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The McKinley Tariff Act

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THE MCKINLEY TARIFF ACT¹

THE protective system which the United States has adopted during the last generation is sometimes spoken of as if it were simply a phase of the general reaction against a liberal policy in foreign trade which has shown itself since 1873 in almost every country except England. In fact, however, the movement in the United States is a separate and distinct one. The reaction in other countries has been due to wide-reaching causes, such as brought about, under very similar circumstances, a similar result in the early part of the present century. The great inventions in textile manufactures and in the production of iron at the close of the eighteenth century brought about a sweeping change in the processes of production and in international trade. To that change the Continental countries accommodated themselves but slowly; and the difficulties of the transition led to opposition which took, in part, the form of protective duties. Similarly, we have had in this generation enormous changes in the arts of production, and above all in transportation, which have compelled a shifting and rearrangement of the protective machinery, and have inevitably caused discomfort and suffering to large classes in many countries. Among the attempts to stave off or mitigate the effects of these great changes, have been the protective duties imposed since 1873 in France, in Germany, in Austria, and in Italy. As the older movement was directed chiefly against the cheapened manufactures of Great Britain, so the present movement is directed chiefly against the cheapened agricultural products of new countries, and especially of the United States.

Obviously, therefore, the protective movement in the United States stands by itself, and presents aspects of its own. In truth, the movement here has been very largely of an accidental sort, explicable mainly from political causes. The United States has simply drifted into its present position of high and pronounced pro-

¹ Reproduced (with some additions by the author) from the *Giornale degli Economisti*, Jan. 1891, by the kind permission of the editor of that Journal.

tection. Before the Civil War of 1861-65, our tariff system was comparatively moderate and simple; not by any means a tariff based on the principles of free trade, but a tariff making a very moderate application of protection. During the colossal struggle of the Civil War, every financial resource was strained to the utmost. An enormous national debt was accumulated, a vast system of internal taxation introduced, an inconvertible paper money issued to excess, and a great increase in customs taxation brought about. The protective system in the United States, it may be safely said, would never have reached its present position but for the financial pressure of the Civil War. When the war closed no one expected that any one of the financial expedients to which it led would become permanent. The debt was steadily reduced, the currency was put on a specie basis, almost all the internal taxes were abolished; but the customs taxes remain, and indeed have rather been increased. For the first ten years after the war the general expectation was that these also would be reduced. The opponents of protection take a malicious pleasure in quoting from speeches made in 1870 and 1872 by men who are now unconditional protectionists, protests against the evils of high duties. The present attitude of the Republican party, committed as it is to the rigid maintenance and wider extension of the protective policy, was not clearly assumed until within the last ten years. As late as 1872, its leaders were active in trying to bring about a reduction of the customs duties; and in the campaigns of 1876 and of 1880 the protective question played no considerable part.

The United States, then, has drifted into its present position; drifted into it because the customs taxes are those whose incidence is least easily followed, which alone find strong pecuniary interests to aid them, which alone hold out the promise of aiding domestic rather than foreign industry. The process of drifting can in no way be better illustrated than by the history of the movement during the last six years, culminating in the passage of the act of last year.

In 1883, a general revision of the customs duties was made. That revision was made by the Republican party, and its original object was to make reductions of the duties. The reform of the tariff, of which much was heard in those days from Republican quarters, was on all hands understood to mean a lowering of the rates of duty. In fact the Act of 1883 did make some reductions on important articles, like pig iron and wool; slight reductions, it is true, but none the less significant of what was then understood to be the popular wish. It is true also that the protectionists into

whose hands the remodelling of the tariff was put, could not resist the temptation to increase the duties on certain articles which were most affected by competition from abroad. But the unmistakable feeling of the public, and the undoubted expectation of public men, was that the duties should be reduced.

