

The Impact of Tariff Regulations on the US Economy up to 1921 Dr. Benketaf Hafid, Tahri Mohamed University (Bechar)

Abstract

The industrial development of the USA depended greatly on the industrial policies of the succeeding governments that ruled the country from its inception in 1783. These Governments had in common the policy of encouraging creative inventive minds and companies to exploit natural resources to manufacture goods by giving them charters that protected them from any competition. This policy was introduced by the Republican Party that allowed new industrial sectors to emerge and the existing ones to develop from being local in scope to gigantic corporations that controlled the national economy through the creation of trusts. Such growing power of the businesses had to be bridled through the lowering of the tariffs as advocated by the Democratic Party since the Civil War. The aim of this policy was to benefit the consumers and to stimulate competition, and the application of what they called 'Economic Democracy' in which low tariffs loosen the grip of the monopolies on the national economy, and enable the small business to compete and prosper.

Keywords: Tariffs / Dingley Tariff Act/Wilson-Gorman Tariff /Payne-Aldrich Tariff /Underwood-Simmons Tariff / US industry / protectionism / monopolies / laissez-faire.

الملخص :

أحدثت الثورة الصناعية في الولايات المتحدة الأمريكية خلال القرن التاسع عشر اختلال كبير في النظام الاجتماعي والاقتصادي للبلاد. التطور الصناعي جعل المجتمع الأمريكي ينتقل من كونه مجتمع فلاحى إلى مجتمع صناعى في فترة وجيزة. هذا الانتقال العنيف كانت له نتائج وانعكاسات سلبية مست النسيج الاجتماعي حيث ظهرت آفات اجتماعية وأخلاقية أدت إلى التفكك الأسري وتفشي الجريمة والفساد الاقتصادي والسياسي. أشاد الصناعيين علي هذه التغييرات لأن المجتمع كان في طريقه إلى عظمة اقتصادية و صناعية لم يسبق لها مثيل. دراسة نشوء ونمو الصناعة في الولايات المتحدة هي خطوة مهمة جدا في فهم التغييرات التي شهدتها البلاد خلال القرن التاسع عشر. ساهمت عوامل مختلفة في هذا التصنيع من بينها وجود مصادر متنوعة من الطاقة، وفرة اليد العاملة الرخيصة نظرا لتدفق الهجرة، والسياسة الصناعية الحكومية التي ساعدت كثيرا في تطوير الصناعات الصغيرة إلى شركات عملاقة. يتناول هذه المقال نمو الصناعة في الولايات المتحدة، والآثار السلبية على البلاد، والتدابير التي تعهدت الحكومات المتعاقبة لمواجهتها.

The great bulk of the inventions and technologies that stimulated the Industrial Revolution reached the USA after its independence in 1783 by revolutionising the existing in textile, metallurgy, and mining craftsto become great industries. Industrial growth transformed the American society since it gave birth to a new class of wealthy industrialists, a prosperous middle class, and a vastly expanded working class. The USA gained a lot from its industrialisation since industries flourished and the country developed technologically and economically.

Since the Founding Fathers rejected any kind of despotic policy, they founded the American Government on the repudiation of all control over the industrial and commercial activities.¹ The general belief was to avoid governmental interference in the industrial world, encourage free competition, and

promote individual initiatives. In this policy, industry and commerce were subject to free exploitation by the ambition of the individuals. Justice could be achieved in commerce and industry by banishing government regulations, and applying the law of "Might makes right."² Therefore, wages and salaries, opportunities for working and investing, and entering business were not left to the arbitration of justice.

The Constitution of the USA, which was adopted in 1787, established the nation's economy as a unified and single market by levying tariffs and taxes on interstate commerce. It stipulates that the Federal Government could regulate commerce³ with foreign nations and among the States, establish uniform bankruptcy laws, create money and regulate its value, fix standards of weights and measures, establish post offices and roads, and fix rules governing charters, patents, and copyrights. One of the first advocates of government intervention in the economy was Alexander Hamilton who sponsored an economic strategy in which the Federal Government would help in the emergence and development of small industries by providing overt subsidies and imposing protective tariffs on imports. He also urged the Federal Government to create a national bank and to assume public debts that the colonies had incurred during the Revolutionary War. These proposals were not fully applied since only the right of the Federal Government to set tariffs on foreign tradewas retained.

