T H E S I S

A STUDY OF AMERICAN TARIFF LEGISLATION

Submitted by

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I HEREBY RECOMMEND THAT THE THESIS PREPARED UNDER SUPERVISION BY Kermit C. Watkins ENTITLED A STUDY OF AMERICAN TARIFF LEGISLATION BE ACCEPTED AS FULFILLING THIS PART OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF SCIENCE MAJOR SUBJECT ECONOMICS

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PART ONE

In considering an economic problem of such scope of the tariff one must bear in mind at the outset that the solution of such problems is never accomplished by the efforts of isolated thinkers. One is likely to believe that in reading a chapter in some text of elementary economics that he has derived a very logical and comprehensive knowledge of the tariff. The arguments seem conclusive whether it is the text of a free trade economist that you consult or the text of a protectionist. It is true that most of these arguments are sound when applied to the situation as understood by their proponents, but the whole problem is beclouded by misapprehensions of the sort of situation that exists.

One is likely at this distance and with this perspective to view dispassionately the tariff problem which confronted this nation at some previous period in history and discourse with considerable finality on the unwisdom of the efforts of that time. What one is likely to disregard is the general feeling of the populace in regard to the political aspects of economic questions. One is likely to disregard their desire for governmental self security, or their resentment toward trade discrimination.

In the study of individuals it is recognized that an understanding of behavior comes from a knowledge of their inherited traits and an understanding of their reaction to environment. Yet nations are too often regarded as growing up isolated in the midst of other nations; are regarded as having policies which do not affect nor are affected by other nations. To assume such an attitude is much like condemning a boy for striking another no matter what provocation may have existed for his defence. So in this paper it shall be the purpose not to approve or condemn but to make clear the origins and to show the type of American Tariff Legislation.

One more thing before beginning this discussion. It is natural to regard all action as having cause and creating effects. Because this is characteristic of human thought it is necessary that one more distinction be made clear. Many times in history men have set forces in motion with high purposes and the unforeseen results have been disastrous and other men with evil intentions have wrought great good. Thus the effort of man to create effects is striking and very interesting, but of more interest by far are the tremendous and unforeseen results of forces which men with little awareness of their potency have set into motion. The effects of such acts can be too easily confused with their purpose, although in the majority of cases they are not even remotely related.

With this in mind let us proceed to the examination of the origin of tariffs.

PART TWO

EUROPEAN AND COLONIAL BEGINNINGS

In the fourteenth century there began to arise in England a plan of national economy called mercantilism, a word deriving its meaning from a Latin stem containing the idea of trading; so the mercantile system as it applied to national economy meant the effort of a nation to enrich itself by a method in trading whereby the nation would export a value of goods greater than her imports thus creating a credit for herself payable in precious metals. The precious metals were by these economists regarded as the reality of wealth.

Behind mercantilism is a deep seated instinctive human urge which psychologists refer to as the hoarding instinct. Rising in men in the times when hoarded food and weapons gave a measure of security to primitive man it manifests itself in our own century in the disappearance from circulation into small private hoards of two billion dollars in gold in times of dearth (1931). Nothing could be more natural than that England should adopt a policy designed to bring into her borders a stream of the precious metals as a reserve against times of war for purposes of defence.

To accomplish a trade balance which would really produce such results it was necessary to put a great many powers in the hands of government. Into its care was thrust the power to regulate commerce so that the commonwealth would benefit. Some industries were encouraged, others stifled by the move to effect a sound national economy under the prevailing idea that the government is the master of the economic destinies of its people, an idea which has not yet been wholly overthrown.

As it affected the colonial peoples the mercantile theory made a clear distinction between colonies and the mother country. The mother country serving as a nucleus placed her colonies in the position of feeders. They were maintained under the governance of the mother country to be controlled by the principle that their conduct should be upon whatever plan would most profit the mother country. An examination of the situation with which England was faced at this time will make clear her position as regards the American Colonies.

In England the Industrial Revolution beginning in the early part of the 18th century brought about such a rapid growth of manufactures that it was necessary that the colonies take the shock of overproduction. Because they were under her power the colonies could hardly choose but to buy their manufactured goods from England. The desire for stability of markets and the effort to open new markets made themselves felt in the character of colonial legislation during this period. In the absense of any practical method of resistance the colonies became producers of raw materials and agricultural products for manufacturing England, the returns from their exports going to purchase imported English goods. There was little incentive to manufacture in the colonies as long as the population was centered upon the seaboard, since better goods could be more cheaply procured from the English establishments.

The idea that a country should have a favorable balance of trade as a normal condition to be continued over long periods of time is a notion deriving its existence from the merchantilist school of economists. Inasmuch as favorable balance refers to a trade condition under which a nation's imports are less valuable than its exports and under which it expects the balance to be paid in gold instead of goods it reflects the mercantile notion that opulence, if not represented by precious metals themselves, is at least likely to exist in countries that are well supplied with that particular form of wealth. Any trade manipulation which tended to so divert or regulate imports and exports that the exporting nation would be receiving for her exports both gold and goods was termed under that economy to be wise and helpful inasmuch as it was deemed to bring into the nation the foundation of prosperity as they conceived it, a bountiful supply of gold.

It is natural with this theory as a foundation that the government should consider the regulation of trade as one of its vital and important functions. It is not surprising that during the hey day of mercantilism the business of guiding industry and controlling trade fastened itself upon the government as the only body having the competence and extending its activities over a sufficiently broad field to really effectively administer such a task.

In the carrying out of these obligations there were devised methods of converting trade into new channels and arranging its flow and extent which ran the gamut from direct subsidy and mandatory legislation to laws about the carrying trade and protective import duties.

At this particular time the various forms of encouragement and discouragement were less concerned with the welfare of individual industries and trading and more so with the general welfare of the nation and such problems as the building up of a defensible nation, whose people could afford war and to whom war with its disastrous effect upon commerce would not bring too serious discomfiture.

No part of the mercantile system has fixed itself upon the world with more tenacity than the doctrine of protective tariff. A protective tariff establishes a duty so high that to pay it will add so greatly to the price of the good that it cannot be introduced into the country in competition with domestic goods.

To be classified as a tariff for revenue such duties must be low enough so that the addition of the duty to the selling price will not seriously constrict its market.

A tariff for revenue does just what its name implies. The import duties collected are used to defray the expenses of government while the purpose behind the protective tariff is to foster the growth of production in some industry which at the time and under the conditions is for some reason failing to maintain itself in the face of foreign competition, or to encourage domestic production of some commodity hitherto imported. In effect, the tariff serves simply to keep a trade good from coming into the protected market.

This mercantile doctrine was not altogether unopposed even in its beginnings, but the whole system of self-reliant communities was so characteristic of early English villages and the mercantile system had been so generally accepted by individuals who sold commodities for money without completing the exchange of that money for goods that it was easily instituted as a system of national economy. It should be characterized as the political philosophy of a nation inured to the hardship of thrift.

Adam Smith in 1776 published his work called "The Wealth of Nations." There is launched in this work a line of imaginative reasoning embodying the idea that in the natural course of trading, individuals trade only when what they have is of less worth to them than that for which they exchange it; hence both parties to a trade are profited, and barriers to trade in hindering this trading process are injurious to nations; that the wealth of nations lies in the volume of their trade not in the balance. He further postulated that if division of labor be profitable in making pins in England then were such divisions world wide, each section producing that which it could produce most economically under its conditions and trading for things produced more economically by some other section under conditions more favorable to the production of that other good, the economies in production would make the trading even more economical.

It was during the very highest wave of mercantilism in England that the North American Colonies were established. Spanish Colonies had already been established under the same system over 100 years before, and by the time of the real growth of English colonies in America the Spanish colonies were well on their way to decline because they had been mulcted of their gold and exploited of their raw materials by the mother country. The commanding colonial philosophy was one of making the colonies subservient economically to the mother country. The trend toward natural adjustment theories in economics led in England by Adam Smith was just beginning to make itself felt not only in England but in France, where it was called the "laissez faire" theory of political economy.

The principle of tariffs was firmly imbedded in the colonial settlers of North America. It was a part of their English heritage growing naturally out of the political philosophies and practices in England at that time. Tariffs and other restrictions upon trade such as the navigation laws as well as encouragements to trade in the form of bounties and direct subsidies had been used in England prior to this time as well as duties for revenue. So it is not unnatural that we find a general tariff provision embodied in the laws of Massachusetts as early as 1638. A part of the text of that law reads, "Whosoever shall buy or receive out of any ship any fruit, spice, wine, strong water, or tobacco shall pay the treasurer one-sixth part of the price or the value thereof; and every person who shall buy or receive any of the said commodities with intent to retail the same shall pay the treasurer one-third the price or value thereof.[1]

It is evident that these duties were for the most part upon articles not usually produced in Massachusetts and thence the chief purpose of this bill must have been the gaining of revenue. However, there is contained in it the provision for double duty upon consignments to

[1]Dewey, <u>Financial History of the United States</u>. 1922.

merchants. It is altogether conceivable that this should act as a considerable check upon the trade.

Some of the other measures were clearly protective. Maryland discriminated against provisions and liquor imported from Pennsylvania. While Pennsylvania in turn recognizing the intent and the use of the measure retaliated against Maryland's shipping.

The character of most of the colonial customs is easily seen by the nature of things taxed. Wines, molasses, rum and spices came in for a good share and in these things it is unlikely that there was any home enterprise to profit while these duties proved a good source of revenue.

Some colonies, however, notably South Carolina and Massachusetts had enacted about 1700 very extensive tariff legislation with both ad valorum and specific duties.[1] These inter-colonial tariffs while they served primarily as a source of revenue were in some cases severely protective and even the small revenue tariffs served to hinder trade in this remote area in which, at best, goods were largely immobile because of natural barriers in the form of streams, impenetrable forests and mountains, and lack of developed transportation facilities. It is certain that trade between the colonies was discouraged considerably by these duties.

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[1] Dewey, Financial History of the United States. 1922

But beyond the slight inconveniences to trade it may be safely concluded that there was little effect upon the people from these laws. The extent of intercolonial trade could not have been very great and duties injurious to British trade were promptly repealed by the English influences. However, the very presence of this sort of legislation in the colonies is material proof that the mercantile system had taken some root there.

There was not only a trade policy in each colony deriving its tenets from the interpretation of the needs of the colony; that is, it was made by the powers within the colony and for the benefit of the colony, but there was also the trade policy of the colony as regulated and controlled by outside interests through the medium of the English Parliament and for the benefit of England.

In entering into a discussion of this period, it is not unlikely that the current interpretation of history will prevail and that the notion will continue that the British rule tended to fix upon the colonies an economic system opposing in essentials the theories which the colonists had evolved within their new environment. The colonists were just as desirous of trade regulation as the mother country and in their small way gave offense to Great Britain by imposing duties[1] which were distinctly

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[1] Greene, E.B. Provincial America. Hart Series. 68. 1905.

anti-British. The mercantile idea had settled itself among the colonists. In their conduct toward other nations and toward one another their attitudes were entirely mercantilistic. The economic struggle between Colonies and mother country was a struggle of colonial mercantilism against English mercantilism.

The growth of manufactures in the colonies, particularly in woolens, iron, and hats, and the incidence of colonial manufactured goods upon the English market brought about in the third decade of the 18th century legislation which was designed to curtail the growth of manufactures[1] and particularly to keep the colonial products from displacing English manufactured goods in the English market. It was to the advantage of England that the colonies devote themselves to the production of raw materials suitable for use in manufactories in the mother country.

Manufactures thus restrained sought other markets. They found in trade with the Spanish, Dutch, and French West Indies a relationship mutually profitable. By trading their goods for molasses, turning the molasses into rum which they used in the African slave trade and trading the slaves for more molasses in the West Indies

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[1] Act of 1699 concerning wool, 1732 concerning hats, and 1750 concerning iron, also navigation acts.

Faulkner, H.U. American Economic History. 144. 1924.

the colonists supplied themselves with the specie for carrying on trade with the mother country and supplied the Spanish, French, and Dutch West Indies with abundant cheap labor so that they were soon underselling the British Indies.

Parliament in response to the demand of the British West Indies passed the Molasses Act in 1733 which instituted a prohibitive duty on molasses coming into the American colonies. Had this duty acted as it was intended the colonies would have been seriously injured, but fortunately they were both able and disposed to evade these restrictions. Various authors estimate that from one-third to one-half the colonial trade in 1700 was contraband. Not only was it regarded as customary to pursue this sort of business, but many of the colonial leaders were engaged in this highly profitable business. Professor Bogart quotes D. A. Wells[1], "The colonists were a nation of law-breakers. Nine tenths of the colonial merchants were smugglers. One quarter of the whole number of the signers of the Declaration of Independence were bred to the contraband trade. John Hancock was the prince of contraband traders, and, with John Adams as his counsel, was on trial before the Admiralty court in

[1] Lalor's Cyclopaedia of Political Science, I, 75. (the original source not referred to)

Boston at the exact hour of the shedding of blood at Lexington, to answer for half a million dollars penalties alleged to have been by him incurred as a smuggler." Another trade practice then common was the trading of rum for fish in Newfoundland, the fish to be traded for goods in southern Europe.

Lodge and Garner in their History of the United States point out that "in 1763, of the 15,000 hogsheads of molasses which were imported into Massachusetts from the West Indies only 500 came from the British Islands.[1] Rhode Island brought in 14,000 hogsheads in one year, only 2,500 of which were imported in conformity to law."

In 1763 the ministry of Pitt gave way to that of Grenville. Pitt had maintained a friendly and understanding attitude toward the colonies in their evasions of various trade acts. The molasses act had remained almost entirely disregarded for thirty years. Now with a new King, George III, and a new ministry headed by Grenville and supplemented by Townshend,the Minister of Finance there arose a new taxing policy. Two major factors united to cause this change in attitude. The first was the feeling of unlimited authority that surged over the heads of British affairs; the other the depleted

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[1] Quoting from Weeden's Social and Economic History of England, vol. ii, p. 754. (Original source not referred to.)

state of the British treasury, and it is likely that the depleted treasury was the greater cause.

The effort took two trends--one the enforcement of the already enacted molasses duty, and the other the passing of new legislation levying other duties. The following year 1764 brought the passage of the Sugar act cutting the duty on molasses and levying new ones on indigo, coffee, wines, silks, and calicoes.[1]

Resentment against these acts was strong. Behind it lay the widening breach of economic interests between the American colonies and their mother country; a breach widened and deepened by the fact that neither was quite able to understand the spirit of the other. The colonies because they apparently received little benefit from Parliamentary taxation were resentful toward the very policy; and its application to such a vital part of their traffic as the molasses trade was an offense almost unpardonable.

Resistance to the Sugar act and the Stamp act and to the duty on tea, which were for the purpose of raising money for the defense of the colonies took the form of two severe economic boycotts. The first in 1766 was so effective that it brought about repeal of the stamp act and revision of the sugar act. The next was in 1768

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[1]Faulkner, H. U. American Economic History. 148. 1924.

following the passage of the Quartering act and a further revenue act which placed duties upon glass, paper, painters' colors, red and white lead, and tea.[1] This, too, was effective and brought about in 1770 a repeal of the offensive legislation, except a nominal tax on tea.

It is useless to try to measure the extent to which trade regulation in the form of import duties was responsible for the breach between the colonies and Great Britain. To single out of the myriad divergencies--social, political, and economic--that single cause and trace its effects is impossible, but it is certain that these duties played no small part in driving the wedge that brought about American Independence. It must further be noted that the system of Tariffs and the knowledge of their uses was early impressed upon the colonists and that the system of trade diversion used by England was the seed of the protective system, the growth of which it is the intention of this paper to trace.

As the colonies approached the rebellion it is interesting to note that according to Faulkner there were less than ten per cent of the population engaged in industry. Among the great industries were ship building, fishing, and shipping, most of which was carried on in the New England states while planting was predominant in the South.

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[1]Faulkner, H.U. <u>American Economic History</u>. 149. 1924.

PART 3

FIRST AMERICAN TARIFFS

In 1776 American Colonies started the business of gaining their independence from England. The rebellion inasmuch as it interfered with trade relations and caused the cessation of trade from England whence the colonists had been wont to look for their manufactured goods stimulated a general feeling of self-trust. Many things previously bought from abroad were manufactured in the colonies while the direction of trade turned from England to Holland, Spain, and France. The war did not find the colonies entirely dependent economically. The colonists had schooled themselves in the business of doing without imports through two non-importation agreements both of which had acted as stimuli to American manufactures. Added to these the years of the revolution gave a considerable period in which industry became a necessity in the colonies. Truly it was in a great measure conducted without a factory system, but it was industry and it served to keep up the spirit of the colonies by supplying their wants.

But the struggling little manufacturers in America were not able to compete at the close of the war with the influx of European goods. Political independence of a doubtful sort had been achieved, but there was another war to be waged to place America in a position of economic ascendency. Treaties to end the war had been signed but these did not end the economic struggle. The best minds of the colonies including Benjamin Franklin and John Jay were unable to wrest from the great trade nations of Europe commercial treaties equitable toward the colonies. Among them only Prussia and Sweden were willing to trade reciprocally while treaties were signed with France, Portugal and Holland not favorable to the new nation.[1]

The position of the colonies was in an economic sense extremely precarious. There was no commercial agreement with England who had been, prior to this time, the outstanding nation in American trade. The new government founded upon the Articles of Confederation had no power to regulate commerce. Rising as it did from a people resentful of law and taxation; rising as it did from a people inherently fearful of government abuse of power; rising as it did from states jealous of their authority, this government was naturally powerless to meet a situation so critical as that which confronted it in 1783. Here was a situation in which a strong central government might have used the tariff to control trade and to furnish the much needed revenues for meeting the expenses of government. Unfortunately at no time did this government possess the power for carrying into effect its provisions. In 1783 this congress tried to meet this situation by means of a revenue bill containing provisions for a 5%

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[1] Faulkner, H. U. American Economic History. 177. 1924.

ad valorum general duty and several specific provisions as well. Due to its inherent weakness in execution they were unable to enforce this provision. It fell to the states to protect their own shipping which they proceeded to do by means of tariff measures ranging from, in the South general revenue measures to severely protective duties in some of the northern states.

So irregular were these state tariffs and so difficult were they of enforcement that there was little benefit inuring from them. The bulk of imports sought the ports at which duties were very low or non-existent. In this manner the haphazard state duties were rendered useless.

The new Constitution reserved to the national government the power to regulate commerce. The weaknesses in administration and execution inherent to the articles had been remedied by the institution of a three branch government headed by a president, and by the giving of the new government the power to lay and collect taxes.

In 1789 the new Congress took up on April 8, the business of levying import duties. Behind this action was the imperative need of the newly organized government for funds to defray its expenses. It was imperative that there be devised a quick, sound method of raising money; a method recognizing the disability and further disinclination of the people to submit to direct taxation.

In the immediate past lay the failure of the Articles because they had no certain source of revenue inasmuch as taxes levied or apportioned upon the states had never been collectable. The strength of the new government was uncertain; its stability only to be assured through strengthening its credit. In the face of these financial necessities the first tariff was designed to create revenues.

