As always, the Senate's response was less predictable. By now the Senate had gained a reputation as "the graveyard of tariff reform" for its ability to block all reductions. A key reason for the lack of any significant tariff changes after the Civil War is that the Republicans controlled the Senate for twenty-one of twenty-three sessions from 1867 to 1913. And sure enough, the tariff bill came under the control of Nelson Aldrich, chairman of the Finance Committee and the Republican majority leader, an Old Guard stalwart of old-fashioned protectionism. The powerful Rhode

Island senator viewed the purpose of the revision differently than the president. Certainly the Republican platform promised tariff changes, Aldrich admitted, but "where did we ever make the statement that we would revise the tariff downward?"[114] In the spring and summer of 1909, producer lobbyists had ready access to Aldrich and the Finance Committee, which operated in closed sessions. The committee made 847 amendments to the Payne bill, including about 600 rate hikes that reversed many of the cuts made by the House.

Aldrich tried to push the legislation through the Senate without debate, but that proved impossible. Instead, a bitter floor fight broke out between the Old Guard Republicans from the East and the progressive insurgents from the Midwest. For two months, the progressive insurgents, led by Robert LaFollette (R-WI), Albert Cummins (R-IA), and William Borah (R-ID), delivered withering criticisms of the bill, which they were not allowed to help frame, as it was debated schedule by schedule. The insurgents blamed the high cost of living on the tariffs that protected big businesses from foreign competition. They repeatedly attacked Schedule K, the wool and woolens schedule, which had changed little since 1867. Jonathan Dolliver (R-IA) dismissed the bill as a "petty swindle on the American public" and "a rank interchange of political larcenies." According to Dolliver,

> I stand here to defend the people against exactions of avarice and to defend the good name of [the] protective tariff against those who are using it as a mere asset in the operation of financing conspiracies in restraint of trade. . . . The protective tariff doctrine is sound. It fails only through the inequalities with which it is applied to our affairs. It fails only when avarice and greed, anxious to make more money, have such influence with Congress as to rewrite tariff laws, not in the interest of the people, not in the interest of the unnumbered millions of our people, but in the narrow, naked, personal interest of a few men scattered here and there in various sections of our beloved country.[115]

Joseph Bristow (R-KS) argued that the protective system was "being contorted into a synonym for graft and plunder."[116] The insurgents attacked tariff "jokers," little tricks written into the legislation, such as obscure classifications of goods devised by domestic producers for their own particular products. For example, cotton cloth could be considered "colored," and therefore subject to a higher rate, even if it had just a single non-white thread in it. While a tariff would be reduced on one type of good that was no longer imported, it would be increased on another that was, giving the impression that the overall level was unchanged. Insurgents blasted the Old Guard as "reactionary tools of the trusts and eastern corporations."[117]

Even as they railed with indignation against the inequities of the tariff and special-interest politics, the insurgents made it clear that they were not opposed to protection. Rather, they envisioned a revision that would reduce duties on industrial goods (iron, machinery, cotton and woolen textiles) and increase duties on agricultural products and raw materials (barley, hides, wool, paper, coal, and iron ore).[118] Francis Newlands (R-NV) favored an "equitable" tariff revision: "I am not willing that it should be revised entirely in the interests of Eastern manufacturers at the expense of Western products, and if there is to be a protective tariff, I shall endeavor to see that the West gets its fair share of protection."[119] The Republican insurgents attacked the party leadership for favoring Eastern industries, but since they favored equal protection for raw materials producers in the West, they did not ally themselves with Democrats, whom they viewed as wanting lower tariffs all around.

The Old Guard mounted a fierce defense of the existing system. The attack on Schedule K, the wool and woolens schedule, outraged Aldrich, who called it "the crucial schedule of this bill":

> There is no Senator sitting upon this side of the Chamber, there is no person who is acquainted with the tariffs of this or any other country, who does not know that an assault upon the wool and woolen schedule of this bill is an attack upon the very citadel of protection and the lines of defense for American industries and American labor. If the Senate destroys the relations in that schedule or destroys the schedule itself, you demoralize the whole protective system; and you destroy every line of defense which the people of the country have who believe in the protective policy.[120]

Despite this defensiveness, the Old Guard far outnumbered the insurgents and therefore could be completely dismissive of them, often walking out on their speeches.

The Senate held dozens of roll-call votes on individual lines of the tariff bill, from the duties on blankets, lumber, hides, boots and shoes, petroleum, textbooks, and tea, among many others. "It has been tariff, tariff, tariff, all the time, literally morning, noon, and night," Henry Cabot Lodge (R-MA) complained. "I have never been so worked in my life."[121] The Democrats largely held back and allowed the Republican factions to attack one another. Yet these votes also exposed a weakness in the Democratic position, as party unity in favor of lowering duties often evaporated when it came to votes on specific commodities of local interest. For example, Democrats voted against putting lumber on the free list and reducing duties on hides and barley.