While Hamilton believed that the United States should pursue economic growth through diversified shipping, manufacturing, and banking, his political rival, Thomas Jefferson, based his philosophy on protecting the 'common man' or the farmer, from political and economic tyranny. He particularly praised small farmers as 'the most valuable citizens.' In 1801, Jefferson became President of the USA from 1801 to 1809 and turned to promoting a more decentralised agrarian policy. He was against the creation of a national bank because it would serve the interests of the rich and undermine the rights of the farmers. However, Hamilton's views prevailed since the country headed towards its industrialization. The antagonistic political standpoints over the role of the government was reflected in the debate on the tariff laws, which were amended whenever the Democratic or Republican Parties were in power.

The struggle between the Democrats and the Republicans over the tariffs continued during the 1890s. During the Presidency of Grover Cleveland, the Democrats favoured lower tariffs and attempted to pass an income tax in 1894 to permit the compensation of the lost revenues from the reduction of the tariff. Democrat William L. Wilson, who was then Chairman of the U.S. House Ways and Means Committee, introduced a bill to lower significantly the tariff rates in accord with the Democratic electoral platform promises. The Bill dropped the tariff to 0% on iron ore, coal, lumber, and wool, which of course angered the American producers. Therefore, Congress passed this Bill after more than 600 amendments had been introduced by Democrat Senator Arthur P. Gorman of Maryland with the help of protectionists in the Senate. The final version of the Act was named and codified as the *Wilson-Gorman Tariff of 1894*,⁴ which not only nullified most of the reforms, but also raised tariff rates, and favoured greatly the Sugar Trust in particular.

President Grover Cleveland (1885-1889), who had campaigned to lower the tariffs and supported Wilson's version of the Bill, was disappointed that his programme had been ruined by the amendments. He denounced the revised measures as a disgraceful product of 'party perfidy and party dishonour,' but still allowed it to become law without his signature. He believed that it was better than nothing. In this perspective, the *Dingley Tariff Act* (1897), which succeeded the *Wilson-Gorman Tariff* (1894),⁵ was introduced by Representative Nelson Dingley Jr. of Maine to raise the tariffs, and was fully supported by

the Republican President William McKinley. It raised tariff rates to an average of 46.5%, and in some cases up to 57%.⁶ The *Dingley Act* remained in effect until the *Payne-Aldrich Tariff Act of 1909*.

The tariff issue was a good illustration of the struggle between conservative and progressive ideologies. The conservatives in the Republican Party wanted to maintain tariff rates at higher levels to protect national industries from foreign competition. This allowed the domestic industries and corporations to control the market and eliminate any competition that threatened their interests. On the other hand, the Progressives in the different political formations, mainly in the Democratic Party, campaigned for the lowering of the tariffs to benefit competitive industries to develop and offer the consumers the best products at the lowest prices. The struggle of the Progressives to lower the tariffs was at the basis of the struggle against the monopolies. The Progressives realised certain successes at the legislative level to control the businesses that became very powerful to the point that they influenced the country's politics and controlled its economy.

During the second half of the 19th century, the American businessmen were animated by a new philosophy known as Social Darwinism that justified their conducts of greed, cut throat competition, immoral and unethical practices. Inspired by Charles Darwin's book *The Origin of Species*, the concept of Social Darwinism suggested that those who could not survive in a rigorous competitive social environment should be allowed to fall by the waysides. Therefore, the weaker members of society were to be eliminated, which would ultimately strengthen the entire group. Social Darwinists held the belief that the life of humans in society was a continuous struggle for existence ruled by "survival of the fittest," a phrase expounded by the British philosopher and scientist Herbert Spencer.

However, Social Darwinism had pernicious effects on the American economy. Under the pressure of the public, the American Government was obliged to react against the monopolies that eventually developed into a new form of industrial organisation known as the Trust.⁷ Undoubtedly, such giant corporations detained great fortunes that gave them enormous power and enabled them to have a say in matters that concerned the whole nation.⁸

Economically, the biggest challenges for President Theodore Roosevelt (1901-1909) were the lowering of the tariffs and the control of the businesses. He adopted what he called the 'Big Stick' policy in an attempt to elaborate equitable tariffs, and control the trusts. The first action of the President was to direct his Attorney General Knox to use the *Sherman Act of (1890)*⁹ in pursuit of monopolistic practices. Since the Sherman Act was not sufficiently enforced, it became urgent to pass additional laws to strengthen the government's authority to regulate business practices and to control the corporations. As for the tariffs, President Roosevelt maintained the *Dingley Act of 1897*,¹⁰ which was supported by President McKinley. Such policy was perpetuated by his successor President Howard Taft, but in a different way.