Certain industries had gained a foothold during the years of uncertain imports. They were not strong, organized or insistent, but incidental to the revenue purposes of the tariff there were included in the measure several duties intended for protection. From Dewey's Financial History of the United States we derive a most complete list of those articles upon which specific duties were levied. (Tables I and II)

The method used in thie first tariff legislation is interesting. Madison first proposed a skeleton bill containing the provision for 5% general rate ad valorum as well as a list of things recommended for specific duties, but there was no proposal as to the amount of duty upon each article. The argument then turned upon the matter of the purposes of the bill. In its origin as has been mentioned, this measure dated back to 1783 and was simply a revamping of the bill forwarded by the Congress under the Articles. Suggestions were made as to the rate

Table I

Iron	7½%
Glassware, Chinaware, Stoneware	10%
Cocoa	1¢ per lb.
Coffee	2½¢ per lb.
Molasses	2½¢ per gal.
Jamaica Spirits	10¢ per gal.
All other spirits	8¢ per gal.
Tarred Cordage	75¢ per cwt.
Untarred Cordage	90¢ per cwt.
Brown Sugar	1¢ per lb.
Refined Sugar	3¢ per lb.
Tea	6¢-20¢ per lb.
Salt	6¢ per bu.
Madiera Wine	18¢ per gal.
Other Wines	10¢ per gal.
Hemp	60¢ per cwt.
Nails	1¢ per lb.
Steel	56¢ per cwt.
Twine	$2.00 per cwt.

Other less important Specific duties:

Ale	Candles	Fish
Beer	Playing cards	Indigo
Port	Woolen and Cotton Cords	Iron Chains and Cables
Cider	Cheese	Malt
Boots and Shoes	Coal	Soap

Table II

ESTIMATED PER CENT OF DUTIES AD VALORUM FOR YEARS 1791-1801.[1]

Yr.	Rate	Amt. Collected
1791	8½	$4,399,000
1792	11	3,443,000
1793	13½	4,255,000
1794	14	4,801,000
1795	9	5,588,000
1796	8½	6,568,000
1797	10	7,550,000
1798	10½	7,106,000
1799	8½	6,610,000
1800	8¼	9,081,000
1801	9	10, 751,000

[1]Dewey. Financial History of the United States.

of duties and protection was sought by some of the members. As is shown by the table the average ad valorum rate of duties was about $8\frac{1}{2}$ per cent. Several industries received some protection in this measure. The ship building industry which had grown to great proportions in New England caused the growth of hemp and tarred cordage industries which were protected in this act, as well as the iron industry.

Crompton[1] notes that there was a slow growth during the following years of a sentiment for protection, not unified but sporadic. During the period of about eighteen years up to the year 1807 there were about 25 revisions of this act most of which were occasioned by needs for more revenue. In 1792 Hamilton issued his now famous "Report on Manufactures". This paper although it had little effect at the time was a powerful and brilliant exegesis of protective principles. There has probably never come from the pen of any Americal statesman or economist a more masterful and complete favorable analysis of the protective tariff system.

To the presidency in 1801 came a man almost diametrically opposed to the views of Hamilton. Thomas Jefferson was a man grounded in the belief in an American peasantry. The Federalist party and Hamilton believed

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that in centralized population and industrial growth the real economic health of the nation lay. The Republican party believed that in the pastoral and agricultural pursuits man gains freedom for contemplation, and in communion with the soil finds a philosophy more satisfying than opulence.

While much is said of the profound influence which the physiocrats and laissez-faire philosophers exercised upon Jefferson we find in his beliefs in free trade an intense desire to preserve America for the soil-loving peasantry, believing as he did that the strength of citizenry arose from contact with the soil.

It is peculiar and ironic that it was the course pursued by Jefferson, not deliberately but in the course of circumstances, that gave the first valid reason for American protectionism.

Due to the fact that the greater part of Europe was engaged in the Napoleonic war the carrying trade of neutrals had grown greatly. In 1804 exports amounted to $77,700,000; in 1805, $95,500,000; in 1806, $101,500,000; and in 1807, $108,300,000.[1] France and England decreed paper blockades in efforts to stop the supplies of foods and raw materials carried to the enemy by neutrals. Bogart estimates that about 1600 American vessels were

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[1] Taussig, F. W. quoting Treasury Reports. 12. 1914.

captured and commerce valued at $60,000,000 by French and British ships.

Jefferson had little choice in the defence of shipping but to pass a non-intercourse act which before it went into effect was superseded by the Embargo Act forbidding American vessels to leave port bound for foreign countries. This was followed two years later by the non-intercourse act which lifted the embargo on ships bound for foreign ports except the ports of England and France. (Tables III and IV)

These acts were followed in 1812 by declaration of war against England. We have here a period of seven years (1807-1814) during which there was far less than normal importation; a period which more by accident than design was ideal to the encouragement of the growth of manufactures in this country.

That such a growth did occur is witnessed by Gallatin's report issued in 1809,[1] in which he records that manufactures of wood, leather, soap, and tallow candles, spermaceti oil and candles, flaxseed oil, refined sugar, coarse earthenware, snuff, hair powder, chocolate, and mustard were sufficient for domestic consumption, and that manufactures of iron, cotton, wool, flax, hemp; hats, paper, printing, types, printed books, and playing cards; spiritous and malt liquors; gunpowder, window glass; jew-

[1]Bogart, Economic History of the United States. 1918.

elry and clocks; manufactures of lead; straw bonnets and hats; and wax candles were well established.

After the war the secretary of the treasury, Dallas, made a report showing a considerable growth in industry during the war particularly in iron and textile manufactures. F. W. Taussig describes[1] the growth in this sentence, "Establishments for the manufacture of cotton goods, woollen cloths, iron, glass, pottery and other articles sprang up with a mushroom growth."

At the end of the war manufactories owing their existence to the shifting of domestic demand from the foreign market to the home markets were severely threatened by the incidence of foreign competition. The value of imports in 1814 was just about $13,000,000 and in 1816 they had risen to more than $147,000,000. The tendency was for both imports and exports to be stimulated and there was marked a considerable tendency in England toward dumping manufactures in America to nip in the bud the first flower of American manufacturing in an effort to keep the nation from achieving any degree of economic ascendency. Typical of this spirit is the oft quoted statement of Lord Brougham from a speech delivered in 1816 in the House of Commons. "It was well worth while to incur a loss upon the first exportation, in order, by

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[1]Taussig, F. W. United States Tariff History. 17. 194.

the glut, to stifle in the cradle those rising manufactures in the United States which the war had forced into existence contrary to the natural course of things." The continued domination of the British trade policy by those who held to mercantilism led to the passing of the Corn Law of 1815 restricting the flow of American grain into England and in general closing the market which at the close of the war had been so eagerly accepted by America. Had England been willing to accept American imports at this time it is likely that that preponderant section of American populace which engaged itself in agriculture would have been able to stifle the demands for protection on the part of industries threatened by the tremendous influx of imported goods. But when the major part of export trade in agricultural products was so inadvertantly cut off, the opposition to trade restriction breathed itself out naturally. In this sense the protective system as it manifested itself in 1816 was an effort to preserve home markets in the face of the inopportune withdrawal of foreign markets.

FOURTH PART

INCREASING PROTECTION

1816--1833

The Tariff of 1816.

On December 5, 1815, President Madison sent his address to Congress.[1] On the subject of import duties the following paragraph has been selected as reflective of the sense of the nation at that time.

"However wise the theory may be which leaves to the sagacity and interest of individuals the application of their industry and resources, there are in this, as in other cases, exceptions to the general rule. Besides the condition which the theory itself implies, of a reciprocal adoption by other nations, experience teaches us that so many circumstances must concur in introducing and maturing manufacturing establishments, especially of the more complicated kinds, that a country may remain long without them, although sufficiently advanced, and in some respects even peculiarly fitted for carrying them on with success. Under circumstances giving powerful impulse to manufacturing industry, it has made among us a progress and exhibited an efficiency, which justify and belief that, with a protection not more than that which is due to the interprising citizens whose interests are now at stake, it will become at an early day, not only safe against occasional

[1]Annals of the Congress of the United States. 14th Congress--1st Session. 16. 1954.

competitions from abroad but a source of domestic wealth and even of external commerce. In selecting the branches more especially entitled to the public patronage, a preference is obviously claimed by such as will relieve the United States from a dependence on foreign supplies, ever subject to casual failures, for articles necessary for public defence, or connected with the primary wants of individuals. It will be an additional recommendation of particular manufactures where the materials for them are extensively drawn from our agriculture, and consequently impart and insure to that great fund of national prosperity and independence an encouragement which cannot fail to be rewarded."

We find here the chief arguments for the tariff policies which directed legislation during the years following the War of 1812. Briefly they are the argument that tariff helps young industry, that it tends to develop national self-sufficiency, and that the further industrialigation of this country would lead to a balance between agricultural and manufacturing pursuits. The ideal sought was a wealthy well coordinated nation in which the raw material extractors and agriculturalists were to buy manufactures and manufacturers were to become a market for raw materials and foodstuffs.

Moreover the privations attendant upon war were familiar to the people, and there was considerable reaction toward a plan of economy which would render the nation less susceptible to them should there come in the future other serious strictures of commerce.

There was not any great sectional division of the country upon the tariff at this period in history. Agriculture and manufacturing were both confident that in the encouragement of manufactures they would both be benefitted.

There had begun to be at this time a considerable degree of separation and specialization in the pursuits of farming and manufactures. Much of the early colonial woolen industry was in the line of home spinning and while this type of production was encouraged by the same conditions of stricture which were attendant upon the trouble with France and England its growth was not commensurate with the growth of other manufactures.[1]

The impetus given to manufactures by the tariff of 1816 was not great. In the present day concept of protection it could not be regarded as rendering very great protection but in light of the fact that it was virtually unapposed it must be regarded as the concept of protection at that time. The duties ran about 25% ad valorum. Duties on cotton were 25% with all cotton costing less than 25 cents a yard valued at 25¢; duties on wool were the same; and on iron, hammered bar 45¢ per hundred, rolled bar

[1] Agriculture in Northern U. S. 250. Bidwell and Falcon.

$1.50 per hundred, and pig iron 20% ad valorum.[1]

As to just what the result of this legislation was it is difficult to say. There was a considerable growth in industry during the period up to 1833 during which there was a constant increase and adjustment of the tariff. The factory system largely replaced the home as the producer of cloths particularly and there came to be a clear line of demarkation between indistrial pursuits and agricultural pursuits.[2] As the various lines of enterprise crystalized apart the country began to resemble the self-sufficient nation, balanced within itself spoken of by Madison in 1816. The tariff of 1816 was in force with minor changes until 1824. There had been numerous attempts meanwhile to have the whole system revamped. For the first time the new government was meeting with some of the problems that arise out of the tariff.

The English manufacturers had persisted in undermining the system in two ways. They would declare their goods in as of lower value than they actually were thus receiving a smaller ad valorum tax. The difference in price was settled privately between the importer and the purchaser. In addition to this the shippers and merchants of England devined the demand by their orders from

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[1] Taussig. <u>United States History of Tariff</u>. 31, 40, 51.'14.

[2] <u>Agriculture in Northern America</u>. 250. 1820-1860.

The important duties were at this time upon woollens, iron, cotton bagging and hemp chiefly, and of course upon many other things as well. The woollens industry was going through a period of considerable distress because the poorly equipped mills could not compete with the more modern mills abroad especially since their raw materials were more costly.

The following comparison of duties will show the material changes in the act of 1824.

A Table of Net Revenues From

Before 1824

		rate in ¢	duties $
Duck:	Russia	200	57,164
	Ravens	125	39,233
	Holland	250	3,832
Sheeting:			
	Brown Russia	160	5,966
	White Russia	250	1,352
Iron:	pig	50	24,922
	castings	75	14,007
	bar rolled	150	110,053
	hammered	75	519,327
	sheet, rod, and hoop	250	89,592
Steel:		100	18,570
Hemp:		150	98,739
Alum:		200	

After 1824 but before 1828

		rate in ¢	duties $
Duck:	Holland	250	922.50
Cotton Bagging:		$3\frac{3}{4}$	80,900.13

America and often sent similar goods at the same time to be sold at auction at a lower price. Thus not only did they undersell the American but they contrived to take his market almost order by order.[1] The period covered by the Tariff of 1816 cannot be said to be a boom period for merchants or manufacturers on the coast but in those inland regions there did exist a far greater protection than import duties for the goods of importers could not be shipped very far over land.

The discussion of the tariff gave rise early to the sectional division of the country.[2] The New England section whose chief financial interest lay in commerce and ship building naturally regarded the tariff as inimical to their interests while Kentucky was in favor of tariffs on hemp and cordage since those things were chiefly produced there. The growth of iron manufactures caused Pennsylvania to be enlisted with the protectionists while New York and Connecticut were interested primarily in tariffs on raw wool. The South feared that the resumption of import trade would cause her stock of specie to be depleted so they favored the proposed duties.[3]

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[1]Bolles' Financial History of the United States, 1789-1860 Bk. II. Chap III. 387-90. 1891.

[2]Dewey. Financial History of the United States. 175. 1922

[3]Wright. Wool Growing and the Tariff. 45. 1910.

Table (continued)[1]

	rate in ¢	duties $
Iron, Muskets	150	3,748
Rifles	150	3
Mill saws	100	1,274
Castings	75	7,979
Sheet and Hogs	250	31,550
Pig	50	6,294
Bar, rolled	150	87,430
hammered	75	28,484
hammered	90	320,625
Steel	100	19,851
Hemp	175	137,953
Hemp	150	328

In the years following the enactment of 1824 there was considerable agitation for higher duties. At the same time the serious division of sectional opinion made it difficult for the representatives to discern the will of the people. The candidates for president were in favor of some tariffs because they felt the considerable pressure which industries were already bringing to bear upon the government.

The election of Jackson placed in the seat of power a remarkable man but a political enigma very difficult of solution. No one knew exactly where he stood upon the tariff question. The tariff of 1828 which bears to this day the name "Tariff of Abominations" has been variously criticized. Its actual effect was to place the

[1] Reports of Sec. of Treasury. Vol 2. 288-289. Blair and Rives. Washington, 1837.

duties on raw materials very high without placing commensurate duties on manufactures. The result was a high tariff but one which failed to benefit the manufacturer.

As a political measure it cannot be doubted that this was one of the great strategems of political history. It was natural that the South should be opposed to the tariff but they alone could do little about it so this act was intended to turn the manufacturers against high tariffs. In a measure it was successful since it was followed by gradually decreasing rates until 1842.[1]

Duties upon raw wool were materially altered. Instead of the duty of 30% ad valorum as in the act of 1824 it was changed to an ad valorum duty of 40% to which was added a specific duty of 4¢ per pound. Woolens received a considerably larger duty than they had had but the effect was not to increase their protection since the duties on raw wool from which they manufactured their woollens had been increased so much that prices were materially higher. Chester Whitney Wright in his prize winning study of "Wool Growing and the Tariff" quotes from Niles' register referring to the tariff of 1828 as "A bill for the slaughter of sheep; and to prevent the growth of wool in United States and for other purposes. Mr. Taussig quotes Webster as feeling that the ad valorum duty of

[1]Taussig, F. W. United States Tariff History. 95-101. 1914.

about 50% (figuring in the compound duty) was not more than a compensation for the duties on raw wool.[1]

It is at this period that the fierce sectional differences began to arise which are later to culminate in the Civil War.[2]

The vested interests argument arose in regard to the degree of protection. Those industries which had originally been enabled to exist because they were protected insisted that they had the right to the continuation of that protection. The South was at variance with this view not so much from political reasons as for economic ones. The country was divided into two sections by the nature of their trade. The South produced those agricultural staples--cotton, rice, and tobacco in exportable quantities. These products were sold upon the world market at a price determined by simple supply and demand forces. When the South bought goods it was upon the protected market at home. It was upon the American market and prices were higher than abroad. Hence the South received for her cotton which was grown in this country by slave labor and at a cost proportionately high only what the world market offered, but her purchases were made in the protected mar-

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[1]Taussig, F. W. United States Tariff History. 101. 1914.

[2]Treatment of these differences may be found in Schonler History of the United States, 1894. Vol IV. 55-66. and in Bolles Financial History of United States, 1891. Vol II. 413-421.

ket at home. It was upon the American market and prices were higher than abroad. Hence the South received for her cotton which was grown in this country by slave labor at a cost proportionally high only what the world market offered but her purchases were made in the protected market. It is hard to see any real benefit for the South under such conditions.

The North, however, was placed differently. She could sell much of her manufactures in her home market at high prices because of the tariff. In the years between 1809-1860 there were two trends in America. The one the fight of the North for industrialization aided by protection, the other the growth of Agriculture in the South aided by slavery and the invention of the cotton gin. Two poles of economics, an exporting section which could profit by free imports but whose prosperity was threatened by continued protection; an infant industry section which could not readily survive free imports whose prosperity, its people felt, was dependent upon continued protection.

So insistent was the demand of the South for lower duties that there was enacted in 1832 a new tariff which enlarged the free list and made several material alterations in the duties which it retained. After the fiasco of 1828 this law was the embodiment of the ideals of the protectionists. Mr. Clay, the proponent of the so-called "American System" was instrumental in bringing about this legislation and Jackson was glad to sign it.

Mr. Taussig refers to this act as one putting the protectionist policy in the shape which the protectionists hoped it would maintain in the future. However this law which gave protection sufficient to woolens, iron, hemp and other important industrial products met with considerable opposition in the South. Calhoun, the nullificationist led in South Carolina a fight to annul the act. This state declared that the act was unconstitutional and had no force within her boundaries.[1] Andrew Jackson immediately put the machinery into motion to coerce the state into obedience. The Carolinians seeing that the president meant business, and lured by hope of compromise withdrew their nullification acts. The fruit of these controversies was the Compromise Tariff of 1833.

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[1] Schlessinger. Political and Social History of the United States, 1829-1925. 34-37. 1925.

PART FIVE

LOW TARIFF PERIOD

1833-1861

Starting with the 1832 act as a basis the compromise act proposed to reduce the tariffs horizontally to twenty per cent ad valorum. One tenth of the tax over 20% was to be removed on January 1, 1834 and one tenth each even year until in 1840 four tenths of the amount over 20% would be removed then the other six tenths were to be removed, three tenths in Jan,,1842, and the duty upon July 1, 1842, was to become 20%. The South and Southwest showed their approval of this measure by recording only two dissenting votes in the House.

By sections the vote in the House follows:[1]

	In Favor	Opposed
New England	10	28
Middle States	24	47
West	10	8
South and Southwest	75	2
Total	119	85

The period covered by the compromise tariff of 1833 was one of the most critical of American history. It can be said to be extremely important in that it brings to light some of the controlling trends of the time. President Jackson, one of the most dramatic figures in American history, set out to destroy the United States Bank. Holding it to be the instrument of the rich for the oppression of the poor he went before the country with an agressive intention to defeat the renewal of its charter. After

[1] Dewey. Financial History of United States. 187. 1924.

carefully selecting a secretary of treasury willing to help him--Roger B. Taney--he began to withdraw the government funds from the bank. Certain other banks which he chose were used as depositories for these funds. The result of thus removing these funds from a conservative institution to place them in small, carelessly managed banks was to extend credit far beyond the zone of safety.[1]

The danger was heightened by a law for distribution of surplus national revenues among the several states. This law called for the withdrawal of large deposits and its effect upon credit was immediate constriction. Added to this was the Specie Circular which caused only gold to be accepted in payments for land purchased from the government. Naturally enough business followed the precedent of government and the rapidly expanding enterprises had their foundations suddenly removed from beneath them.