An even more important development occurred in the course of debating the tariff when Congress began considering an income tax. Democrats proposed an income tax in part to compensate for the lost revenue from lower import duties. Taft and other progressives also supported an income tax and worked to build support for it. The Old Guard may have been able to block significant tariff reforms, but they had more difficulty controlling the groundswell of support for an income tax. Speaker Cannon killed the introduction of an income tax in the House, and Chairman Aldrich spiked it in the Senate Finance Committee, but they could not prevent the proposal from coming up on the Senate floor. Joseph Bailey (D-TX) proposed a tax of 3 percent on net income of individuals and corporations, while progressive Albert Cummins (R-IA) proposed a graduated income tax on individuals. The Bailey-Cummins amendments quickly gained bipartisan support, but were strongly opposed by the Old Guard, who saw them as an indirect attack on protective tariffs.[122]

Aldrich struggled to separate the income tax from the tariff and thereby buy time for the policy of protection. To quell the uprising, the Republican leadership insisted that a constitutional amendment was necessary to ensure that the Supreme Court would not strike down the law, as it had in 1895. President Taft supported this approach, adding that he had "become convinced that a great majority of people of the country are in favor of vesting the National Government with power to levy an income tax, and that they will secure the adoption of the amendment in the States, if proposed to them."[123]

Despite his role in instigating the tariff revision, Taft remained on the sidelines throughout Congress's deliberations.[124] The president admitted that he was "bewildered by the intricacies of the tariff measure," but encouraged the insurgents to "go ahead, criticize the bill, amend it, cut down the duties—go after it hard. I will keep track of your amendments. I will read every word of the speeches you make, and when they lay that bill before me, unless it complies with the platform, I will veto it."[125] Aldrich also worked closely with the president: he knew the insurgents could not stop the bill, but the president could. He reassured Taft that the bill would merit his support, and pledged his cooperation on other legislative matters.

Finally, in early July 1909, the Senate passed the tariff bill by a vote of 45–34; Republicans voted 44–10 in favor, with the no votes coming from progressives, while Democrats voted 24–1 against the bill. Speaker Cannon and Majority Leader Aldrich stacked the conference committee appointed to reconcile the House and Senate versions with Old Guard protectionists. With the bill in conference, Taft finally became engaged and began pushing the conferees to adopt the House bill, which was closer to the downward revision he wanted. The conference spent an inordinate amount of time on the tariff on hides, which the House put on the free list but the Senate kept at the existing duty of 15 percent. The president sent an ultimatum to the Congress, insisting that he would not sign a bill that did not have the free raw materials included in the House bill (opposed by Senator Aldrich) and the Senate reductions in the tariff on gloves and hosiery (opposed by Speaker Cannon). The veto threat was credible and forced the conferees to agree. Still, despite some success in shading tariffs lower somewhat, as in the House bill, Taft's late attempt to intervene limited his impact on the bill. And the president managed to alienate both the proponents of high tariffs and the insurgents: the former objected to his insistence on reductions, while the latter were disappointed that he did not demand more cuts in rates on industrial goods.

Despite the controversy, Taft signed the Payne-Aldrich bill in August 1909, saying that "I believe it to be the result of a sincere effort on the part of the Republican party to make a downward revision and to comply with the promises of the platform."[126] The public reaction was mixed, because the rates in the tariff schedule simply tinkered with duties in the Dingley tariff of 1897. The new act lowered duties on 650 items, raised them on 220, and left 1,150 untouched. The average tariff on dutiable imports fell slightly, from 46 to 41 percent, but the measure failed to live up to the promises that Taft had made.

The Payne-Aldrich tariff contained some innovations. It introduced to a two-column tariff schedule of minimum and maximum duties. The minimum duties were the standard ones, while the maximum duties, set 25 percent higher, were scheduled to go into effect against all goods coming from countries which "unduly discriminate" against US exports. To assist him in this task, the act authorized the president to create a Tariff Board to look into the trade policies of other governments.[127] The maximum duties were never put into effect, because the Board found no significant foreign discrimination against US exports. However, Taft soon began to use the Tariff Board to investigate the differences in the cost of production between domestic and foreign producers in various industries. Democrats adamantly opposed the creation of any such government body on the grounds that it would entrench the system around a bad principle, that of setting tariffs to equalize differences in the costs of production of domestic and foreign producers. Therefore, they terminated the board when they regained control of Congress in 1912.