President Taft (1909-1913) faced critical economic problems including the obtaining of an income tax that would raise revenue, the redistribution of national wealth, the control of big business, the reforming of the tariffs, currency, and the reforming of the banking system. Once in office, Taft was caught in the middle of the tariff litigious issue, and the growing expenses of the Government that were causing a deficit of nearly \$60 million per annum.¹¹ Based on his progressive ideals against the trusts and monopolies, he pledged to cut tariff rates to which the House of Representatives responded positively by

passing a bill sponsored by Representative Sereno E. Payne. This Bill called for a list of goods to go with lower tariffs in order to open foreign markets to American goods and to provide the US industries with a steady flow of cheap raw materials.

However, protectionists in the Senate who were mainly conservative Republicans wanted to revise the Bill and set higher rates. In the Senate, the Progressives like La Follette refused its revision and accused the conservative Republicans of working for the interests of the businesses.¹² Most of the low tariffs in the *Dingley Act* were restored by Senator Aldrich and unexpectedly approved by President Taft. The latter argued that this Act had positive provisions, and that it was politically dangerous to establish extreme low tariffs as advocated by the Progressives. On April 9, 1909, Congress passed the *Payne-Aldrich Tariff Act*. Through his tariff policy, President Taft raised issues of discord that resulted in a split in the Republican Party during his Presidency into two factions namely the Conservatives and the Progressives.

The President tried to counterbalance his failure in handling the tariff issue by introducing the 16th Amendment to the Constitution. It was passed by Congress on July 2, 1909, and ratified on February 3, 1913, to establish Congress's right to impose a federal income tax for the first time in the History of the USA. In his address to Congress on June 16, 1909, President Taft proposed a 2% federal income tax on corporations, which would bring into the Treasury of the United States not less than \$ 25 million,¹³ as a further step to reconcile the belligerent factions in his Party. President Taft did not succeed in his enterprise, which cost him the presidential election of 1912 for his opponent the Democratic candidate, Woodrow Wilson.

On the other hand, President Wilson (1913-1921) proposed in his New Freedom electoral programme more radical solutions to what he called the 'Triple Wall Privilege'. He proposed three cures namely to lower the tariffs to free the market to competition, which eventually should lower the cost of living, to stop the banks' hegemonic control over the country's economy and finances by installing a Federal Reserve System, and to dismantle illegal monopolies and trusts.

Economically, President Wilson (1913-1921) gave the tariff issue the first priority in 1913 to reconstruct the American political economy. The tariff reform was a basic plank in the Democratic Party's political platform used as a means to redress wrongs done to the people in general and to preserve the energies of the workingmen that had been stifled by industrial, commercial, and financial monopolists. Low tariffs had been one of the most important economic policies in the Democratic Party since the Civil War. The aim of this policy was to benefit the consumers and to stimulate competition. The first item on Wilson's legislative agenda was, inevitably, a drastic lowering of the high rates of the *Payne-Aldrich Tariff Act of 1909*, which was considered as a symbol of the power of special-interest groups over the legislatures at all levels. It was for this reason that he urged for a reform of the tariff during his electoral campaign of 1912.

President Wilson called for the reforming of the tariffs in his address to Congress of April 8, 1913, saying: "We must abolish everything that bears even the semblance of privilege or of any kind of artificial advantage."¹⁴ The Ways and Means Committee, led by Oscar W. Underwood of Alabama, had already introduced a bill that cut most rates drastically. This Bill put most consumer goods and articles used by farmers on the free list, and at Wilson's demand, farm products including wool and later sugar were

added. The Underwood Bill reduced the average ad valorem rates, which were reduced by the Payne-Aldrich Tariff from 40% to 29%.¹⁵ In order to compensate for the anticipated decrease in customs receipts, the Bill imposed a modest income tax, the first under the Sixteenth Amendment's Bill, which the Democrat majority in the House passed on May 8, 1913 by a vote of 281 to 139.

The main danger for the passing of the Underwood Bill was that the slim Democrat majority in the Senate would fail to pass it if Democrat Senators from the sugar and wool producing states voted against it. President Wilson stood firm in support of the Bill, and in a public statement on May 26, 1913, he denounced the lobbyists who were hard at work trying to wreck any tariff reform. This charge led to a Senate investigation of the private interests of senators that might be affected by tariff reductions. This investigation and Wilson's steady pressure dissipated any opposition.