Van Buren taking office just in time to receive the deluge had his hands occupied with the drastic financial moves necessary to rescue the country from industrial depression. He followed out the moves of Jackson, worked for the establishment of a separate United States treasury for storage of monies, and held to a liberal banking policy. The financial debacle for which he was in no measure responsible brought about his defeat at the hands of the Whigs

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[1]Wertenbaker. The American People. Chap XVII.

who had chosen as their leaders General Harrison and John Tyler. Almost immediately upon his inauguration President Harrison, fatigued by his journey to Washington fell ill and died leaving the Presidency to John Tyler. In 1841 the government revenues were not sufficient to defray the expenses of government. The provision to distribute the proceeds from sales of public lands which had come into force under Jackson was still curtailing revenue from that source and the compromise act of 1833 had finally reduced the tariff horizontally to 20% ad valorum. It seemed imperative that some immediate action be taken. The Whigs set about to devise a bill raising the general revenues to the level of January 1, 1840, and retaining the distribution clause. Tyler, while he was in sympathy with the tariff measure vetoed the bill on account of the distribution clause. A bill known as the "Little Tariff Bill" was then proposed to put the duties up to what they had been on June first and to keep the distribution law active. This was also vetoed. Tyler followed this action by vetoing another bill similar to the first proposed bill. Finally, the congress submitted the same bill without the clause for redistribution of land revenues, and Tyler signed it. This bill provided for a return to the rates of Jan. 1, 1840 under the compromise tariff except that the duties subject to ad valorum duties of 20% were to be raised to 30%. This act was passed largely out of the desire of the Whigs to create an issue and as Calhoun has it that the Act of 1842 was passed not so much in compliance with the wishes of manufacturers as because the politicians wanted an issue.[1]

This act was superceded by the Act of 1846 for two reasons. It had not in the first place arisen from any unified or persistent demand on the part of manufacturers and it was returning more than enough revenue to defray the cost of government. The Act of 1846 has been loosely termed a "free trade tariff." The confusion in regard to it has, it is likely, arisen from the fact that it tried to combine the purposes of protection with a somewhat more remunerative revenue arrangement than had before characterized the various acts and it was in this sense a tariff for revenue. The principles upon which this bill was created arose from the fertile mind of Secretary of the Treasury Walker who delineate these principles.[2]

> "1st. That no more money should be collected than is necessary for the wants of the government, economically administered.
>
> "2nd. That no duty be imposed on any article above the lowest rate which will yield the largest amount of revenue.
>
> "3rd. That below such rate discrimination may be made descending, in the scale of duties; or, for imperative reasons, the article may be

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[1] McMaster. History of the People of the United States. Vol. VII, Chap LXXII. 63. 1914.

[2] Reports of the Secretary of Treasury. Vol. V. 4. 1845.

placed in the list of those free from all duty.

"4th. That the maximum revenue duty should be imposed upon luxuries.

"5th. That all minimums, and all specific duties, should be abolished, and ad valorum duties substituted in their place--care being taken to guard against fraudulent invoices and undervaluation, and to assess the duty upon the actual market value.

"6th. That the duty should be so imposed as to operate as equally as possible throughout the Union, discriminating neither for nor against any class or section."

In this powerful argument against protection of manufacturers to the detriment of the consumer Mr. Walker argues that the consumer pays a tax double that of collected duties in order to support certain industries. He derives the figure by assuming that the duty is added to the domestic product in terms of price. Further he holds that there is a point at which a duty may be low enough to permit unrestricted trade and at the same time be at the maximum of revenue producing. It was upon this theoretical point that the tariffs were to be placed.

Inasmuch as duties ran as high as 100% this bill, it is readily observable, cannot be regarded as creating free trade.

The bill had one innovation. In all previous tariffs duties had been levied separately. This one divided dutiable articles into schedules lettered from A to H and levying duties of A, 100%; B, 40%; C, 30%; D, 25%; E, 20%; F, 15%; G, 10%; and H, 5%.

In the report of 1845 we find wool valued at less than 7¢ per pound dutied at 5% and other wool at 30% and 3¢ per pound; in the report of 1847 we find wool dutied at 30% ad valorum as is true also of almost all types of iron, "bars, bolts, loops, pigs, rods, slabs, etc." which were rated at precisely the same rate in the Act of 1842. Nor is there any material change in unmanufactured hemp while cotton is taken from a 3% duty to the free list.

The returns in revenue from the Act of 1842 in 1845 were $27,528,112.70[1] while the new tariff cut this figure to $23,747,864.66 in 1847.[2]

As far as can be determined[3] the Democrats were not greatly in favor of the Act of 1846 and it met with considerable opposition from manufacturers.[4] Bolles further reports that the period from 1846 to 1857 was a gloomy one for manufactures. However other historians[5] refer to this period as one of unusual prosperity and expansion.

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[1] Reports of Sec. of Treas. of United States. Vol V. 7.

[2] Reports of Sec. of Treas, of United States. Vol VI. 119.

[3] McMaster. History of People of United States. Vol VII. 421. 1914.

[4] Bolles. Financial History of the United States, 1789-1860. Vol 2. 454-458. 1891.

[5] Taussig. Tariff History of the United States. 122. 1914.

Schlessinger. A Political and Social History of the United States, 1829-1925. III. 1926.

While the low tariff rates may have contributed materially to this period of good times other factors were at work such as the rapid westward expansion, the westward movements in 1849 due to discovery of gold in California, the rapid discovery of new industrial methods and the extension of transportation systems. The improvement in international trade may be traced directly to this tariff. As Secretary Walker anticipated the duties of Britain upon foodstuffs were largely removed and in the years from 1846 to 1857 the imports and exports of the country very nearly trebled.[1]

Along with other industries this was a prosperous period for wool growers although it did not share prosperity quite in proportion to other agricultural products.[2] The cotton industry likewise experienced a considerable growth during this period.[3]

A new tariff act lowering the schedule C which covered the group of things protected for the sake of stimulating industry from 30% to 24% and schedule D, previously 25% was reduced to 19%. These reductions which covered manufactures of iron, woolens, and cotton were

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[1] Coman. Industrial History of United States. 256-257. 1922.

[2] Smith. The Tariff on Wool. 106.

[3] Taussig. Tariff History of United States. 140. 1914.

accompanied by corresponding reductions in raw materials. This tariff did not materially change the situation although the year that it became a law was a severe one in which the bottoms literally dropped out of the overexpanded industrial organizations. Thus ends the period 1842-1857 characterized by low tariffs and heavy import and export trade. On the whole it was a period of unusual business activity and confidence in the soundness of the country's economic condition. In 1857 there was adopted an even lower schedule of duties. Following directly were the severe financial disturbances of 1857-58. Some not very discerning politicians have regarded this as the culmination of the evils of low tariffs. While the flow of gold to other countries in payment for imports may have been in a measure due to the tariff, and while the credit situation was undoubtedly weakened by the removal of much of its precious metal foundation still there are other factors so important that to disregard them is to obviously misinterpret this phenomenon.

SECTION SIX

1861-1900

As was true of most of the panics in American history this one was based in overexpansion and weakened credit. When a nation's industries are working and expanding production on credit; when the buying public is buying with credit; when public and private enterprise are rooted in the general confidence in the likelihood that good times will continue then a change in tariff may be the catalytic to bring about financial disaster.

There is little evidence to indicate that there was any determined desire to return to a high protective policy. The measure of 1857 stayed in force until 1861 when because it did not create sufficient revenue it was superceded by the Morrill Act. This act was a return to the general duties of 1846. Specific duties were resorted to in many cases as a reaction against the entirely ad valorum schedules of the acts of 1846 and 1857. This bill was not a war measure but simply a bill for the gaining of greater revenues to defray the increasing costs of government and to pay off the treasury notes issued to counteract the deficits during the years covered by the Act of 1857. It did not, however, meet the mounting costs of carrying on the war. In 1864 was another bill which materially raised the tariffs on almost all commodities. Not only were tariffs increased for the sake of increasing revenues but they were also raised to compensate manufacturers for the added cost of selling goods which at the outset were taxed heavily in excise taxes.

In explaining the next few years of tariff history it is necessary to feel the intensity of American patriotism at the time. Not only were the people willing to cheerfully pay their share of the taxes for carrying on war but they were willing to bear even greater burdens. War times always bring about conditions conducive to unusual sacrifice and service on the part of the citizenry. It has an anaesthetic effect upon the civic alertness of the people which makes it possible to institute systems which under ordinary circumstances would receive little favor. This was the case with the Morrill-Stevens Tariff of 1864.

As has been said, the act of 1861 restored the duties to about the level of 1846 except specific duties were somewhat higher in some cases. The Act of 1862 raised the duties to an average of 37.2% and these were further raised in 1864 to 47%. The duty on pig iron became $9 per ton; on iron rods $30 per ton; on wool valued from 18 to 24 cents per pound 6 cents; on wool valued from 24 to 32 cents per pound 10 cents per pound and 40% ad valorum.[1]

These high duties were justified from two standpoints. The government really needed additional revenue for carrying it through the expensive war. Excise taxes

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[1]Dewey. Financial History of United States. 304. 1924.

had been levied on most manufactured goods thus raising their selling prices and defeating in a measure the protection of the tariff since imported goods did not have to pay such taxes. So the tariff act was promulgated with the idea of levying a commensurate tax upon imports thus virtually retaining the same degree of protection. These two ideas were combined to produce the most stringent protection up to this time in United States history.

When the war was over both of the causes for this extraordinarily high tariff were soon removed. From 1866 to 1872 there were gradual reductions of the excise taxes except on a few luxuries. Further the revenues were more than sufficient to defray the diminishing costs of government. However, the real effect of removing the excise taxes was to increase the degree of protection afforded by the law of 1864. In that sense the period following the war may be marked as one of ever increasing protection.

Coupled with the natural expansion of the war the tariff caused many industries to spring up, and much expansion to occur which it is not likely would have occurred at this time without protection. Crops had been meagre in Europe with the result that the Agricultural products found an unusually ready market there while discoveries of new copper and iron deposits as well as knowledge for utilization of petroleum acted to insure material prosperity.

During such times it is difficult if not impossible to make serious changes in the industrial policies of the government. By 1872 however there had grown to be a perennial surplus in the treasury of over $100,000,000 and it was seen that there must be some kind of action to cut down redundant revenues. There were two bills under consideration. One, the House bill, was designed to lower almost all duties and those upon such important things as cottons, woolens, iron and wool were to be lowered about 20%. The Senate bill proposed a ten per cent horizontal revision downward with tea and coffee on the free list.

While there was considerable spirit for the House bill the manufacturers were able to unite upon the less drastic Senate bill and secured its passage.

Mr. Taussig's discussion[1] brings a noteworthy point to light. In reducing the tariff because revenues were too great the general reductions on protected articles was slight while duties upon coffee and tea which could not be grown in this country were revoked altogether. This marks a new phase of the tariff situation inasmuch as there is no longer even a pretense that the tariff is chiefly for revenue. The assumption now is that the chief purpose of the tariff is protection.

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[1] Taussig, F. W. Tariff History of the United States. 186. 1914.

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A number of things conspired to bring about the panic of 1873. The panic may be said to be due to over-expansion and the inevitable credit shortage. The railroads had built far beyond the needs of the time as had almost every trade and industry. Money was easily borrowed and there existed an overweening confidence in the continued prosperity. New York banks had invested rather heavily in the future of America, in industrial and railway stocks. Foreign capital had contributed largely to the credit of the banks so when a panic caused the Vienna Bourse to withdraw rapidly the American banks were hard pressed to cope with the situation and finally the backers of the Northern Pacific Railway, Jay Cooke and Company went to the wall and the whole interrelated credit system was shaken to its foundations. Failure followed failure and the whole nation was thrown into a state from which it took five years to recover. Although it would take considerable patience and ingenuity to connect this series of events causally with any changes in the tariff it was chosen as one of the inevitable results of the 10% horizontal downward revision. In 1875 the Act of 1872 was repealed leaving the law of 1864 in force without material change from war times. These duties were continued until 1883 with certain changes which will appear in the following discussion.[1]

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[1] Taussig. U. S. Tariff History. Chap 111. 194-229. 1914.

In 1867 an association of wool growers and manufacturers succeeded in getting a bill passed which involved a feature called compensation. In this bill we find a principle first used in the Act of 1864. It assumes that the protection of raw materials adds to the price of domestic raw materials, hence, the manufacturer must have even higher duties upon his finished products because they must compete, were it not for the tariff, with foreign products manufactured from cheaper raw materials.

The duty on wool was rendered higher by the retention of the 10% ad valorum which had already been added to compensate for excise taxes. Further the low duty class of wool was merged with a higher duty class thus causing the duty on the lower grades of wool, those most used in the United States, to be prohibitory. The compensating duty failed to take into consideration the fact that much woolen goods is not all wool but that cotton and other materials are frequently mixed in. The tariff in this case is rendered even more effective. When these factors are added to the 25% ad valorum which the manufacturers desired sheerly as protection or as net effective protection we readily perceive that the woolen manufacturers were able to get a considerable measure of what they sought.

In 1869 copper came in for its special share of legislation and iron followed in 1870. Other special interests, some of which were small and isolated sought and received special attention during this period.

In reviewing this period of high tariffs there are some trends worth noting. One is the difficulty of lowering a duty once established. There is no doubt that protection during this period was carried to a rather absurd extreme, but it was a period of growth and expansion during which there was little clamor for changes in legislation except on the part of the industries which have just been mentioned. Further, it is to be noted that the tenacity with which industries hold to protection increases as time passes since they do sometimes live and grow by the protection afforded by a careless and benevolent government. The tendency of the government to be influended by manufacturing interests is also noteworthy as are the arguments for the extension of that protection. We find that the industries are willing to admit that their existence does and perhaps always will depend upon protection. The argument veers from national self-sufficiency, the establishment of key industries, and the cultivating of a home market to the continuation of the profits of industry when that industry is once established. We cannot fail to note that the tariff changes of this period came as the result of the efforts of individual industries to secure benefits for themselves.

As had been the case with almost all previous tariff acts the Act of 1883 had a direct connection with the revenue situation. While the tariff of 1864 with the changes already referred to was satisfactory to most of the manufacturing interests it was patent that some change must be made to reduce the surplus revenues. So in 1882 a tariff commission was appointed to make a specialized study of the needs for revenue and the needs of industry. This first Tariff Commission is an example of the fetters which bind the hands of reason in tariff discussions; Schlessinger in his Social and Political History of United States, 1828-1925 notes that "four of the nine members of this commission were positively identified with protected or vested interests, one, in particular, John L. Hayes, Chairman, was also Secretary of the National Association of Wool Manufacturers. Out of this commission came recommendations for an average tariff cut of from 20% to 25%. By means of ingenious juggling of specific and ad valorum duties the representatives of districts having special interests were enabled to nullify the reductive effects of the proposed bill and as a result the protection given in the previous act was not substantially changed.

The circumstances surrounding its passage are interesting inasmuch as they explain in a measure the presence of such a statute upon the books. It cannot be said that there was any marked enthusiasm for the bill in its final form. It was reported to a Conference Committee composed of members of the two houses. This committee changed the whole tenor of the bill before reporting it to the Senate and the House. This may be well illustrated by reference to a speech by Mr. Morrison: "The office and duty of a conference committee is to adjust the difference between two disagreeing houses. This House had decided that bar iron of the middle class should pay $20 a ton; the Senate that it was to pay $20.16 per ton. The gentlemen of the conference committee reconciled this difference--how? By raising bar-iron (of this class) above both House and Senate to $22.40. The Tariff Commission reported that the tariff on iron ore should be 50¢ per ton. The Senate said it should be 50¢ a ton. The House said it should be 50¢ a ton. Gentlemen of the conference committee reconciled this agreement of the House, Senate and Tariff Commission into a disagreement and made the duty on iron ore 75¢ per ton.........."[1]

Taussig[1] in a rather careful study of this act has pointed out some of the strategems used to defeat any effective reductions on protected materials. In the discussion of the war tariff it will be recalled that there were compound duties on woolens. These assessed a specific duty and an ad valorum duty. Originally it was intended that the ad valorum duty should represent the degree of real protection given. It was derived from two factors,

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[1]Quoted from Taussig. U. S. Tariff History. 233 quoting from Nelson's unjust Tariff Law. 22-23. Original source not referred to.

the amount of protection purely as protection plus an added degree of protection supposedly necessitated by duties or raw wool. The specific duty was levied chiefly to offset the effect of internal revenue laws incidental to the financing of the Civil War. In changing these duties in this act a return was made to the ad valorum method used before; the specific duties were dropped and the ad valorum duty was raised. It may be readily observed that there was no real effect from this sort of reduction. Those lower grades of woolens retained a tariff high enough to be prohibitive and the higher grades, taxed according to their value felt the full force of the increased ad valorum duty. Duties on raw wool were lowered. In this case the ad valorum duties were removed and specific duties were retained. Again in this case the duty retained is still sufficient to protect the American wool industry.

The same was true of steel. While the specific duties upon most types of steel were lowered there were certain classes which had been subjected to a 30% ad valorum tax which under this act were burdened with the same specific duties as the types which had been enumerated in the previous bill. The effect of this was to lower the tariff on these articles such as ingots and rolled bars, but to raise considerably the duties on the previously unenumerated articles.

Similar changes occurred in cotton and other commodities. The general effect of the bill was not the reduction or raising of the tariff but rather a revamping process in which the duties became on the whole a little less remunerative but in which the principle of protection was retained with at least as great, if not with increased force.

The vote[1] on this bill in the senate as it originally came from the committee was 42-19 in favor but after the conference committee had revised it the vote was only 32-30 in favor and one senator remarked that he wished he had not voted for it.[2]

There can be no doubt that in spirit this act failed to follow the recommendations of the Commission, for, where the committee had proposed substantial reductions of 20% to 25% the final law as passed reduced the tariff but little and prevented in a large measure any reduction which could have really benefitted the consumer. In spite of the fact that this act was received with no marked degree of enthusiasm, in spite of the fact that it was the product of very doubtful legislative processes it continued for some time to muster sufficient support to prevent its revision.

The nature of the problem involved at this time

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[1]Taussig, F. W. <u>Tariff History of the United States</u>. 233. 1914.

[2]Dewey. <u>Financial History of the United States</u>. 422. 1922.

had already begun to assume quite different aspects than at any previous period in history. The entire problem of the tariff had begun to be ramified with two groups of circumstances which clearly demark the early period of legislation from the period which has culminated in the Hawley-Smoot tariff. Various industries had grown to immense proportions. Closely organized, employing many men, extending into many states, they had begun to feel the thrill of power. Their attitude had gradually changed from one of the humble seeker for governmental favors to the one of demanding those favors with a voice that brooked little opposition. Already they had begun to keep an establishment at the seat of government to influence the vote in matters concerning their business. Not just a few industries were doing this but many and the result was as has been seen--an act which satisfied few and which was openly and unashamedly aimed at keeping the protected industries safe from the ordinary risks of business.

Even before this time unusual influences had been brought to bear to cause legislation to favor particular industries, as, witness the Woolens act of 1867, but the efforts were not based upon individual need so much as community and national benefits. Let us say that whether or not industries were purely selfish before they had at least tried to put up social arguments for protection. Further the advantages of trading free of duty were coming to be given some consideration. America had begun to recognize that other nations' trade might be diverted by our tariffs just as our trade was averted from them by their tariffs. These factors enter into the making of the act of 1890.

While President Cleveland was defeated for the presidency in 1888 his campaign on the tariff had far reaching effects. His opponent regarded this as a rebuff to the downward revision supporters and immediately set into motion the machinery for upward revision of the tariff.

The McKinley Tariff Act was a distinct upward revision raising the average level of duties to 49.5%.[1]

The duties on woolens as usual were regarded as very important. On the three classes of wool which had been scheduled in the previous tariff, combing, clothing, and carpet wool the duties were changed. On combing wool and clothing wool the changes were negligible while on carpet wool an ad valorum duty of 32% to 50% was imposed. Taussig notes[2] that this was probably done because manufacturers had been using some of this grade of wool for making woolen cloths. However protective it may have been as a measure to keep this low grade wool from competing with higher grades raised in this country it did work considerable hardship upon the manufacturer of carpets who had to

[1]Faulkner, H. U. American Economic History. 579. 1924.