The Senate also passed a proposed amendment to the Constitution allowing an income tax. The amendment required the approval of three-fourths of the state legislatures, a significant enough hurdle that Old Guard Republicans were confident that its passage could be blocked. Indeed, the strongest opposition to the income tax came from the wealthiest, industrialized, urban states in the Northeast, such as Connecticut, Rhode Island, and Pennsylvania, where the Republican party was strong.

But there was more immediate political fallout from the Payne-Aldrich tariff. Speaking in Winona, Minnesota, the heart of insurgent country, in the fall of 1909, Taft argued that the new tariff was "a substantial achievement in the direction of lower tariffs and downward revision." He added, "On the whole, I am bound to say that I think the Payne Tariff Bill is the best tariff bill that the Republican party ever passed and therefore the best tariff bill that has been passed at all. I do not feel that I could have reconciled any other course to my conscience than that of signing the bill." These remarks created an uproar among already alienated Republican voters in the Midwest. He later admitted that, in describing the bill, the "comparative would have been a better description than the superlative."[128]

The Payne-Aldrich tariff had other reverberations as well. As in the aftermath of the McKinley tariff, Republicans paid a high price for the Payne-Aldrich tariff when it lost control of the House in the 1910 midterm elections. Although Republicans retained control of the Senate, Democrats and progressive Republicans could combine forces to move legislation through the chamber.

When the new Congress convened, the new speaker, Champ Clark of Missouri, declared that the first priority of Democrats was "an honest, intelligent revision of the tariff downward to give every American citizen an equal chance in the race of life, and to pamper none by special favor or special privilege; to reduce the cost of living by eradicating the enormities and cruelties of the present tariff bill."[129] In August 1911, Democrats in the House and a coalition of Democrats and progressive Republicans in the Senate passed three bills to reduce duties on raw wool and wool and cotton manufactures. Taft vetoed each bill, ostensibly on the grounds that the Tariff Board had not completed a cost-of-production investigation. "It is on account of my ignorance of the question of the tariff that I am going to veto these bills," Taft reportedly confessed to a senator. "That is a very honest statement to make, Mr. President, but it would be a ruinous one to make public," came the reply.[130] In one veto message, Taft stated he could not permit Congress to "blindly enact a law which may seriously injure any industries involved and the business of the country in general" without a study of the matter.[131] Old Guard Republicans were relieved by the president's veto, but progressives castigated him for abandoning the cause of tariff reform.

Taft alienated progressive Republicans even more by negotiating a reciprocity agreement with Canada. In 1866, the United States had abrogated the Reciprocity Treaty of 1854. Ever since then, Canada had protected its market and sought preferences for its exports in the markets of the British Empire, but it still had an interest in a trade agreement with the United States. In 1909, bilateral discussions began, and a new accord was reached. In exchange for reducing its duties on manufactured goods, Canada would gain better access for its livestock, grain, timber, meat, and dairy products (but not wool) in the United States. What Taft thought would be a great achievement of his administration seemed once again to prove his political ineptitude and further estranged him from progressive Republicans. They viewed a trade agreement with Canada as another example of the government keeping protective duties on manufactured goods high while reducing duties on precisely those goods produced in the Midwest's farm belt. The agreement reinforced the perception that farmers would get no help from the Washington establishment. The pact also alienated the Republican Old Guard, who viewed it as a threat to the alliance between raw materials and final-goods producers that provided the core support for the protective system. Furthermore, it violated the Republican pledge that the tariff should be set to equalize the costs of production; if that was the ostensible principle guiding the party's trade policy, then how could it be arbitrarily bargained away?

Even though it meant more competition for wheat farmers, cattle ranchers, and other producers of primary products, the accord was broadly popular because it would help manufacturers in a neighboring market. Newspapers wanted cheaper access to Canada's paper and pulp and used their editorial pages to help drum up support for the agreement. Taft worked hard for its approval and the agreement passed in February 1911 without debate in the House by a vote of 221–92; Democrats supported the bill 143–5, but the Republicans were split 78–87. The Senate failed to act before the end of the congressional session, so the bill was passed again by the House in April and then by the Senate in July by a vote of 53–27; Democrats voted 32–3 in favor and Republicans voted 24–21 against. However, in a September 1911 referendum, Canadian voters rejected the agreement, and it never went into effect.[132]

Thus, despite the fact that the United States had become a net exporter of manufactured goods, American trade politics did not change significantly in the last decade of the nineteenth century or the first decade of the twentieth. Although divided, Republicans remained committed to high tariffs, while Democrats struggled to gain political power and overcome party divisions of their own. Both parties professed an interest in promoting exports, but a policy of reciprocity was never seriously considered. Any significant reduction in protective duties would inflict too high a political price on the party that sought to gain greater market access abroad for exporters. As a result, trade policy remained fixed in the longstanding status quo.