The Senate approved the Underwood-Simmons Bill on September 9 by a vote of 44 to 37. The Senate Bill actually further decreased the rates of the Underwood bill by 3 % and brought the general ad valorem rates to a level of about 26 %. In addition, it increased the maximum income tax in the Underwood Bill from 4 % to 7%.¹⁶ The House accepted these changes, and Wilson signed the *Underwood-Simmons Tariff Act* on October 3, 1913. This Act marked a significant change in federal economic policy from protectionism to free market. However, a reduction in the tariff meant a reduction in government revenues and eventually a deficit in the balance of payments. As a solution to avoid this eventuality, the *Underwood-Simmons Tariff Act* provided for the reinstitution of a federal income tax as a means to compensate for anticipated lost revenue.¹⁷ This Act successfully passed in the Supreme Court's judgment because it avoided the mistake made by the legislators of the *Wilson-Gorman Tariff of 1894*. The latter was declared unconstitutional by the Supreme Court because the tax was in fact a direct tax on dividends, interest, and rents not apportioned by population.¹⁸ The removal of this obstacle permitted the ratification of the Sixteenth Amendment on February 3, 1913, which the Supreme Court decided as constitutional, and the passing of future acts that imposed income taxes like the Revenue Act of 1916. What is relevant in this Act is that it allows the establishment of an independent study commission in 1916 known as the Federal Tariff Commission¹⁹ to collect information on the fiscal and industrial effects of custom duties to provide the President and Congress with advice on the proper rates for tariffs.

The three Presidents shared the policy of reforming the country's economy by eliminating all monopolies and establish free market economy especially by reducing the high tariffs that the Republicans passed to protect such monopolies. They succeeded in this enterprise since they lowered the tariffs to foster competition to benefit the American customers with better quality products and lower prices. Such policy emanated from the application of what they called 'Economic Democracy' in which they lowered the tariffs to loosen the grip of the monopolies on the national economy, and to enable the small business to compete fairly and prosper. To counter-act the effect of losing revenues by lowering the tariffs, they introduced income taxes for the first time in the history of the country.

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2. *Revenue Act of 1913*, Section II, A. subdiv. 1, 38 Stat. 114, 166.
3. *The Sherman Anti-Trust Act July 2, 1890*, ch. 647, 26 Stat.209, 15 U.S.C.
4. *Underwood Tariff Act or Underwood-Simmons Act (October 3, 1913)*, ch. 16, 38 Stat. 114.
5. *Wilson-Gorman Tariff of 1894*, ch. 349, §73, 28 Stat. 570, August 27, 1894.

Notes:

- ¹ David C. Reid. *Effective Industrial Reform*. Massachusetts: Press of the Eagle Printing and Binding Co. 1909. P.2.
- ²Ibid., P. 7.
- ³ These prerogatives were stipulated the US Constitution in Article I, Section 8, Clause 3, in which the United States Congress has power "To regulate commerce with foreign nations, and among the several States, and with the Indian tribes."
- ⁴*Wilson-Gorman Tariff of 1894*, ch. 349, §73, 28 Stat. 570, August 27, 1894.
- ⁵*Dingley Tariff Act of 1897*, ch. 11, 30 Stat. 151, July 24, 1897.
- ⁶Ibid.
- ⁷In 1879, C. T. Dodd, an attorney for the Standard Oil Company of Ohio, had devised a new type of trust agreement to overcome Ohio State prohibitions against corporations owning stock in other corporations.
- ⁸ Everett N. Curtis. *Manual of the Sherman Law, a Digest of the Law under the Federal Anti-Trust Acts*. New York: Baker, Voorhis &Co. 1915. P. 53.
- ⁹*The Sherman Anti-Trust Act July 2, 1890*, ch. 647, 26 Stat.209, 15 U.S.C.
- ¹⁰ *Dingley Act 1897*. ch. 11, 30 Stat. 151.
- ¹¹ Newton Wyeth. *Republican Principles and Policies, a Brief History of the Republican National Party*. Chicago: The Republic Press. 1916. p. 208.
- ¹² Henry Clay Hansbrough. *The Wreck, an Historical and a Critical Study of the Administrations of Theodore Roosevelt and of William Howard Taft*. New York: The Neale Publishing. 1913. p. 136.
- ¹³ William Howard Taft. *Presidential Addresses and State Papers of William Howard Taft*. New York: Doubleday, Page & Company. Volume One. 1910. P. 168.
- ¹⁴ Woodrow Wilson. *President Wilson's State Papers and Addresses*. Op. cit., p. 8.
- ¹⁵*Underwood Tariff Act or Underwood-Simmons Act (October 3, 1913)*, ch. 16, 38 Stat. 114.
- ¹⁶ Ibid. (*Underwood Tariff Act or Underwood-Simmons Act*).
- ¹⁷ *Revenue Act of 1913*, Section II, A. subdiv. 1, 38 Stat. 114, 166.
- ¹⁸*Underwood Tariff Act, or Underwood-Simmons Act.1913*. Op. cit.
- ¹⁹ The Commission still exists but under the name of the International Trade Commission (ITC).

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