[2]Taussig, F. W. Tariff History of the United States. 259. 1914.

raise his prices because he was dependent entirely upon that class of poor imported wool upon which the tariff bore so heavily. Further changes in the classifications resulted in raising the duties upon higher grade woolens to 44¢ per pound and 50% ad valorum.[1] Since most woolens belonged to this class it is evident that the effective raise in rates was considerable. On the imported types of cotton goods duties were raised. On steel the duties remained substantially the same as they had been but the protection was more effective since the centers of steel production were now on the great lakes and there were few sections to which they were not able by reason of their proximity to ship steel more cheaply than it could be imported.

The McKinley tariff contained another interesting feature, its reciprocity provision. It provided that certain duties on coffee, sugar, tea, hides were to be left at a low level as long as countries exporting them to the United States made no discriminations against American agricultural products and manufactures but were to be immediately raised by Presidential ordinance if such discrimination came about.[2] The effect of such a clause is to render a tremendous advantage to the country so treated, especially if, as is usually the case that country only

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[1] Taussig, F. W. Tariff History of the United States. 260.

[2] Taussig, F. W. Free Trade, the Tariff and Reciprocity. Chap VI. 1927.

produces a part of the supply of the particular commodity since the price of the commodity will be raised to a level above the tariff for those articles enjoying reciprocal privileges will be at the same level. The effect of this is to enrich the nation receiving reciprocal benefits by the extent of the remitted tariffs.

The McKinley tariff raised duties so sharply that the rate affected retail prices immediately and the result was that in the mid-term Congressional election the Republicans suffered a crushing defeat. The chief reason for this defeat seems to be that the policy of high tariff had increased the cost of living considerably creating an extremely unfavorable reaction.

While there was no immediate action on this issue since the Senate was still preponderantly Republican the Democrats kept the issue before the people just as they are doing now (1932) by originating House bills involving the various issues in the McKinley law. In 1892 the people again repudiated the Republican party the whole campaign being based upon the tariff issue. I do not know of any election in which the issue was so single, so clearly defined, and upon which the opinions of the parties were so accurately set forth and so universally recognized. It is not unfair in the light of these facts to say that the vote for Cleveland may be interpreted as an enthusiastic endorsement of the lower tariff program.

The efforts of the Democrats to formulate a satisfactory tariff program began immediately but the state of the country was not such as would keep the loyalty of the electorate. The Sherman Silver Purchase Act had begun to deplete the gold supply. The government was short of revenues because the McKinley act had not proved as remunerative as had been expected. The outflow of gold in silver purchasing and the small store in the treasury at the time of Cleveland's inauguration was a cause of severe depression. A period of instability ensued during which business failures were prevalent and the financial policies of the government were under fire. After considerable effort the Sherman Act was repealed and silver purchases stopped. Cleveland himself had taken heroic measures to keep the country on a gold basis. Bonds had been sold for gold and by one expedient and another gold was kept in the treasury and the confidence of the people was restored.

In carrying into effect the tariff policies upon which the administration had come into power the Wilson Bill was originated in the House, directly after it convened in 1893. The general principles embodied in it were simple. Manufactures were to be stimulated by removal of duties from raw materials. Then the higher tariffs upon finished manufactures were to be lowered thus giving a considerable degree of protection at the same time that duties were lowered. The revenues were to be augmented by excise taxes upon tobacco and some other luxuries. The free list was enlarged to include sugar, wool, iron ore, and lumber. It will be noted that protection was to be denied some of the strongest trusts.

In spite of the large Democratic majority in the House the Senate majority, because of the relatively slow response of the Senate to changes in political allegiances was not large. For this reason it was expected that some difficulty would be encountered there. When the bill reached the Senate it was amended with some six hundred and thirty-four amendments which were designed to completely submerge the original principles of the bill. Sugar was again subject to duty but wool was admitted free. The general law as ginally passed resulted in lowering the level of tariffs to 40% ad valorum but the bill was so unsatisfactory to President Cleveland and fell so far short of the real object in substantially lowering the rates that he refused to sign the measure. It became a law without his signature in August 1894.

Since wool and woolens has played so important a part in tariff discussion the change to free wool which is an important part of this tariff would seem to warrant considerable discussion. However the duty was only remitted for three years, 1894-97, and very little can be said of the effects of this remission. The effect upon manufacturers was to change their raw material source from home to abroad so that imports of wool reached their maximum in 1897 just as a considerable slump is to be noticed in home production.

The Democratic proposals to admit iron ore and coal free were disposed of in the Conference Committee both iron and coal being dutied at 40¢ per ton. Almost all types of iron were lowered in duty. The duties upon cottons and silks were not changed materially. From the bounty on raw sugar as contained in the McKinley act the Wilson act returned to an ad valorum duty of 40% and a specific duty on refined sugar of 1/8¢ per pound.

It is readily perceived that in almost every particular this law failed to carry out the principles which the Cleveland successes were based upon. Raw materials were still taxed sufficiently to keep most foreign produce from competition and the tariffs were in most cases not materially lowered.

The presidential campaign of 1896, by far the most spectacular campaign in American history still found the issue of protection before the people. This time, however, there were other issues, chief among them the "free silver" issue which was the predominant question upon which William McKinley and William Jennings Bryan waged their colorful battle.[1]

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[1] An interesting description of the "silver crusade" is to be found in Schlessinger, A. M. "A Political and Social History of the United States, 1829-1925. 339-405. 1925.

It is impossible to separate the interests which were working for increased tariffs from those who were crusading against free silver since both causes were linked together in a single campaign by a single party. However the Republican party was able to marshall a support of four million dollars behind the two issues. In all liklehood the chief part of it was raised on the silver issue. Well financed as the Republicans were and pressing the anti-free silver issue as they did it would have been unusual had they not received election. In addition to that the country had just witnessed a dark period of depression under Cleveland. Such phenomena are likely to be misinterpreted by the electorate to the extent that a president in office is usually blamed for the events happening during his term in spite of his strenuous efforts to undo the ill work of his predecessor which has culminated in these events.

The election of 1896 swept McKinley into office by a large majority. As interpreted by the Republicans this approval which they had gained at the polls amounted to a clear endorsement of the protective tariff system and of the gold standard principle. In accordance with this endorsement of the protective policy the Dingley Tariff act was passed in 1897 raising the duties to 57% ad valorum average level, 17% above the previous level and about 9% higher than the McKinley tariff which had been so soundly defeated at the polls in 1890. This extraordinary change in opinion cannot easily be explained unless the vote be considered to be largely upon the silver issue although it is not improbable that the deplorable state of affairs under the Cleveland administration were blamed upon the tariff of 1894. At least this is to be noted about the financial policies of Cleveland and those of Bryan, both Democrats of the same period, Bryan was a free silver advocate, other matters were only incidental to his campaign while Cleveland was opposed to any such measures as Bryan proposed. His own experiences with the Sherman Silver Purchasing Act had been so unfortunate that they persuaded him against the further introduction of silver into the monetary system.

Returning to the history of the Dingley Act we find that it returned to the duties of 1890 on wool with the exception of carpet wool upon which the duty was raised even higher. With the return of duties upon raw wool came the old system of compound duties upon woolens, compounded of a specific duty to equalize the disadvantage imposed by the tariff on raw wool and an ad-valorum tax to protect, as was supposed, from the advantages enjoyed by the foreign manufacturer by reason of his cheap labor and priority of establishment.

Silks were taxed by specific duties in classes according to the percentage of pure silk content. Duties ranged from 50¢ per pound upon goods containing up to 20%

silk to $1.3 per pound on high grade silks up to 45%.

No change was made in the duties on iron ore or coal since these duties, as has been already pointed out, were already prohibitive. Taussig[1] says that imports of iron and steel had almost entirely ceased at this time and thence no change was necessary to keep out imported iron or steel. One or two other factors of this law are worthy of mention. The reciprocity clause of 1890 was returned to the act with some modification and the President was empowered to negotiate commercial treaties for lowering any articles 20% for reciprocal privileges granted by another nation.

The period following the passage of the Dingley tariff was marked by unusual prosperity. No one, I think would attempt to credit this tariff with creating the prosperity. It may be reasonably assumed that the triumph of the gold standard in the election of 1896 coupled with the repeal of the Silver Purchasing act resulted in restoring the basis of credit and tended to bring back the confidence of the people. At any rate the period is marked by considerable increases in both exports and imports. This increase in foreign trade since it would tend to be hindered by a tariff cannot be regarded as the result of the Dingley act but rather as the culmination of restored confidence and expansion after depression which it is to be observed is generally independent of tariff legislation.

Due to the fact that the state of the country was prosperous, and also to the fact that the call for additional revenue was not loud nor insistent there was no additional legislation worthy of note until the general revision of 1909. The force of protective duties as high as those in the Dingley act was bound to be felt sooner or later in increased cost of living. When Taft made his campaign in 1908 one of the more important planks in the platform called for revision of the tariff to impose "such duties as will equal the difference between the cost of production at home and abroad, together with a reasonable profit to American industries."

It is to be noted that the so-called "true principle" of protection is not vitally different from the notion underlying the previous tariffs especially those on woolens in which equalizing tariffs were augmented by additional tariffs for protection. However this principle goes farther in that it is not of its nature limited to fields in which the country is capable of producing advantageously. The one valid argument for tariffs, that of fostering industries which are likely to grow to need no protection is entirely abandoned. The new idea being to continue protection which will insure a fair measure of return to the American business and will continue to insure it at no matter what cost.

In the presidential campaign of 1908 the Republican party led by Taft assumed that the application of the principle just outlined would bring about a downward revision since the period which we are now investigating was marked by revulsion against the exorbitant profits of the large trusts. In other words American business had been given too great advantage some of which it was the purpose of the Republicans if elected to remove.

However, the high purposes of election time and the vote of the people counted for little in the final act. We have already seen that the forces which bring about tariff changes have ceased to be the needs of the country but have almost entirely come to be the desires of vested industries.

Before proceeding to the examination of the act itself it would be well to note some of the methods pursued by these vested interests under the new "scientific tariff principle." It is first necessary, however, to note a few of the implications of the principles in regard to its mechanics. If the tariff is to be made upon the principle of equalizing the discrepancies between costs of production in the United States and abroad it is first important that there be available materials from which these data may be obtained. There were over 2,000 dutiable articles in the tariff of 1909. These articles are produced under varying conditions in different countries. To truly follow the principle these items would necessarily lican party led by Taft assumed that the application of the principle just outlined would bring about a downward revision since the period which we are now investigating was marked by revulsion against the exorbitant profits of the large trusts. In other words American business had been given too great advantage some of which it was the purpose of the Republicans if elected to remove.

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The real gathering of the data was done through investigations in the committees in which the American Manufacturer took great advantage of his right to be heard. Mr. Taussig generalizes this aspect "The details of legislation had been virtually arranged by persons having a direct pecuniary interest in the outcome and having also the closest relations with the legislators controlling the outcome."[1]

It would perhaps be unjust to the legislators as well as the manufacturers to say that the factors controlling cost of production in foreign countries as compared to our own were deliberately misrepresented, but it is not unjust to say that in some cases they were very inaccurate. In the case of Germany the German Government made a rather careful examination of industrial conditions[2]

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[1]Taussig, F. W. The Tariff History of the United States. 394. 1914.

[2]Senate Documents 61st Session, Part 1. 1909.

and found in almost every case the costs of manufacture in Germany had been considerably underestimated in the Congressional hearings.

While this does not assert the invalidity of the discoveries as regard other countries it casts serious doubts upon their validity especially when it is observed that the errors made were of such a nature as to redound to the benefit of the American manufacturer in almost every case. We find that the tariff as finally passed did not constitute a material removal from the trend which had been maintained in the Dingley Tariff. The change in the average scale of duties was about 1% upward according to Schlessinger.[1]

President Taft in his speech at Winona, Minnesota, September 17, 1909,[2] notes "that under the Dingley law there were 2024 items..... The Payne Law leaves 1150 of these items unchanged. There are decreases in 654 of these items and increases in 220 of the items."

Hides were made free while iron was reduced from 40¢ to 15¢ and coal from 67¢ to 45¢ per ton while the duty on lumber was finally lowered from $2.00 (per thousand feet

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[1] Schlessinger, A. M. A Political and Social History of the United States, 1829-1925. 458. 1926.

[2] Story of a Tariff. (Parts of Cong. Record) I have no idea when or where this compendium of speeches favorable to the Tariff of 1909 was printed nor by whom it was compiled. It is library number 337/ST.

to $1.25. Severe reductions were made in iron and steel but as has been remarked in regard to the act of 1897 no duties were necessary since these products were being made as cheaply as they could be obtained from abroad. Certain types of mercerized cottons were advanced in duty as well as silks. There was virtually no change on woolens or sugar.

The reciprocity clause was retained in the form of a provision for minimum and maximum rates. Against countries which discriminated against American goods it was possible for the president to raise duties 25% on a retaliatory principle. This was never resorted to after 1910. While the tariff did not seriously affect the growth of trade during the time it was in effect (The import and export trade had been growing and continued to grow) there was general dissatisfaction with the bill. Schedule II which referred to wool and manufactures of wool. This schedule remained as it had been in the Dingley tariff much to the chagrin of the manufacturers of woolens. It has been frequently pointed out that the duties on raw materials are not likely to raise the prices by the extent of the duties. This proved true in the wool industry. Mr. Wright[1] estimates the price as falling usually about 10% below the upper limit of the protection. Thus the wool

[1] Wright, C. W. Wool Growing and the Tariff. (Harvard Economic Studies V) 287. 1910.

grower did not receive as much protection as the composition of the act would lead us to believe. But manufacturers of woolens who found themselves faced with the necessity of paying extra prices for their raw materials on account of the duties were the loudest in their protests.

In spite of Mr. Taft's efforts to show that this tariff really carried out the ideas of the people upon the support of which he obtained his election, there was from the beginning and continued to be considerable dissatisfaction with the law.

In criticising this particular act there can be little discussion of principles governing its action or purposes of enactment. Behind most of the changes there could have been nothing but sectionalism as a motive for enactment and it is quite impossible to determind any measureable changes resulting from its enactment. The act as a whole did not differ greatly from its predecessor and certainly does not deserve to be called a consequential revision. As far as can be determined it had its inception in an effort to fulfil the campaign promises of President Taft, but it was so revised and completely changed before it was finally enacted that it may truthfully be said that it conformed at few points with anyone's idea of a tariff.

As has been pointed out there is more liklihood that tariff policies as well as other policies of a government will be subjected to criticism in times of stress than in "normal" times. (We usually refer to periods of inflation as normal times) The administration of Taft had been the period of deflation. The era of great prosperity came suddenly to an end in 1907 and the party claims of the Republicans that they were the party of prosperity came down in dust. This factor weakened Taft's position and when in 1910 the Congress was filled with Democrats his opportunities for success were gone. Added to this the Republicans were acutely aware of the conservatism of Taft as contrasted with the agressive liberalism of his predecessor Roosevelt. When election time came in 1912 the party was badly split and their defeat was a foregone conclusion.

However, in explaining the election of President Wilson it is not enough to say that he was elected because his opposition was divided. He was himself a magnetic character about whose career there hung an aura of political courage and leadership which brought considerable support to his banner. He was a keen observer of political affairs and a writer of great distinction in the field of political science. Not least of his qualifications for office was a broad interpretation of the position of the President. He regarded it as a position of considerable power and with power to be expanded by leadership. In accord with these ideas he called a special session of Congress on April 7, 1913 to begin the revision of the tariff.

SECTION SEVEN

TARIFF OF 1912

Congress was predominently Democratic. The Republican majority which had passed the Tariff of 1909 had been transposed into first a Democratic lower house then the election in 1912 brought an increase of the Democratic majority in the House and also gave them a majority in the Senate.

Representative Underwood had been shaping a tariff bill for presentation even before Congress convened. This bill when presented gained the support of the administration and passed the House without amendment. The ever-present lobby was given sound discouragement by denounciation by the President and the appointment of a Senate Committee to bring its activities to light.

Without any considerable changes the bill passed and received the President's signature. It was the first Major reduction in Tariff rates since 1890. Although it is rather difficult to estimate the amount that duties have been lowered in this tariff Paxson[1] estimates they were lowered from 37% to 27%.

Changes made in this act were numerous and some of them were really consequential. For instance wool was once more put on the free list. Raw wool being permitted to enter free of duty there was no longer any excuse for a compensating duty on woolens so the specific duties were

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[1] Paxson, F. L. Recent History of the United States. 407. 1926.

eliminated and only a duty of 35% ad valorum was retained. On cotton the duty on lower grades was 5% and considerable reductions were made in the better qualities. The duties ran as high as 27½% ad valorum on cotton cloth "containing yarns the average number of which exceeds No. 99."[1]

Reductions were made in the iron schedules and Bessemer steel ingots, iron in slabs and blooms as well as steel rails were put on the free list. This item remains rather unimportant because of the relatively independent position of the iron and steel industry in this country. Some general information about this tariff has been found in "A Dictionary of Tariff Information"[2] The information deals only with the first eight months that the law was in effect since during those months there was no abnormality in trade due to conditions of war. On dutiable goods the average ad valorum rate was 36% or 4% less than in 1912. The rate of duty as related to all imports, free and dutiable was 14% or 3% less than in 1912.

The general reduction of duties in relation to all imports is impressive particularly since there was not so great value of imports as there had been in the previous

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1 Comparison of Tariff Acts of 1909, 1913, and 1922. Prepared for use of Ways and Means Committee House of Rep. 71-72. 1923.

2 A Dictionary of Tariff Information. United States Tariff Commission. Tariff Act of 1913. 756-757. 1924.

year. As a part of this act sugar was made free of duty after 1916, the years preceeding to be used for the orientation of the industry to the proposed change.

Despite the rather small ultimate effect of the new tariff law it was a real victory for the proponents of lower tariffs. Of course, it did not bring about anything like free trade but it pared off a great deal of the upper surplus of prohibitive tariffs and carried still further then any tariff up to that time the principle of free raw materials. There cannot be said to be any particular principle upon which this tariff may be wholly explained. Even the statement of Woodrow Wilson[1] while it deals with several ideas may not be said to limit the matter to a single principle. He said, "Aside from duties upon articles which we do not and probably cannot produce.... and the duties upon luxuries, and merely for the sake of revenues which they yield, the object of tariff duties henceforth laid must be effective competition, the whetting of American wits by contact with the wits of the rest of the world."

This statement of principle does not greatly differ from the ideas of the Republican party in giving the American manufacturer an even break plus a decent profit. In the act which resulted from this policy, however, we find

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[1] Selected Addresses and Public Papers of Woodrow Wilson, New York. 7-8. Dictionary of Tariff Information, U. S. Tariff Commission. 845. 1924.

a real reduction of the tariff the effects of which it is unlikely will ever be determined since strictures of commerce due to war make comparisons impossible.

Under stress of unusual commercial relationships due to war there was organized in 1916 the United States Tariff Commission. This body was created for the purpose of collaborating with the president and the Ways and Means Committees of both the House and the Senate in furnishing tariff information and recommending action. The first commission had at its head the outstanding tariff student of the United States, F. W. Taussig of Harvard University.

The Underwood Tariff remained in effect until 1922 with the exception of certain clauses which were invalidated by the Fordney Emergency Tariff of 1921. This emergency bill, aimed at the dumping activities of foreign countries after the war, placed new duties on almost all agricultural products in an effort to keep the prices up. It was according to the investigations of the Tariff Commission[1] successful in holding the prices on certain types of wheat raised in the Northwestern part of the United States flaxseed prices were kept up, prices of beef did not fall so much in this country as in Canada, London, or Buenos Aires, wool prices were kept at a higher level than might have been expected. Prices were stabilized above the world

[1] Dictionary of Tariff Information. United States Tariff Commission. 22. 1924.

market in sugar and butter. While these price comparisons do not in all cases take into consideration transportation barriers and importer's profit they do serve to indicate at least a temporary benefit to agriculture from tariffs. However the other commodities included in the act were not affected by it in any degree. Rice and corn were not raised in price. This study quotes domestic price on whest in Minnesota and lists it as having an exportable surplus. The benefit derived from such a tariff could only be temporary since labor and production costs tend to increase in a tariff protected industry making it exceedingly difficult to meet competition in export trade with production from tariff free regions.

When we study the tariff act of 1922 we can interest ourselves in three phases of the situation. We wonder what sort of feeling or spirit the law arose from; we wonder what forces brought it into being; and we wonder what sort of law it is considered upon a purely economic basis.

When we recall the United States after the war we think of new spirits and institutions engendered by the war. First, of course, of the intense nationalism which had been so laboriously and stoutly built up by every instrument possible. The churches had hurled from their pulpits praise of America. The newspapers played up the courage and strength of the eagle. Every fanciful idea, every heroic story, every visible symbol, every mechanism of comparison and similitude was invoked to incite into the American people a supreme confidence in these United States. The people had come not only to believe that the United States won the war, but that she won it apart from other nations. The part played by this country was viewed in the largest light possible and the praise of Europe incidental to the conduct of the war arose in the minds of the American people largely from the fact that certain of them had been our allies in the struggle. They had in our opinion helped us to win a war.

Peculiarly the entire affair was so surrounded with the aura of unselfishness that it was made to appear as if this entry into the war had been not by nature of our position among nations but rather by virtue of our aloofness we were able to solve a world problem. Out of our contacts with Europe there came not a spirit of co-operation but a spirit of determining upon keeping America from entanglement with the perplexing situations with which Europe had been and still is faced. Following the war in this spirit the country returned unsigned the Versailles Treaty. They have since rejected severally the parts of it concerning the League of Nations and the World Court. These facts are illustrative of the fact that while the United States were in the war they regarded it as a particular case and not as a general policy. There was considerable discussion of Washington's Farewell Address after the War. Some talk in Congress of our position among the nations, but when the whole thing was considered there remained just the same desire for economic independence which has always characterized the after-war attitude of the American People.

The whole theme of national self-sufficiency in time of war has been played again and again by economists and politicians. After war is a good time to play such a theme. The temporary commercial allignments due to the existent state of war are in the process of breaking up. The weakened credit of foreign nations is likely to cause considerable uncertainty as to the ultimate value of foreign trade. Further inflation due to financing the State in war causes domestic trade to be greater than usual thus enhancing its desirability and leading to the conclusion that prosperity may best be gained by domestic rather than foreign trade.

Industries rising out of the exigencies of war clamour for their protection and the whole economic outlay is ripe for such nationalistic legislation as may be expected to arise out of such a situation.

To examine more closely the entire situation we must enquire into the dissilusionment occasioned by our war in Europe. Prior to the outbreak of the war there had been unusual progress in conciliation, arbitration, court settlement and mediation of international disagreements. The Hague Tribunal had held conferences in 1899 and 1907 both of which were highly successful as viewed from this distance. Still later Norman Angell published a book in which it was pointed out that there was nothing to be gained by either party to a war. Confidence of universal well being and the sense that there was likely to be a prolonged period of harmony among the nations came to be a widespread and accepted notion. The war breaking, as it did to most Americans, out of an apparently serene and cloudless sky put an end to all such notions. It taught the United States that there is no status quo the existence of which could be expected to continue from one moment to the next, but rather that there are forces, or groups of forces at work which make war and peace unpredictable. The importance of such a nationalistic attitude cannot be measured it is a spirit or a condition rather than a demonstrable fact, but certainly it was and is a factor in shaping the general tariff policy of the nation.

The political parties as they were al~~l~~igned in 1916 and again in 1920 played an important part in bringing about the type of legislation which was enacted. Lines had been drawn between them on various subjects. People were weary of the inflexible idealism of Wilson. They had been harangued about the League, the Court, the Fourteen points until they were befuddled and until real economic issues failed to touch their judiciousness. It cannot be said then than the tariff policy was examined materially in the election of 1920. The defeat of the Democrats may be explained entirely upon other grounds, chiefly upon the attitudes arising out of party conflicts over the League and the Court. So bitter were the Republicans in this matter that they had covenanted together in the Senate to defeat the Versailles Treaty.[1]

The tariff was a negligible factor in this campaign except as the election of a Republican government meant selection of high protection as the general trade policy. The Democrats did not more than reiterate that they stood for a tariff for revenue only.[2] Chief issues as they appear to have been given their importance were, entrance into the League of Nations, Democratic record in conduct of war, financial record, tax revision, economy in government, merchant marine, and treatment of disabled soldiers.

In a rather leisurely manner the Congress began to shape the new bill which was designed to replace the Underwood tariff as it had been augmented by the Emergency tariff. The factor of political allignment as it dictated a relatively high tariff has already been discussed as well

[1] Woodburn, J.A. Political Parties and Party Problems in the United States. 210. 1924.

[2] National Democratic Committee Democratic Platform. Je.'20.

as the growth of nationalism as it affects policies. In this regard it has been classed with the various peace proposals since it involves as they do the problem of nationalism versus internationalism.

As a force in creating tariff legislation in this country what is the importance of industrial interest? There are two viewpoints in this matter. The first has been expressed by Mills, Cobden, Adam Smith, and many modern economists. Purely from the standpoint of strengthening the nation in preparation for periods of stress in war or in time of commercial readjustment due to disturbances to which the nation is not a party may be carried on by fostering industries essential to the comfort of the people. I believe that properly treated this argument refers to judicial selection of key industries to be fostered despite economic advantage in time of war and during periods of peace. It cannot refer to mushroom industries the growth of which is incident to the conducting of war, but which beyond the recognition of a market which they can supply are not directly or indirectly encouraged by the state to begin operations. In this sense the industries are clearly subservient to the State as truly as if they had been subsidized from State funds.

Distinct from this viewpoint is that the state exists to foster industry in any and every conceivable fashion. This latter attitude is not the product primarily of economists but rather has arisen from the ranks of purely political discussion. It is interesting to note that the system of government instituted by our forefathers has undergone a complete and not too subtile change. The system of representation by areas and groups of population remains as a system of election but scarcely as an influence in legislation. Like the German Industrie-Stadt the American Congress has come to be representative of industrial and commercial interests. True, the members represent the local interests but largely the more successful and more highly organized ones.[1] In this sense our own representative system is largely virtual rather than sectional.

Just how objectionable this sort of perversion is cannot be directly ascertained. It has many points in its favor. First it is certainly true that the individuals represented in the various industries and dependent upon them for their very lives should be permitted to use every

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[1]Material for this discussion has been gathered from:

[1]American Legislatures and Legislation Methods. Chap. VIII. 228-274. The perversion of legislative action.

[2]Lobbying in Congress. Ref. Shelf, Vol VII. No 3. Helen M. Muller. 1931.

[3]Edward B. Logan. "Lobbying" Annals of the American Academy of Political and Social Science. Supplement. July 1929.

influence to derive from the government every legitimate aid to the prosecution of a profitable and successful business. It is also true that the specialized information concerning industrial costs and markets is not available from any source except the industries themselves. The lobby then must be regarded as a check upon blundering legislation promoted in sheer ignorance of real conditions. If this were the true condition then the conclusion would of necessity be that the lobby is indispensable and of great value to legislative bodies. However, the action of lobbies has not always been so very innocent. This paper has already referred to the rebuttal of the German Government to the alleged costs of production at home and abroad as represented by industries in this country. We have referred to the work of President Wilson in warning the lobby to procede with caution in 1912-13. The great discussion about the lobby is simplified when it is noted that the profit motive enters into every lobby established. The real problem is sharply drawn: if a lobby is maintained to assure intelligent, unbiased legislation it is well, but if it is maintained to assure intelligent legislation favorable to the interests maintaining the lobby then its usefulness is questionable and its effect upon the nation must ultimately be regarded as ill.

The scope of lobbyist activities is little known and less understood. It is not unusual to find people indignant over what seems to them to be undue perversion of legislation by lobbyists in one specific regard. The truth is that there are lobbies trying to influence every bit of important legislation. No subject lends itself so well to the activities of the lobby as the tariff. If the schedules can be drawn in such a manner as to insure profits to certain industries it is certainly to the best interests of affected industries to make every effort to influence and shape legislation favorable to themselves.

In the introductory speech of Senator McKellar regarding a bill for controlling lobbying he points out that during the discussion of the Fordney-McCumber act the members of the lobbies were almost everywhere. "There was scarcely a manufactured article or a raw product that did not have a special lobby in Washington," he asserts, and then continues to say that most of the lobbies got what they were after. He names Senator Lippett of Rhode Island as playing a major part in fixing the rates on cotton and Mr. Littauer of New York as fixing the schedule on gloves.[1]

Ruby A. Black[2] quotes Senator Walsh as saying that the influences of C. L. Eyauson representing the Connecticut Manufacturers' Association were worth $70,000,000

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[1] Congressional Records. Vol 65. Part 6. Page 5798. April 8, 1924.

[2] "Nation". 129:486-7. October 30, 1929.

to Connecticut industries. Among other interests mentioned in this article as contributing to the lobby were the United States Pottery Association, Association of Wool Manufacturers, National Electrical Manufacturers Association, velveteen manufacturers, etc. One lobby mentioned frequently is the United States Beet Sugar Association.

While too much credit could easily be given upon such chance evidence as the action of President Wilson in regard to the lobby ~~as~~ These examples serve to give an incomplete picture, nevertheless--one from which it can be concluded easily that the lobby is a major force in creating present day tariffs. Further it may be concluded that the major part of today's organized lobby is interested in the tariff only so long as they are in a position to profit by its favors. At least one case to the point is the lack of interest in this tariff on the part of the iron industry which had before they became exporters been among the most insistent seekers after protection beneficial to their own interests.

In addition to these forces there is another which has received bare mention. Various districts expect their representatives to stand for special favors for that district. In Northern Colorado that interest is sugar, in the middle west it is wheat, corn, beef, and hides. The legislator frequently is forced to take the uncomfortable position of being a low tariff man on every-thing except the favorite product or industry of his locality.

His opportunity for receiving any favors at all for his own constituents depends upon his willingness to co-operate in the general program of his party and his ability to trade favors for favors received. In this sense he becomes the slave of his constituent's one desire to protect a single industry and is involved in the general log-rolling processes of legislature. In other words it is hard to expect the other fellow to humor the fancy upon which you received election if you consistently refuse to humor those upon which he gained his seat.

We may list the forces which entered into the creation of the act of 1922 as (1) a spirit of nationalism arising out of the recent war, (2) the election of a party traditionally bound to the policy of high tariffs, (3) industrial interests as represented by (a) the elected representatives, and (b) as represented by paid lobbies.

The law itself is marked by two very interesting factors. The first is that it returns to rates in most cases as high and in some cases higher than the rates in 1909. The other is the evolution of the presidential authority which in this act went so far as to permit 50% revision of the laws at the discretion of the president upon the advice of the Tariff Commission.

One important change which is to be noted in this act is the imposition of higher duties on sugar. The act of 1921 imposed a duty of 1.6 on Cuban sugar while the previous duty had been 1.0048 and the new duty was 1.7648 per pound.[1] It will be noted that this is rather important since sugar comprised 10.3% of all imports[2] into this country in 1923, the year after the act went into effect. Mr. wright further notes that the increase in Tariff while it was bourne at first by the Cuban refiners since unprecedented low prices had followed the break in the sugar price in 1920 was transferred to the American consumer shortly after 1922 and there remained. Revenues were according to the same study increased in proportion to the raise in rate and the amount imported was not changed materially.

The chief revenue raising duties in the act are according to Phillip G. Wright[3] sugar, raw wool, tobacco, laces, and embroideries.

It will be interesting to note a few of the chief imports and their rate of duty under the acts.[4]

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[1]Wright, Philip G. Sugar in Relation to the Tariff. 182. 1924.

[2]Dictionary of Tariff Information, U. S. Tariff Commission. 350. 1924.

[3]Wright, Phillip G. "The New Tariff Examined." Review of Reviews. 66:500. November, 1922.

[4]Compiled from a Dictionary of Tariff Information. United States Tariff Commission. 1924.

Import	Value(1910)	1922	Duty(1909)	Duty(1922)
	(000 omitted)			
Silk, raw	$ 77,058	$365,787	25%	25%
Advanced beyond the condition of singles by grouping or twisting two or more yarns together.				
In skeins, cops or warps. Nos. 1 to 205.			60¢ per lb. plus 10/100¢ per no. per lb.	60¢ per lb. plus 10/100¢ per No. per lb.
Sugar (cane)	103,517	251,905		
between 50° and 75° tested by polariscope			Subj. to duty as molasses or sugar.	1 24/100 per lb.
Dextrose testing not above 99.7 per cent and dextrose syrup			1½¢ per lb.	1½¢ per lb.
Coffee	160,854	101,455	3¢ per pound	2½¢ per pound
Crude rubber	86,345	101,843	free	free
Hides	104,582	107,039	free	free
Wool	39,259	86,546		
In the grease				
Scoured			24¢ per lb.	12¢ per lb.

Table (continued)

Import	Value(1910)	1922	Duty(1909)	Duty(1922)
Washed			18¢ per lb.	
On the skin			11¢ per lb.	
Valued at 12¢ per lb.				
Washed or unwashed			4¢ per lb.	
Scoured			12¢ per lb.	
On the skin			3¢ per lb.	
Over 12¢				
Washed or unwashed			7¢ per lb.	
Scoured			21¢ per lb.	
On skin			6¢ per lb.	

Another point upon which this tariff was supposed to have created differences was in the agricultural products. Mr. Wright[1] has compiled the following table of duties which

[1]Wright, Phillip G. American Review of Reviews. "The New Tariff Examined". 66:500. Nov. 1922.

the farm bloc was able to write into the new tariff:

Article	Act of 1922	Emergency Tariff	Act of 1913	Act of 1909
Beef and Veal, Fresh or Frozen	3¢ per lb	2¢ per lb	free	1½¢ per lb
Butter and butter Substitutes	8¢ per lb	6¢ per lb	2½¢ per	6¢ per lb
Cheese and cheese Substitutes	5¢ per lb.	23%	20%	6¢ per lb
Corn per bushel	15¢	15¢	free	15¢
Cotton having staple 1¾ in. or more in lg.	free	7¢ per lb	free	free
Flax seed per bu.	40¢	30¢	20¢	25¢
Lemons	2¢ per lb	2¢ per lb	½¢ per lb (in bulk)	1½¢ per lb
Milk, fresh	2½¢ per gal	2¢ per gal	free	2¢ per gal
Molasses not above 52% sugars, not to be used for extraction of sugar of for human consumption	1/6¢ per gal	24%	15%	20%
Potatoes per cwt	50¢	25¢	free	41.6¢
Rice per lb.	1¢	2¢	1¢	2¢
Sugar, 96° cent. Full duty	2.206 per lb.	2¢ per lb	1.256 per lb.	1.685¢ per
Cuban duty	1.765 per lb.	1.6 per	1.005 per lb.	1.348¢ per
Wool unwashed	31¢ per lb of cleaned content	15¢ per lb	free	class I 11¢ per class II 12¢ per

In measuring the effect of these duties we note that there are certain of them which cannot be effective except near the border such as fresh milk, fresh beef and butter although advances in transportation facilities have somewhat broadened these fields. The wheat duties are said to have been effective.[1] Secretary Jardine points out that the price of No. 1 dark northern spring wheat averages from 16¢ to 27¢ per bushel more at Minneapolis than a comparable grade at Winnepeg. The effective protection here must naturally be regarded as somewhat less than this estimate, however, since the transportation is not figured nor are the two grades of wheat precisely alike. It seems that while corn is one of the important export products of this country it has never been imported in any quantity at least up to 1923 so it is unlikely that this duty was effective.[2]

The tariff on sugar while it served to protect the industry has been more important as a revenue measure than as protection. Except for the years during and directly after the war the United States has never produced even one forth of the sugar used in domestic consumption.

The duty on flaxseed was no doubt effective. This

[1] United States Department of Agriculture. Yearbook. 22-9. 1926.

[2] Quantity and value of principle imports and exports of the United States. Dictionary of Tariff Information. United States Tariff Commission. 349-50. 1924.

country has consistently imported flaxseed although there is a small domestic industry. The production in 1922 was less than half what it had been in 1909.[1] In regard to cheese the same source[2] notes that the American imports of cheese are of fancy foreign varieties not manufactured in this country. The tariff would not be of any material benefit to the domestic industry in that case. The tariff on potatoes can almost be disregarded. The "potatoes from the principle producing countries have been barred by quarantine since October, 1912,"[3] and the amount of potatoes imported free prior to the war and during the first years of the war would only amount to a fraction of 1% of the consumption. The duty on rice is one cent per pound. The American rice industry supplies almost the whole domestic market and exports 400,000,000 pounds of rice annually[4] and it is likely that the duty is effective. This same rate of duty was in the 1913 act. The duty on wool was not raised above the emergency act since it takes more than two pounds of unwashed wool to make a pound of cleaned wool. The *Nation*[5] makes no statement regarding the wool production

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[1] *Dictionary of Tariff Information*. United States Tariff Commission. 332. 1924.

[2] *Ibid*. 114.

[3] *Ibid*. 580.

[4] *Ibid*. 627.

[5] *Nation*. Dec. 23, 1925. Vol 121. 721-2.

but the following exerpt is enlightening. "The textile industries, with the highest protective duties, are in so bad a way that their official spokesman, confessing that they pay the lowest wages of any American industry, appeals for still higher duties, while the carded woolen manufacturers association makes complaint that the specific duties on wools, reaching 191% ad valorum on the cheaper wools are ruinous to the business.

If the evidence be admitted then the market for raw wools must have been considerably constricted by the imposition of such heavy duties on raw wool that the consumer refused to purchase the finished product.

Before summing up the information regarding the farmer and the tariff we must remember that the farmer receives his implements without duty. However this boon does not appear so great when as Mr. Jardine asserts[1] the prices of implements abroad are usually higher than here so that it is doubtful if the duty were one imposed could affect the prices of farm machinery. The combination of cheap iron (duty 75¢ per ton) and American efficiency at machine labor cause this farm machinery to be produced more economically than abroad in spite of the higher cost of labor. (Labor cost per unit of labor is naturally higher since living is more expensive and labor is not too plentiful; however, the cost of labor per unit of production is not

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[1] U. S. Department of Agriculture Yearbook. 1926. 22-29.

so great in the really efficient industry.)

From this study of the agricultural schedules it is to be seen that the farmer reaps but little benefit from the tariff. Such articles as potatoes, rice, cheese, corn, milk can have very little real effect while those on wool are shown to constrict the sale of wool and those on sugar to protect an industry which is spite of protection continued over many years fails of really being established. The wheat schedule has been praised because it kept the price of wheat in Minneapolis higher than the price at Winnepeg, but it is not unlikely that the transportation would destroy at least part of the Canadian advantage.

Because almost any figures on how much protection costs the farmer as a consumer would be unreliable this paper will make no effort to present such statistics, however, there is of course a considerable raise in farm costs due to protection both on articles which he consumes and in the form of wage costs.

In this regard however there are those who believe that the burden of the tariff is becoming more equally distributed. Jacob H. Viner summarizes[1] the situation in these words:

"In the main, American agriculture still undoubtedly loses more than it gains by the protective tariff

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[1]"American Export Trade and the Tariff." _Annals of the American Academy_. Vol 127. 132. 1926.

policy. But the burdens of the tariff are rapidly shifting to the more efficient of the manufacturing industries, and to the shipping and mining industries. The benefits, such as they are, are now being divided in more even portions between those manufacturing industries which continue to be ill adapted to American productive conditions, and those branches of agriculture which both receive protection and on their present scale of production cannot fully meet the demands of the American market."

It cannot be too greatly emphasized here that the producer who truly competes with the producers of other countries for the trade in his product in the world's markets cannot possibly receive any benefit from a tariff unless he sells his goods for more in the domestic market than he receives in the foreign market. There is no defense for any duty which would permit such a condition.

The point to the discussion of the Fordney-McCumber tariff as it relates to the farmer is not the study of an isolated sort of legislation produced to remedy a particular situation even though the agricultural rates arose out of the rates in the Emergency act (an act designed to prevent dumping. It is highly questionable if the low prices of European produce was really dumping). These rates were applied later under very nearly normal circumstances. The amount which these rates helped the farmer is almost negligible as has been shown. It is evident from the data that it is not likely that any tariff would materially benefit the farmer; on the other hand there can be no doubt that he bears quite a part in the burden of protection. This paper concludes that the protection is inimical to the interests of agriculture.

As we return to the general discussion of the act we find that the general level of duties estimated by the relation of duties to all imports is somewhat less than that in the act of 1909.[1] The raises in the tariff were in many cases based upon the tariff policy prior to 1913 and the rates themselves show this to be true. The author of the bill[2] presents it ramified with the arguments that it will stimulate industry and raise wages. It is hard to judge what effect the tariff really did have on industry as a whole. We do know that it is during the period beginning even before the passage of this tariff and lasting up to now that the relation of unhampered world trade to debt settlement has been introduced into the tariff discussion.

Knowing how the tariff is constructed, very much at the behest of the industries who are likely to profit

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[1]Wright, Phillip G. "The New Tariff Examined." Review of Reviews. 66:502. Nov. 1922.

[2]Representative Joseph W. Fordney. "The Case for Protection." Current Opinion. 73:649. Nov. 1922.

by it. Then it is not certain that their knowledge is sufficient even to secure the protection of their own interests. Knowing the tendency to trade favors under legislation it is not unusual that no one has ever taken the trouble to try to separate the influence of the tariff in the various industries, except those partisans who argue only one side of the question. Such a task would at the outset seem to involve too much data and too many relations to be capable of any reliable, definite settlement. That any such study would be very interesting is undoubtedly true, and it is true that carefully kept records of that sort would be invaluable as indices to the effect of tariffs upon domestic manufacturers. However, the nature of the tariff is such that there are involved in it other issues of equal importance to the effect on domestic industry and in a sense quite inseparable from the welfare of those industries. We have never up to this point had to question the virtue of the tariff on the ground of its relation to the trade balance of nations.

When this country was in debt to other countries although the debts certainly took on no such proportions as the present debts have the policy of restricting imports was sound from the viewpoint of one who wished to eliminate the nation's foreign indebtedness. If we imported but few things our expenditures abroad would be lessened and the exports from us to the foreign nations would more nearly equal or sometimes be more than our imports and thus the balance would be such that the exchange of money would be more likely to be from foreign nations to the United States and by permitting the balance to pay upon the debt the whole business would approach settlement.

The conduct of the war was more expensive than the participating nations ever dreamed that it would be. Their reserves for such an emergency were insignificant when applied to the enormous expenditures which proved to be necessary. However, some of the neutral countries were able by commercing with the belligerents and by trading in the markets previously held by the belligerents to promote a considerable prosperity. The United States was a very prosperous nation before and during the war. It was a comparatively simple matter to extend our credit almost unlimitedly to these nations and thus to not only help finance the war but also to make a market for our goods. It must be clear that the money that the United States loaned to Europe was not coin or paper money but was rather the credit to buy foodstuffs and the materials of war.

Despite the fact that there was and still is a blind and foolish optimism about how the various nations can pay their debts to us in spite of the tariff the truth is that the presence of the tariff will probably make it impossible for the debtors to the United States to pay their debts. As has been stated the ignorance regarding the simple facts and principles involved in the debt controversy is little less than astounding. A case to the point is a man who has served as a clerk on the House Ways and Means Committee and who was serving as a tariff expert in the Ways and Means Committee of the House at the time the Fordney-McCumber Bill was passed, Edward Nelson Dingley[1] (son of the congressman from Maine) says:

> "Now it is said that we are a "creditor nation" and for that reason must not raise tariff duties, but lower them in order to permit European countries to pay us eleven billions due from the World War. Some "patriots" fear that European debtors may not be able to pay; we must receive pay in goods. There is just about as much sense in that theory as there would be in the assumption that the coal merchant A, from whom B, a woolen merchant, buys coal, could not be paid unless A bought from B woolen goods equal in value to the price of the coal supplied B. In the most primative condition of society, when there was no conception of money of account, banking or commerce, such transactions, of course, were necessary. That a modern banker should believe international commerce in this age must be conducted by such elementary methods, is difficult to understand."

Yet even the eleven billions referred to by Mr. Dingley could not have been paid in the gold exchange standard because there was not that much monetary gold. The payment of any part of such debts in gold is likely to seriously endanger the credit structure of the nation indulging in such a practice.

[1]Dingley, E. N. "A Tariff to Raise Revenue and Reduce Unemployment". American Review of Reviews. 66:393 Oct. 1922.

Indeed, speaking from an international viewpoint the decreased buying power which caused the world wide depression less than ten years later than the 1922 tariff may be explained very tenably by the gradual outflow of gold from European nations and the consequent weakening of their credit systems.

A curious anolomy is presented in the minds of many people by the fact that the European nations can and do expend considerable sums on preparations for war still are not able to pay upon their debts to this country. However the credit media which they use in domestic trade are not gold and it is gold that the United States regards as money in payment of international balances. The reduction of payment of debts to the bases of goods or gold coupled with the fact that there is not enough monetary gold to settle the debts in the whold world brings us to the conclusion that Europe must be permitted to sell goods in this country in order to pay her debts. The European Debtors unfortunately are situated geographically much as this country is. The great staple products, sugar, corn, wheat are raised in those countries while both Germany and England are great producers in the iron and steel industries. In this sense these countries can produce and do produce about the same kinds of merchandise as the United States. The European nations have since the war erected great tariff barriers which have diversified their industries just as those in this country are diversified. The result is that the efforts toward self-sufficiency in almost all nations has resulted in their duplicating the work of one another in the various fields of industry. This country has a tariff that levies duties on a great variety of things and a free list which is made up of two classes of things: 1, those which are produced more economically here than anywhere else in the world, and 2, those which cannot without absurd expenditure be produced in this country. The result is that the European debtors cannot pay their debts to the United States unless they are able to either lower their cost of production until the cost plus the tariff is as low as the American price--in which case it is likely the tariff would be raised, or they could lower their costs in the free articles until it was less than our own--in which case the articles would in all liklihood be removed from the free list. In either of these cases the result is predicated upon extremely low standards of living and the absolute loss of purchasing power in Europe as a market for United States goods.

It is rather obvious from this treatment that it is practically impossible for Europe to pay her debts to America as long as the present type of trade legislation continues. The effects of the tariff from an international viewpoint are more directly discernable than from a purely domestic viewpoint and the issues are not quite so complex.

If the tariff does not prevent the exchange of certain goods it is not protective, if it does, it needs considerable justification in the way of measurable and direct benefits to the industry and the nation to offset its disasterous effect upon the trade of nations.

The increased growth of overlapping industries is illustrated by the insistent demand for tariff rates on certain iron alloys used in warfare which prior to the World War had been largely imported as provided for in paragraphs 304 and 305 of the Act of 1922 in which distinction is made between various alloys and high rates imposed. Importation of such steels could naturally have continued after the war. Such a course would not only be economical, but the conservation of our own limited supplies of the alloying metals would be accomplished at the same time.

The tariff as it was enacted in 1922 was not anything which could not have been fairly accurately predicted by one who was acquainted with the temper of the American nation. The surge of patriotism which had come welling up to the surface in the trying period of the war was based upon sturdy, self-sufficient nationalism. This force expressed itself in this law by such measures as the extreme protection of dyes and steels containing certain alloys as well as in the general highly protective nature of the whole bill. The local interests of legislative favors of each section of the nation were not neglected, and to insure the industries and trades of their proper voice in the matter well organized lobbies were present to push forward skillfully and insistently the several interests which they represented. The Republican party with its precedents of high protectism was returned to power. These factors serve to explain the bill and viewed in these lights it is not difficult to see that it is as it was likely to be.

International considerations which had seemingly been submerged in nationalism were disregarded. This country's new status as a creditor nation was disregarded. New interests that had grown up during the war were preserved. Aside from changes in the schedules the act of 1922 introduced some new principles into tariff making. For the first time in the history of the making of tariffs in the United States some of the clauses were devised by experts. In the textile schedules there was affected a general revision of classifications, the deletion of obsolescent paragraphs. The entire section was simplified and brought up to date.

While the duties themselves were not made in accordance with those recommended by the commission the very work of simplifying the law inasmuch as it renders the administration of its clauses more simple is a distinct service. Another principle which was changed in accordance with the desires of the commission was the method of dutying wool. The law bases all wool duties on clean wool without regard to its original grease content or the place or origin. This feature is an improvement from the standpoint of its common comprehensibility. In previous years the experts who knew what per cent of wool was consumed in shrinkage due to washing or scouring could fool the inadept members of the Congress. However the dutying in accordance with clean content is less susceptible to deceit and chicanery despite the fact that it creates a manifestly unequal tax upon different types of wools. The better wools seem to have the greatest grease content, hence they will clean less wool and duty less under the new law than the old.

In the administrative provisions the whole code as rewritten by the Tariff Commission was written into the law. Not that there were any very far-reaching changes made in the nature of the administration itself or that the rules of assessing customs duties underwent any marked change but the revision and codification of the guiding material so that the matters which had grown irrelevant were no longer included to entangle a not too careful administrator.

The work of the Tariff Commission has been of great value in this regard. The tariff acts have been so carelessly written that administration has been rendered painfully hard. Whereas most cloths have been dutiable by thread count and fineness the main part of such provisions are now based upon the weight of the goods and the material.

The American valuation enters into this law for the first time. It may be defined as the value of the article as produced in America. Manifestly on articles needing protection an ad valorum duty on American valuation would yield much greater protection than the same rate of duty on the lower foreign price. The effort to adopt this system of valuation was defeated on almost every product but it is retained under the new dye schedules where the prohibitive duty is 40% plus 7¢ per pound, American valuation. Four other valuations are used. The United States value which is the value of an imported commodity in the United States after duty, charges for transportation and not over 8% for profits or commissions have been deducted. Cost of production may be used as a basis for levying duties when all methods else fail and it is possible to apply it.

As usual the chief bases for determining the duty are "The foreign value or the export value, whichever is higher."[1]

In section 315 of this law there is provision for one of the most far-reaching administrative changes ever

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[1] Administrative Provisions Act of 1922. Section 402 (1) from Comparison of Tariff Acts of 1909, 1913, and 1922. 1923.

made in our government. The clause contains the flexible tariff provision. The President is given the power to change the tariff on any article either upward or downward as much as 50% of its present duty if such a change is recommended by the U. S. Tariff Commission. Such a power given into the hands of the executive seems at first to be quite a change in the congressional system. The power under which the enactment of tariffs is derived is found in the right of the lower House to originate all legislation designed to create revenues. A casual perusal of the history of any recent tariff with the exception of the Underwood act will reveal that the point is loosely construed to mean that any part of it may originate there and that subsequent change even of such a nature as to alter the intention of the act may be made in the Senate. The transference of certain of these powers to the President may be regarded as no material departure from precedent in the interpretation of the Constitution in these matters.

However, there is in this act the admission that the whole problem of tariffs has defeated the ingenuity of the Congress. The great per cent of flex seems to permit the interpretation that the error of the Congress may be rather large. Even the 50% clause itself does not embrace the whole scope of the president's power. If he sees fit he may by proclamation substitute the American Valuation for the valuation in use continuing the same duty ad valorum, that is, the duty as stated in terms of foreign valuation or export value. Decreases in duty under this proceedure must not exceed 50% from the original as fixed by Congress.

The important phase of this change is the great importance it attaches to the Tariff Commission. It is to be noted that it is this commission, whose powers have up to this point been only advisory, which is given the initiative in bringing about such action on the part of the President.

Here too is evidence of a greater effort to apply the principle of equalizing costs to the making of a scientific tariff. The fact that a tariff rate departs from that principle is the basis upon which the duties are to be changed under the flexible provision.

The principle of equalizing costs has already received considerable mention since it was the standard to which the Act of 1909 and the Act of 1913 were supposed to have been measured. Some time has been spent to show that when this theory is carried to its logical conclusion there would be no trade between nations since it could never be profitable to the exporter. As a theory of trade it is easily perceptible that its universal application would nullify any benefit which a nation might expect to derive in trading by virtue of possession of natural advantages for special industries. Despite the theories which may be employed at election time to beguile the voter into voting for this party or that it is not to be expected that the declaration of principles will in any large manner effect the practices in making tariffs.

The nation as represented by the publications of its journalists, policians and economists have shown unusual interest in this law. I have seen fit to include a few of these comments here. They are of interest chiefly because they forecast the action of the law during the major part of the past decade.

F. W. Taussig:

> "Then revision of a tariff act like that of 1922 will be peremptorily demanded. The tariff question is not settled; it is likely to remain on the political battlefield for years to come.. .....much the wiser course if a protective system must be accepted as a part of the settled order of things would be to shape it in such a form that it would endure for a considerable length of time; to eliminate the extreme and vulnerable features and to make a serious and honest endeavor to establish a regime with which the country might remain content. Only in this way is it possible, for a period at least, really to take the tariff out of politics. The tariff act of 1922 can serve no such purpose."[1]

Joseph W. Fordney: (Author of Bill)

> "I am certain that the new tariff law will prove a success. It will raise approximately $400,000,000 in revenue annually, will save many American industries and put many idle men and women to work."[2]

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[1] Quarterly Journal of Economics. "Tariff of 1922." Nov. 1922. 1-28.

[2] Current Opinion. Nov. 1922. Vol. 73. 649.

Phillip G. Wright:

> "So far as human foresight can penetrate it seems likely that the framers of the Tariff Act of 1922 will for a time be in a position to contratulate themselves on their wisdom as evidenced by results. Nevertheless the act is not one which the economist or, I believe, the far-seeing statesmen can regard with enthusiasm."[1]

Abraham Berglund--University of Virginia:

> "In general the act of 1922 must be linked with the acts of 1890, 1897, and 1909 as among the highest so far as rates are concerned, in our tariff history. As to its probable beneficent or other effects, opinions will vary according to individual leanings with regard to trade policy. It is indeed in line with the intense nationalism which has become so pronounced in recent years and in accord with the general spirit of our laws since the Civil War. A high tariff means, however, a certain amount of commercial isolation, and the question can be raised, "Is this isolation in accord with either our own aspirations or the World's needs?'"[2]

In general the economists are still holding fast to the free trade doctrine although there are certain exceptional circumstances under which protection, if it could be properly applied, is admitted to be economically sound. Mr. Taussig seems to be hopeful that there will be a reaction against the high tariffs of this act but on the whole there seems to be little hope that effective revision will be accomplished as long as the present political lineup

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[1] "The New Tariff Examined." P. G. Wright. American Review of Reviews. 66:499. Nov. 1922.

[2] "The Tariff Act of 1922" Abraham Berglund. American Economic Review. 13:13-33.

obtains. This is not so much due to the lack of general demand for such effective revision as expressed in various periodicals and in the daily press as it is due to sectional interests interplaying to defeat separately each item of revision.

The years following the enactment of the 1922 act were years of great trade activity and prosperity. There is some difficulty in determining the real effect of the tariff upon industrial growth but an effort will be made to trace the courses of some of the industries chiefly concerned in the tariff discussion. In spite of the several studies which have been made of comparative wheat prices in Winnepeg and Minneapolis during the months of October, November, and December, 1922, in an effort to show that there was some positive and direct way in which the tariff helped the agriculture of the United States there persisted during the years in which this act was in force a considerable opposition to that theory. There always has been such an opposition to agricultural tariffs supporting itself chiefly on the argument that there are two alternatives in protection of agriculture, the first is in the case of such products as wheat in which the export surplus determines the price and the second in cases as sugar or olive oil in which the industry is not likely to ever supply the domestic demand hence adds in living costs more than it can ever repay. (Repayment would depend upon its becoming advantageously established and eventually lowering the prices.) The plight of agriculture during this whole period was rather poor. While other industries seemed to recover from the depression of 1920-21 agriculture did not. Throughout the decade 1920-30 there was a steady and insistent cry for farm relief and the candidates for Presidency did not fail to make vote capital out of it. The platforms of the major political parties declared for some sort of relief for the farmer in 1924 and 1928 and it is very likely that the question will be of considerable importance in 1932.

Mr. Gray Silver[1] lays the misfortunes of agriculture at the door of the tariff. His theory is interesting and contains more than a grain of truth. The effort to promote a one sided trade with Europe after the war caused their people to revert to the soil as is the wont of every people impoverished in industry because their trade outlets are closed. The resultant growth of economic self-sufficiency in Europe destroyed the markets for American agricultural exports and left the farmers faced by surpluses of low priced farm products.

The general effect of the tariff did not change materially during the eight years from 1922 to 1930. The

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[1] National Association of Manufacturers Preceedings 1924. 131-40. Speech by Gray Silver, Washington Representative, American Farm Bureau Federation. (exerpt Ref. Shelf. Vol V. No. 4. 1927. Original source not consulted.)

tariff on sugar still adequately protects the domestic sugar industry much of which still continues to produce under disadvantageous conditions and only by virtue of the tariff. Taussig[1] points out that the chief benefit of the high tariff goes to Hawaii, and Porto Rico rather than to the domestic producer since the tariff is designed simply to equalize costs of production and the costs of production in these island possessions is considerably lower than in the United States. They have the protected market to sell upon yet do not really need such a degree of protection.

The iron and steel industries present no marked change during this period since in all cases except the special alloys in industry mentioned before as arising from the conditions of war there has been no need for protection and protection if extended would be of no benefit. The rayon industry which from its inception has received protection has shown such enormous profits as to make it seem reasonable that it could exist without any protection at all. It is estimated[2] that only 10% of the rayon manufactured in this country earned a profit of less than 40¢ per pound and the profits during the war and directly after ranged as high as $3.00 per pound.

The cotton manufactures according to the same

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[1] F. W. Taussig. Some Aspects of the Tariff Question. Chap. XXII. 1931.

[2] Ibid. 437.

study while it is being transferred to the south is independent of protection for the poorer grades of cloth to which the machine methods of mass production may be easily and profitably applied. The other grades of cloths are still manufactured by virtue of protection and show no appreciable orientation to this country.

The wool growing industry[1] has for a long while been one of those industries in which the comparative advantage is with some producers and in which other producers are producing by virtue of the tariff. The varying costs of production cause this industry to be in a measure dependent upon the tariff for continuation.

The woolens industry retains its status as before it is dependent upon the tariff and shows little tendency toward establishment.

It is to be noted particularly that there was little relative change in the various important tariff protected industries. In the main they showed little growth or change in status. The one great exception to this is the rayon industry. A study of the growth of that industry, however, is convincing that the various techniological improvements were a greater force in its growth than the degree of protection offered.

[1] F. W. Taussig. Some Aspects of the Tariff Question. Chap.XXVI. 1931.

The tariff Commission was organized as an advisory body in March, 1917. The war causing swift changes in the commercial set up of the nations brought about a distinct need for some immediate, correlated material about commerce in relation to the tariff. This body set about to make a great many investigations in matters pertaining to the various schedules, and in 1921 Thomas Walker Page, then Chairman of the Commission had investigated several thousands of items with reference to the tariff making aspects of each together with considerable information with reference to costs of production in the United States and abroad.[1]

Of course the Commission at that time had no power to make rates or to recommend alterations in the existing schedules. The material was presented purely as data from which no conclusions were drawn and without any specific recommendations as to the manner or degree of change.

The material which had been gathered was of little permanent value in the making of the act of 1922 due partially to the rapid changes in commerce and industry all over the world. Changes which occurred so rapidly as to render obsolete within a few months any data regarding costs of labor and materials. The situation was even

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[1]Thomas Walker Page. Making the Tariff in the United States. Footnote pages 35-36-37. 1924.

further complicated by the almost daily changes in the exchange value of money. Conditions like this were augmented by the efforts of the erstwhile belligerents to stabilize their currency systems upon varying new bases.

The other factor which rendered the work of the commission in gathering data in comparative costs of little value was the small disposition of the Congress to legislate upon the groundwork of its findings. In regard to that law it has already been noted that the commission entered into its makeup not as a force in fixing consequential matters but rather in changing certain administrative clauses and deleting obsolescent materials.

However, the law of 1922 brought new duties to the commission. It was empowered to recommend rates to the President for changes upward or downward within a range of 50%. It began to assume new importance in respect to changing rates but the power thus conferred upon it was regarded as temporary and only necessitated by the unstable conditions arising out of post war industrial conditions.[1] According to the general formula upon which the commission was supposed to carry on its work, that of equalizing the cost of production there was the great problem of adjusting to the changes which were occurring about this time. Under Section 315 of the Act of 1922 the power of changing duties

[1] Chamber of Commerce Referendum, No. 37. 6. From <u>Making the Tariff in the U. S.</u> (original source not consulted)

by proclamation was given to the President and the commission.

The activities of the President and the Tariff Commission under Section 315 of the Act of 1922 will receive considerable treatment here. I do not think that any less than a detailed treatment of this activity would be warranted since the chief phenomenon in recent tariff legislation has been the growth of tariff making power delegations to the President and to the Commission.

The first decision of which I find any record[1] is in the report on sugar. The majority report set the costs of production in Cuba at 1.2302 cents per pound less than domestic costs, while the minority reported a wider distance separating costs than was bridged by the duty 1.7616 cents per pound. The decision of the President (Calvin Coolidge) was to postpone action because there was no positive correlation of results of the commission, and the conditions under which it reached its decision were in a state of change.

I cannot give this decision the round condemnation that many writers have given to it. It seems to me that in such industries as the sugar industry in which the costs of production are so dependent upon the favor of the weather and the varying rents for land the principle of

[1] Ninth Annual Report of the Tariff Commission. 1925. 116-118.

comparative costs is subject to such constant and pains-taking adjustment that it is impracticable.

In this same report[1] the President refuses to raise the duty on cotton warp--knit fabric gloves. The recommendation of the commission was based purely upon the variance in cost of production. The decision was evidently based upon the small and decreasing production of this branch of the cotton industry. It seems to be a very justifiable refusal since as he pointed out in his refusal the price of gloves would be raised about 50% by compliance with the commission's recommendations and the industry supplied only a small part of domestic needs.

In the following year[2] the duty on taximeters was increased from $3.00 each plus 45% ad valorum on foreign value to $3.00 each plus 27.1% of American selling price, December 12. During the course of the year the duties were increased upon men's straw hats, butter, print rollers, and methanol. The duty on paint brush handles was cut in half. In 1927[3] the commission recommended, Commissioner Costigan dissenting, that the duty on iron in pigs be raised. Proclamation was issued to that effect March 25, 1927. The

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[1]*Tenth Annual Report of the United States Tariff Commission.* 19. 1926.

[2]*Ibid.* 118.

[3]*Eleventh Annual Report of the United States Tariff Commission.* 11.

duty of $.75 per ton was raised to $1.125. The report of 1921 notes that effect of this change amounting to an increase ad valorum of about 2% was not determinable in comparisons of imports.

Other increases in duty were on gold leaf, Swiss Emnienthaler cheese and crude magnesite. There is little available data regarding this type of cheese. Commissioner Costigan filed a dissenting report. The Magnesite industry came about as an outgrowth of the war. It is used in lining certain types of iron furnaces. Austria and Czecho-slovakia were its principle producers until the war, and the United States is the chief market.

Phenol and cresylic acid were subjected to lighter duties than before. All of the various cases which were pending regarding the legality of action of the President under section 315 were brought to repose by the decision of the Supreme Court holding section 315 to be constitutional April 9, 1928.

Under the flexible provision the duties on cherries, rag rugs, precipitated barium carbonate, socium silicoflouride, flourspar, and potassium permanganate were increased in 1928.[1] There was no decrease in duties by Presidential Proclamation during the years 1928 and 1929. In the latter year onions, cast polished plate glass,

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[1] Twelfth Annual Report of the United States Tariff Commission. 17. 1928.

peanuts, preserved eggs, flaxseed, fresh milk, cream, cylinder, crown and sheet glass, and linseed oil were the recipients of increased duties.

A survey of these changes reveals only five decreased and 32 increased in duty. Two notations may be made from this. First the sentiment of the body seemed to be distinctly protective, and the body of changes which it made were unimpressive being on the whole neither important nor numerous. In the nature of the Tariff Commission lies the explanation not only of the nature of these changes but also of the meagre amount of good which it did under section 315. It is a bi-partisan body containing usually equal numbers of the two major political parties. In spite of the care in the selection of these members there arise the inevitable disagreements between members. The reports on really important changes are usually divided into Majority Report and Minority dissenting report. With all of the dissention there is likely to be more sentiment in favor of one sort of change, either downward or upward than for the other. While there was no power to change rates given to the commission under President Wilson still it reflected in a measure his own attitudes and the attitude of the Democratic Party. This effect is largely accounted for in the select personnel of the body and by the gradually disappearing line of demarcation between the two major political parties on the tariff issue. That is to say there are men who hold very liberal views upon the trade policy who are Republicans in spite of that, and Democrats who remain Democrats in spite of high protectionist views. From the groups of protectionists among the Democrats may be chosen the Democratic members of the commission during a Republican administration while the Democratic president may appoint Republicans who sympathize with the free trade principle. This possibility becomes an apparent reality when we inspect the personnel of the tariff commission and examine the changes in that personnel.

The chairman of the first commission was the recognized prime authority on tariffs in this country, none other than he from whom much in this paper is derived, Dr. Frank W. Taussig of Harvard University. The next chairman was Thomas Walker Page, who had been a member of a Tariff Board under President Taft. His views upon the tariff favored moderate protection while Mr. Taussig favored moderate protection carried out toward free trade as a goal to be worked toward. Edward P. Costigan, now Senator from Colorado was also a moderate protectionist. Mr. Costigan at that time was affiliated with the Progressive Party while the others were Democrats.

William S. Culbertson and William Kent were representatives of the Republican party but neither was a very pronounced protectionist. David J. Lewis, another Democrat, believing in simplifying and revising the tariff.

Daniel C. Roper served for about three months and his place was taken by Mr. Page.

The third annual report of the commission in 1919 announced the resignation of Professor Taussig whose term it had been recognized from the beginning was only temporary since other affairs called pressingly for his time. Mr. Kent resigned in 1920 hence the 1920 report is signed by only four commissioners.

President Harding appointed to the committee Thomas O. Marvin, a high protectionist, and William Burgess, a lobbyist for the pottery interests. Mr. Marvin became chairman in January, 1920, and continued in that position until 1922. Mr. Page's resignation in 1923 left open a Democratic position which was filled by Mr. Glassie, a protectionist Democrat from Louisiana. It is to be noted that the appointments of Republican presidents followed closely Republican principles just as Democratic appointees had not failed to be in favor of Democratic principles.

There were further appointments but these suffice to explain the trends in rate changes during this period. Mr. Costigan had decided in March, 1928, that the commission was sufficiently well organized upon protectionist lines to prevent his having any influence upon its findings. So he resigned on March 14, as a final protest against the actions of the body of which he had since its first organization been a member.

PART EIGHT

The Tariff Act of 1930.

From time to time in this country there comes a spirit of unrest and dissatisfaction with the tariff situation. Behind such an unrest lie many reasons and causes savoring of various degrees of political and economic expediency. One causal factor in bringing about a new revision of the tariff in 1928-30 was the outcome of the election in which the people chose the Republican party for the administering of the affairs of government for the period 1928 to 1932.

Aside from the tradition involved there is no particular reason to feel that the selection of the Republicans at this time had any particular connection with the tariff issue. As a matter of fact the two major parties were for once without a discernable disagreement upon the principle of tariffs. The Democratic Platform[1] in 1928 contains two interesting clauses, "the Democratic tariff legislation will be based on the following policies: a. the maintenance of legitimate business and a high standard of wages for American Labor, and d. Duties that will permit effective competition, insure against monopoly and at the same time produce a fair revenue for the support of government. Actual difference between cost of production at home

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[1] Democratic Campaign Book, 1928. Democratic National Committee, etc. 335. 1928.

and abroad, with adequate safeguard for the wage of the American laborer, must be the extreme measure of every tariff rate."

Without referring to the Republican statement which is far less concise it may be noted that the stand of the Democratic party is essentially in agreement with the principle of protection and the principle of comparative costs as it was first annunciated by the Republican party in the campaign of 1908. It cannot be said with any degree of truth that there was a real issue between the parties upon the principle of tariffs in 1928.

Even in the discussion regarding the Fordney Act there was a degree of agreement. The Republican party held[1] that the act of 1922 had done signal service to the commerce and industry of the country, even permitting themselves the obvious absurdity of claiming that it was responsible for the increased imports and exports during the years in which it was effective. However, they continued to point out that the changing competitive conditions had somewhat outmoded that legislation and that there existed a need for a general overhauling and institution of changes of considerable scope. There was extant a statement of W. S. Myers[2] which found considerable place in the

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[1]Platform 1928. 356-357. Democratic Campaign Book. 1928.

[2]The Republican Party, A History. 465-7. Myers, W. S.

Democratic speeches of that year. Of the tariff act of 1922 it said, "It is the most ill-drawn legislative act of recent political history.......The country has prospered in large part due to post war conditions abroad and in spite of rather than because of the Fordney-McCumber tariff."

The Democrats had never felt that there was any particular need for further revision when the Emergency act was passed in 1921. Then the enormous increase of rates in the Fordney bill was occasioned for nation-wide comment and condemnation. Throughout the period there was criticism of the act but the nature of such criticism had undergone a subtile change. In spite of the continuance of the always-prevalent talk about the enormous unearned profits of monster industries sheathed in protection there came a new and more insistent note. The international aspects of the American tariff and its real relation to the intricate debt situation which grew out of the war began to overshadow the domestic aspects of such legislation. While more will be written elsewhere in this regard it is important to note that there arose quite an insistent body of opinion about the relation of tariffs to debts which furnished material for the opponents of the 1930 law.

Industry was divided into two camps on tariff revision. The newspapers quoted such industrialists as Ford, Erskine, and General Motors as opposed to the revision, The Business Week[1] poll of corporation executives returned two to one against general tariff revision. Other industries such as the sugar industry and the rayon industry as well as a great bloc of agricultural interests were in favor of revision because it would profit them, they believed.

Both parties in their 1928 platforms contained statements which can be construed to have the import that tariff legislation may be of benefit to the farmer.

Throughout the study of the causes of a change in tariffs, at least, any change which partakes the nature of a general revision there is one point which is so obvious that it cannot escape notice. Regardless of the standpoint of leaders in business, and of economists the party elected whether Democrat or Republican in 1928 was bound by precedent and promise to do something with the tariff. In general their promises were to spread it out more evenly, and the differences in method, the one wanting to lower the high spots and the other desiring to raise the low spots are only differences in method, which without constructive leadership and powerful control would resolve into theoretical differences valid in principle but null in practice.

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[1]*Business Week*. April 2, 1930.

As before, a powerful lobby backed some of the provisions of the law "Representatives of industrial groups in quest of higher duties crowded the lobbies of Congress."[1] The information upon which duties were levied was still obtained largely from interested business interprises who could profit by deft misrepresentation of costs. The Tariff Commission had found in some cases strong opposition to the presence of their experts examining costs in the books of foreign industries. After being so obtained the duties were frequently amended (in the Senate 1253 times) or the administration charged so as to materially alter the intent of the bill as we note in the higher tariffs imposed under a resolution to reduce them. After both House and Senate have had their turns at changing the proposed legislation the conference committee compromises between the two with rates which far from following any principle are designed to pacificate the members of the two bodies.

The present law was passed in June, 1930 after a long career of discussion in the House and Senate. Senator Harrison opened the final debate in the Senate on June 9.[2] His main points were that the proposed measure

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[1] Beard, Charles A., and William Beard. The American Leviathan. 1930. 457.

[2] Congressional Record. Vol. 72, Part 10. 10291. 71st Congress, 2nd Session.

would increase the cost of living $1,000,000,000; 2, that it was opposed to the trade principle whereby foreign debts could be paid; 3, it was an affront to foreign nations in proof of which he cited 38 protests received by the state department; 4, it stimulates inefficiency in industries without economic advantage; 5, it drives American industry abroad where production costs are not raised by tariffs. He was followed by Senator Thomas of Oklahoma who made his chief argument upon the possibility of retaliation by 42 protesting nations including Argentina, Austria, Belgium, Canada, Czechoslovakia, Denmark, Dominion Republic, Egypt, Finland, France, Germany, Great Britain, Greese, Guatemala, Hungary, Honduras, Irish Free State, Italy, Japan, Latvia, Mexico, Newfoundland, Netherland, Norway, Parguay, Persia, Portugal, Roumania, Spain, Sweden, Switzerland, Turkey, Uraguay, etc.

As reprisals, measures in Canada in conjunction with the British preferential tariff for empire trade was cited. As replies the same arguments that have bolstered the protectionist from the beginning were used. The chief argument in this class is the high wages in industry plea for the American workman who must it is claimed be working on the same wage scale as foreigh labor if his products are sold in the same competitive market. The converse of this theory is somewhat more tenable as presented in the Senate. The effort of the foreign producer to produce at a cost less than the American producer by as much as the amount of the tariff forces his labor to work at lower wages than he otherwise would. How well based such an assertion may be is difficult to determine, but it has the smack of truth to it.

After the final debates in which there was marked confusion on both sides and in which the defense seemed content to rest the vote in the Senate passed the proposed act 44 to 42 as it had returned from conference committee. As it was resubmitted to the House in March the vote had been 53 to 31 so it may be seen that the bill lost favor in the changes of the committee. The act as a whole as finally passed contained 1814 paragraphs. The Senate amended it 1253 times so it may be seen that it was not solely the work of the House. Final passage by the Representatives on June 14 was accomplished by 222 to 153 majority.

The party division on the bill was fairly clear. On the final vote in the Senate 44 for 42 against there were 39 Republicans and 5 Democrats in the majority and 31 Democrats and 11 Republicans in the minority.[1] In the House the vote was also on well defined party lines. Peculiarly enough Senator McMaster, who introduced the resolution in 1928 "favoring reduction of Tariff Schedules and the consideration of tariff legislation at the present

[1]Hawley Smoot Tariff Bill of 1930. Senate Document 177. 71st Congress, 2nd Session. 344-5.

session" voted nay on the final passage of the bill. Since the act as passed cannot be readily compared with other laws since its effectiveness has never been tested under normal circumstances, I shall attempt only a superficial examination of the items. The law did not involve a complete revision of the duties nor any really important changes in the administrative clauses. Duties upon agricultural products[1] were increased as shown in the following:

	1922	1930
Cattle per lb.	$1\frac{1}{2}$ to 2¢	$2\frac{1}{2}$ to 3¢
Beef and Veal	3¢	6¢
Swine	$\frac{1}{2}$¢	2¢
Pork	$\frac{3}{4}$ to 2¢	$2\frac{1}{2}$ to $3\frac{1}{2}$¢
Eggs per doz.	8¢	10¢
Corn	15¢ per bu. of 48 lbs.	25¢ per bu. of 56 lbs.
Rye per bu.	15¢	15¢
Wheat per bu.	30¢	42¢
Cotton of staple 1 1/8 in.	free	7¢ per lb.

The conditions since the passage of this act have been adverse to a real test of these duties. The prices of agricultural products have declined so as to make most of these duties prohibitive but American agri-

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[1]Tariff Act of 1930. Senate Document 166. 71st Congress, 2nd Session. and Comparison Tariff Acts 1909, 1913, and 1922.

culture does not seem to have benefitted by the reservation of the domestic market for its goods. It is very unlikely that the tariff can ever be devised to help the farmer in any direct manner since the farmer is largely a producer for exports. A tariff on agricultural products is not open to any particularly damning criticism. It does not in most cases add to the cost of living since the farmer does produce most things economically. The chief criticism which can be offered is that such a tariff is ineffective. As protection it is unnecessary. The sad thing about agriculture and the tariff is the trading between agriculture and industry which usually recoils against agriculture. In spite of the fact that the domestic sugar industry fails to provide even one-fourth of the sugar consumed, protection of it has been increased in this act. Cuban sugar formerly 1.7616¢ becomes 2.00¢ and all other sugars increase from 2.20¢ to 2.50¢ per pound. It will be recalled that the Tariff Commission in 1925 recommended a lowering of the sugar duties. The domestic price of sugar has been under $3.00 per hundred pounds. Duties on wool were increased. From the free list cement is now dutied at 6¢ per hundred pounds, bricks at $1.25 per M, hides at 10% and shoes in compensation at 20%.

One of the discussion points was the sugar duty. Many changes have come about which cause one to weigh and measure the advantages of the tariff on sugar. The Cuban

Ambassador to the United States points outl that "for three years American sugar properties in Cuba have lost on an average $50,000,000 annually." The capital invested has depreciated in value until he estimates that over one half of the $600,000,000 invested has been lost. Further losses are entailed in decreased buying power which has cut imports from the United States into Cuba. The significant thing about the whole statement is the comparison of the worth of the American investment in Cuba with its vast productive capacity to the worth of the small protected American industry. The question as he puts it is which one of these two interests should be sacrificed to the other.

The law provides for the reorganization of the Tariff Commission. Its powers were left materially as they were made in 1922. Changes in Personnel under reorganization left Commissioners Brossard, Dennis, and Dixon of the outgoing commission and added Thomas Walker Page, a former commissioner, J. L. Coulter and Henry P. Fletcher. As far as this investigation can determine the duties of the commission were not altered. The chief factor in reorganization seems to be a change in the length of terms to be served. The former commission was for 12 years; these are for 6 years except the initial appointments are for 1, 2, 3,4, 5, and 6 years and one new commission is granted to

[1] Annals of the American Academy. 144:63.

fill the vacancy of the expiring commission each year.

The duties of the commission are to investigate upon the order of the Senate, the President or upon its own initiative the costs of production at home and abroad for purposes of comparison in forming tariff rates. It also recommends changes in rates which may be Presidential proclamation be put into effect immediately.

The report of the Tariff Commission 1931[1] shows the following action:

Edible gelatin	5¢ plus 40% to 5¢ plus 12%
Ultramarine blue	No change
Feldspar crude	$1.00 per ton to $.50 per ton
Cement	6¢ per 100 lbs to 6¢ per 100.
Guage glass	60% 60%
Window glass	Reduction 25%
Iron in pigs and Iron Kentledge	Could reach no conclusions due to variety of sources, transportation, etc. No change made duty $1.12 per ton.
Woven Wire fencing	45%- 50%
Netting	45% 60%
Cylinder wires	50% 75%
Pins	England chief competitor. Exchange so disturbed that no recommendations were made.
Bells	Most types unable to gain conclusive data.
Bicycles	40% to 70%

[1]Fifteenth Annual Report of the U.S. Tariff Commission.

(table--continued)

Lumber of fir, spruce, pine, hemlock, and larch	No change in duty recommended
Bent wood furniture	47½% to 42½%
Wood flour	33 1/2% to 25%
Maple Sugar	8¢ per lb to 6¢
Maple syrup	5½¢ per lb to 4¢
Cheese (except American or Chedder and Swiss or. Emmenthaler)	7¢ per lb. not less than 35% Commission made no findings due to lack of likeness in types, lack of importation, lack of domestic mfg. and other difficulties.
Dried egg products	18¢ lb. to 27¢ lb.
Cherries sulfered or in b brine	findings not approved by President.
Tomatoes, Prepared--Preserved	New investigation ordered.
Tomatoes, fresh	No change specified
Cucumbers, fresh	did not specify change
Okre, fresh	" " " "
Beans, green	" " " "
Peas, green	3¢ to 3.9¢ per lb.
Lima beans	did not specify change
Eggplant	3¢ to 1½¢ per lb.
Peppers	3¢ to 2½¢ per lb.
Pineapples	No change
Hemp cordage	3¼¢ to 4 7/8¢ per lb.
Wool felt hats	40¢ plus 75% to 40¢ plus 55%.

(table--continued)

Wool floor covering N.S.P.F.	No change
Hats, bonnets and hoods of straw	\$4 plus 60% doz to \$3 plus 50% per doz
Boots and Shoes	20% No change.
Pipe organs and parts..	40% to 35%
Pipes and smoker's articles	No findings.
Hides and skins of cattle	No change warranted.
Pigskin leather	25% to 15%

While a complete investigation of the changes has not been made as regards the amount of trade affected by these changes the consequences could not be very great. In 20 of the 43 investigations no changes were made, in five other cases changes were very small. Considerable changes were made in crude feldspar (downward), window glass (downward), bicycle bells (upward), maple sugar and syrup (downward), and straw hats (downward). Feldspar is produced according to the commission for \$2.44 per ton less in this country than elsewhere (Canida); therefore the duty was decreased as much as possible. Window glass imports are rapidly decreasing the duty as decreased still amply covers the 1.7¢ per pound difference in production costs. Less than $\frac{1}{4}$ of the domestic consumption of maple sugar is produced in this country. The industry as a whole gains about $1,800,000 from the tariff but the cost to consumers is at least three times as great. There is no well developed dried egg industry in this country. The tariff was raised in the hope of stimulating the growth of new plants.

The work of the Commission as delineated by the report is substantially praiseworthy and one is impressed with the high quality of the services performed by that body. Under the terms of their duties their services are noteworthy. In the cases of bells, iron pens and cheese there was failure to obtain reliable data. In these cases the technilogical difficulties combined with such intricate problems as the variety of sources and conditions of production both here and abroad have made it impossible for any body of observers no matter how sage their judgments or how astute their observations to rightly determine a tariff rate on the so-called scientific principle of comparative costs.

The quality of the service rendered is as great as its quantity is insignificant. The investigation of a few items whose production in this country is very limited cannot be regarded as less than failure of the Commission viewed from the aspirations of its founders. The general idea lurking behind such a commission is the altering of an otherwise ill-drawn law to fit conditions. Confidence that the Commission could really give a tariff bill a general overhauling is often expressed. Such economists as F. W. Taussig feel that the tariff should eventually find its duties raised and lowered by such a commission. To such optimistic ideas the obvious answer is that the rate of investigation so far has proved far too slow for any appreciable revision to occur in reasonable time even when conditions are fairly stable and surely no one will assent that the tariff can be revised by any agency with sufficient celerity to meet with unusual economic conditions. Valuable as the work of the commission is it still is of insignificant proportions when the whole tariff law is taken into account.

Important as the domestic effects of the tariff are they can easily be summarized in few words. A great many duties are ineffective. This country produces goods for export, many articles of which are protected at home, yet compete successfully in world markets. Again in such unorganized trades as agriculture the domestic competition lowers the price to world levels depressed by the export surplus and in such cases the tariff is largely ineffective. Again there are the cases in which hard domestic competition causes prices to be as low here as abroad in spite of the tariff. And there are industries which cannot compete in the export market, who do not produce to supply the domestic demand. The profits in such industries are frequently assured by protection. Under such conditions the general body of consumers are paying in increased prices the cost of protection. Any one who tries to argue that protection does not raise the cost of living denies the essential thing about it. If it does not bring higher prices it is ineffective and may well be abandoned. Likewise the proponents of protection are prone to point to increased imports proudly exhibited as the fruit of protection. If protection did not inhibit imports it could not preserve the domestic market for home industry. There are many factors easily forgotten in such a controversy and among them is the desire of a prosperous people for imported goods of certain types. The Paris dress, the Venetian vase, the Italian painting are examples of this trend. The growth of imports is important in a sense but it cannot easily be correlated with the tariff. The matter of much greater importance is the change in direction of imports.

While it is doubtful that the American Tariff excited so much retaliation as it has been credited with nevertheless there has been some retaliation. Senator Harrisson has pointed out that the British Empire tariffs were aimed at the United States. Other tariffs in Europe have arisen partially in response to the American Tariff and partially out of the effort to clothe the industrial exposure caused by the changes in boundaries after the war. These changes were made along political rather than industrial lines.

A new problem has arisen in connection with the tariff. Normally as a nation involved but little in international trade during its early history the tariff policy of the United States was not a matter of great concern in the outer world. As a growing commercial and trading nation the policy of high protective tariffs helped to stem the tide of imports while not seriously hampering exports during the years that the United States was a debtor country. The so-called favorable balance of trade which the tariff stimulated helped to pay the foreign debts and was a factor in keeping the condition of business in this country normal. As conditions changed the nature of exports and imports also changed. The war in which this country served as a banker changed the status of this country from a debtor nation in an ordinary sense to a creditor nation in a larger sense than the world had ever before understood. In the calculation of the world's trade balance it was found that this country had $25,000,000,000 due her from other nations. This figure attains new significance when it is noted that the world's supply of monetary gold amounts to less than half that sum. The annual trade of the United States had grown to almost $10,000,000,000 with still more exports than imports. The flow of gold in that case was toward the United States. The amount that exports exceed imports must be in gold or the extension of additional credit. Into this debt situation the United States introduced the habitual increase in tariffs which tended to throw the whole system still further out of balance. Let it be remembered that it was from Europe that we were expecting debt settlements and that neither Europe nor the world had gold enough to pay the debts. If pay should come it would come in the surplus of goods from Europe over our goods to Europe. But the course of American development had been toward more and larger industries. As the case had been for tariff to build a more self-sufficient America so it had been accomplished and more and more America came to produce the same goods as Europe. The nature of trade changed. As in the beginning America had been a source of raw materials and a selling place for produced goods so gradually manufacturers began to take the place of raw materials in exports and the domestic producers consumed more of the raw materials. The growth of industries began to cut down the demand for European goods and the two continents began to compete with one another for the world's trade. The mass production and standardization of America, utilizing to the greatest degree the efficiency of specialization began to capture the markets of the world. These general trends were all interpreted as highly desirable. The Federal Government has a tremendous force of commercial agents working to expand foreign trade everywhere.

If we sell more to Europe than she sells to us she may still find attractive markets for her goods and restore or change the trade balance. If we sell more to Europe than she does to us, and we persist in forcing American products into the markets in the farthest corners of the world then Europe has little opportunity for ever maintaining the sort of trade balance by which the debt may be paid. The efforts of Europe to face obligations arising out of the war has depleted the gold reserves and left Europe with little capital to face the still important business of rebuilding the intricate commercial relationships, encouraging the growth of industry, and forcing her goods anew into the channels of trade. The larger part of the world's supply of monetary gold has thus found its way into the coffers of the United States.

The world is at present suffering a severe and prolonged depression. Imports and exports have decreased greatly, production has been curtailed, and unemployment is everywhere. In the opinion of many business men this condition is due at least partially to the tariff debt policy of the United States. Paul Mazur[1], one of the keenest minds devoted to international political science, predicts just such an outcome as the world is witnessing. Two effects are obvious. The market for American exports has been greatly diminished, and the high tariffs here and abroad have conspired to cause American capital to be

[1] Congress. Record. Vol 72, Part 10, 10379-10381. June 10, 1930.

invested abroad in subsidiaries or branches of established American industries. Anyone who believes that this movement is narrow in scope and small in volume is invited to peruse the partial list of American industries abroad which covers six columns of the Congressional Record[1] which lists several hundred branches in more than twenty countries.

The effects of the loss of exports plus the growth of industry financed by American capital abroad places the country in an unusual dilemma. If tariffs are lowered the exports and imports may increase but the advantages of the branch factories will be largely nullified whereas if tariffs are kept at the present level the debt situation may continue to be acute until the capital invested abroad will decrease in value thus causing great loss to investors. Of the two courses the first is preferable since the restoration of world stability will in all likelihood be of benefit even to American industries abroad.

The tariff is the paramount factor in the present debt situation. Cancellation as a remedy could only be temporary if the balance of trade continued to be favorable to this country. It is seldom remembered in discussion of cancellation that such a move is tantamount to giving Europe goods when we ship more to Europe than she ships back. It is also very important that the cost of cancellation be not

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[1] Congressional Record. Vol. 72. part 10. 10379-10380-10381. June 10, 1930.

another additional burden upon the back of that little regarded person known as the consumer.

Surpluses in production, the result of the great ingenuity and application of American industry, bring concurrent conclusions in the tariff issue. The conclusion is bourne with great force upon the world today that America can no longer sell her produce in the domestic market. The vast skill in management, the advantages of establishment, the skill of salesmanship, the excellence of highly developed and efficient transportation all these things added to the low unit cost of mass production and its infinite unilization of the advantages of minute specialization have brought about an industrial organization whose products cannot be utilized in raising the standard of living in America alone. Export surpluses are a reality greater than we realize. The continued growth of the great economical industries of America depend upon the ability to sell abroad and this ability in turn depends upon the buying power of other countries. This buying power depends in part upon sales of their goods to us and the motivating power in the continuance of world prosperity seems to be the abandonment of trade restrictions.

PART NINE

TARIFF OUTLOOK FOR 1932

There is likely to be some revision of the Act of 1930 when the first session of the new Congress meets after the election of a President. The factors which this paper has pointed out in the present situation are not likely to overcome the sectional and industrial demand for high tariffs. The present trend if continued will place a Democratic majority in both houses of Congress. This does not, however, insure that there will be any tariff reform. The tariff policy of the Democrats is hard to ascertain. Mr. Roosevelt has spoken of the tariff in such a way as to imply a knowledge of the debt-tariff problem. Various inconsequential measures have been brought up in the House. The Associated Press recently carried the news that a measure to suspend protection for a commodity when there is not full competition among its domestic producers, sponsored by Senator Norris of Nebraska, has passed the Senate. The changes in public opinion are accomplished very slowly. The full import of the present involution will never be universally comprehended nor measures to fit the situation generally demanded. The hope of America lies not in the amelioration of the tariff difficulty but rather in the great recuperative power to prosper despite a poorly integrated and generally short sighted tariff policy.

Conclusions.

The tariff legislation in the United States has become more and more complex. The first tariff covered but a page or two of the treasury reports. Now they are published in a separate volume the 1930 act covering 192 pages exclusive of its indexes. The more than 1800 paragraphs cover thirteen schedules in which there are contained the many articles listed in 66 pages of the double column index. Perhaps the complexity of the problem may be indicated by the fact that the board of experts and the Tariff Commission were able to investigate only 43 articles in the first year after the act of 1930 and that on many of these articles it was impossible to get reliable information, or the technilogical details were too intricate to be accurately investigated. One cannot help reaching the conclusion that the general revisions of Congress must be but hasty ill-advised bits of legislation drawn about matters of which there are frequently problems which confound the experts.

Early tariffs arose from national need of revenues and a general hope that manufactures might rise out of such legislation. The growth of industrial influence over legislation has been a feature of the recent tariff laws. Another peculiar circumstance may be noted in this connection and that is the fact that the tariff is regarded as the American sacred cow. Never has any issue siezed so strongly upon the imaginations of those ignorant of the elementary principles of its working.

The arguments by which the tariff was originally justified are those contained in Hamilton's "Report on Manufacturers." The chief interest of the tariff makers was in preserving national integrity and a degree of independence at the same time raising revenue and aiding infant industries. With the war of 1812 and every succeeding war including the World War there arose the vested interests argument under which industries existing as the outgrowth of war claimed insurance of continued profits by the government in the form of protective tariffs. In this way many new industries were added to the protective system. Now the chief claim to protection comes from any industry which is not making profits at present without a tariff or under the present tariff.

The growth of industry under the tariff has been cited time after time as justification for higher and higher tariffs. It is true that protection has frequently aided an infant industry and that such industries are important in the present makeup of American business but contingent upon this has been protection continued long after the need for it has passed. Further, the growth of industry must be attributed to the presence of vast natural resources, the budding and fruition of great inventive genius. In the great majority of cases it is impossible to trace any direct connection between prosperous industry and the tariff.

The imports and foreign trade have grown greatly during the life of the nation. As far as can be determined there is no reason to attribute any of this trade to the tariff. There was little effect upon trade in the early tariffs as compared to the present because the early exports consisted largely of raw products.

In about 1870 the Republican Party began to sponsor protection. There was a real division of the parties upon this issue until the present time. We now find little solidarity of opinion among Democrats.

The present situation involves a domestic problem and a problem in international relations. The tariff passed largely because of domestic demand conflicts with the interests of the country in trade with Europe and payment of the vast war debts. Indications are that the tariff must be altered to permit freer trade or the debts must be cancelled.

At present the tariff outlook is cloudy. Depression brought about in a measure by the act of 1930 hovers over Europe and America. There is a dearth of good tariff leadership and a great common misapprehension of the problems which the world faces. If Europe and America are to resume the march of progress some measures must be taken to break tariff bonds.

ABSTRACT OF THESIS

"A Study of American Tariff Legislation."

The idea or philosophy behind tariffs is the mercantile doctrine which values highly the precious metals received in payment of export surpluses. This together with the outgrowths of it which in the beginning were only incidental to it; that is, the purpose of protection of industries and the gaining of revenues, explain the first United States tariffs. But these tariffs were only outgrowths of those colonial tariffs used by the colonies and by the mother countries to change the direction of the flow of trade, a thoroughly mercantilistic concept.

There are three general considerations in any study of phenomena and these I have applied to my study of the tariff. What caused it? What kind of thing is it, or what are its characteristics? What are its effects or what has it done? So with the first American tariff this has been done rather carefully. A general summary of the development of the country has served to make clear some matters which deeply affect the workings of import duties. So it is discovered that the first duties were largely for the purpose of gaining revenues for paying the debts and defraying the costs of government. The hold of manufacturers is precarious and the produce of the new country is mainly agricultural its people are chiefly landholders,

and its manufacturing carried on in the home.

More clearly after 1816 the legislation took on the nature of protection. Vested industries arose out of the war; the peace in Europe put her agricultural population back to work as well as the industrial machinery and the United States faced an influx of manufactures with a loss of markets for agriculture. Being in no position to trade the country put up a tariff to stop trade. The general level was about 25% on enumerated articles. The chief articles protected were steel and textiles. Until 1833 the tariff gradually rose but the country became less afraid of competition from abroad and the tariff of 1828 taxed raw materials so indiscriminately that the revision of 1833 marked the beginning of gradual reduction until in 1842 the duties were reduced horizontally to 20% ad valorum. In 1843 Treasurer Walker produced his report which is important for three reasons. It originates the schedule system of writing tariffs which still remain essentially unchanged; it simplified the administrative details of the tariff; and it set forth the soundest economic principles upon which a tariff can be administered. The general principle of comparative costs is implied here for the first time.

The gradually raising tariffs after 1842 continued until 1846 when the Walker report exerted such a profound influence over legislation. In the following years until 1860 there existed a low tariff period which industries. A horizontal reduction of 10% occurred in 1872 but was revoked in 1875. One significant change in 1872 was the taking duties off tea and coffee. These reliable sources of revenue were abandoned in time of surplus revenues rather than dropping duties on some protected articles. The tariff from then on was undeniably protective.

The problem of the tariff was becoming more complicated all the time. In 1883 the revision was unsatisfactory to several groups. There was no determined opinion in favor of such a bill and it passed the Senate by a majority of only one vote. This revision was upward. In 1890 further upward revision occurred but the issue of the next election was the tariff and President Cleveland was elected to lower the duties. As fate would have it the credit situation was on the verge of breaking down due to the great volume of Silver purchases under the Sherman Act. The panic thus initiated was laid at the door of the low tariff of 1894 and the next election returned the Republicans to power on the free silver issue. Interpreted as a victory for high protection this election was followed by the act of 1897 raising protection even higher. No action was taken in the next few years since the industry and trade were prospering; however, agitation began again in 1908 and followed a general revision of little consequence in 1909. The election of a Democratic Congress in 1910 and a president was marked by the same growth of manufactures and increase in general prosperity which had been noted during periods of greater protection. There has been little connection between protection and prosperity in general. Some industries were helped by protection but they were not materially hindered by freer trade.

The Civil War is deeply rooted in the protective system. The North profited by tariffs, and the South lost by them. Industry and agriculture, the eternal opponents on this question were segregated in a sense. The agricultural south protested the tariff of 1828 but mutual concessions plus the determination of Jackson posponed the settlement until the Act of 1857 brought it to light again. The Civil War settled the policy of protection upon this country. First, it was primarily a war to determine that policy, further, it created new vested industries, and, it brought about revenue duties that were protective which could not be removed later. This series of causes drove the nail of protectionism into the American Economic Structure and clenched it.

After the war the duties raised in the course of the war for purposes of defraying its expenses were not lowered. In fact there was little revision until 1872 and the revision that did occur was of the nature of special legislation at the behest of interested parties. Legislation of this type occurred in the wool, iron, and marble in 1912 brought a sharp downward revision--the Underwood act. Not tested under normal conditions this act proved successful as a war tariff. The Tariff Commission to investigate rates war formed in March 1917 with F. W. Taussig at its head.

The Emergency act in 1921 and the Fordney-McCumber tariff in 1922 raised rates by more than 10% on dutiable goods. The Tariff Commission was given new powers to recommend rates and the President was delegated the power to change rates upward or downward not more than 50% by proclamation. This power was not used extensively, but in most of the cases in which it was used the change was upward.

In 1930 the Hawley-Smoot Tariff was created arising out of changed conditions partly but chiefly out of political expediency. It did not materially change the rates of 1922; the greater changes being in the Agricultural Schedule and related matters. Unpopular with business men and economists this law barely managed to muster a majority in the Senate. Its changes amount to about 2% upward revision average. This figure represents an even smaller real change. In 1922 and 1923 the international significance of the issue became clear. More important than domestic consequences was the psychological effect of higher duties upon debtors who must pay in goods subject to tariffs. Two solutions are possible: cancellation of debts or 2, revision of tariff with debts in mind.

Conclusions.

1. Tariffs have grown increasingly complex and difficult of administration.

2. Early tariffs rose primarily from need for revenue; they now arise in a process the factors in which are the political expediency, the demands of interests as expressed through lobbies, and a small factor of expert opinion of the Tariff Commission. More and more the tariff is being regarded as a fetish by the uninformed majority.

3. It is true that tariff has stimulated industry in many cases but protection costs the consumer, and it is hard to withdraw it once granted. The real effect is not easily measured because it is only one, and not the major, factor in bringing about industrial America.

4. The period 1870-1921 is marked by party disagreement upon this issue. The Republicans were for high protection, the Democrats for downward revision. This difference has now largely disappeared.

5. The change of U. S. From a debtor to a creditor nation creates a new tariff situation. Lower duties or cancellation are necessary.

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