In 1884 came the election of President Cleveland. The campaign of that year was conducted by the Republicans on the tariff question, which then, for the first time, was put forward by them as the main issue on which they wished to stand before the community. On the other hand, the Democrats and a large number of independent voters made the campaign turn largely on the personal qualifications of Mr. Blaine, the Republican candidate for the Presidency. The final election of Mr. Cleveland was no doubt due in large part to dissatisfaction with the personal character of Mr. Blaine, and to an expectation that his opponent would adopt a high standard in his administration of the Civil Service. Mr. Cleveland, however, was not indisposed to accept the issue which Mr. Blaine had endeavoured to make the decisive one in the campaign, and, after having been in office for two years, he sent to Congress, in December 1887, his well-known message on the tariff. In that he put himself squarely upon the ground that the existing duties were excessive and should be reduced, and, more particularly, that the duties on raw materials should be done away with. Mr. Cleveland's unqualified attitude committed the Democratic party more fully to the policy of reducing the duties, while, on the other hand, it compelled the Republicans, almost in self-defence, to cling more closely than ever to the policy of high protection. During the session of Congress in the winter of 1887-8, the Democrats pushed through the House of Representatives, in which they had a majority, the so-called Mills Bill,¹ making a general reduction of duties. There was no expectation that this Bill would be enacted, because the Senate still contained a majority of Republicans; it was meant mainly to be a concrete expression of the policy of the Democratic party.

The election of 1888, therefore, in which Mr. Cleveland was the Democratic candidate, and Mr. Harrison the Republican candidate, turned mainly on the tariff issue. The contest was close; and the Republicans won by a narrow majority. Mr. Harrison

¹ These measures get their names from the gentlemen who are chairmen of the committees preparing them. Mr. Mills, a member of Congress from the State of Texas, was chairman of the Committee on Ways and Means, which prepared the tariff bill in 1888. Mr. McKinley, a member from Ohio, is chairman of the same committee in the present Congress.

became President, and the Republicans secured control of the House of Representatives by a majority which was small, but sufficient to enable them to carry out their policy. The Republican victory probably was not due to any strong popular preference for the Protectionist policy. The ties of party attachment, which are immensely strong in the United States, held many thousands to the Republican party merely by force of tradition. These voters have been Protectionists because they are Republicans, not Republicans because they are Protectionists. This rooted hold of the party among the 'respectable' classes of the North was reinforced in 1888 by other causes. Many independents who had refused to vote for Mr. Blaine in 1884, had become dissatisfied, in part certainly on good grounds, with President Cleveland's administration of the Civil Service, and refused to vote for him again. Moreover, the Republicans had a very effective party organization, and the command of large sums of money for campaign purposes. The election of 1888 was characterized by a free use of money on both sides, and the demoralization of the lowest class of our voters during the campaign was so great as to cause some pessimistic feeling as to the future work of universal suffrage. It has been frequently said that the leaders of the Republican party secured large sums of money for campaign uses from manufacturers and others having a direct interest in the retention or increase of the duties; nay, it has been charged that there was a direct bargain, under which subscriptions to the campaign fund were to receive a *quid pro quo* in the form of higher duties. It is not probable that any such compact was made; but there seems to be little doubt that considerable sums were subscribed by those engaged in protected industries to the campaign funds of the Republican party, which never would have been subscribed but for an expectation that the duties would be increased.

The final result has been the new tariff act. That act was passed in fulfilment of the pledge made by the Republicans to the people and to the protected industries. It was not passed without grave misgivings within the ranks of the party. Not a few of the Republicans doubted whether the country was really with them in the measure. Especially in the West, the Republican leaders feared that the measure would not be popular. But after the pledges made in the campaign, the Republican party would have weakened itself and impaired its political prestige, if it had failed to carry through some tariff act. The pressure of party tactics carried through a measure of which the dangers were considerable, and were not unforeseen.

So much for the history : to which a word may now be added as to the probabilities of the future. As the readers of this Journal doubtless know, the members of the House of Representatives are elected for two years only, and every two years a new House supersedes the old one. Immediately after the passage of the McKinley Act in October, 1890, the biennial election for the next House was held. In that election (in November, 1890) the tariff question was again mainly at issue. The result of the popular vote, to the surprise of the opponents as well as to the friends of the McKinley Act, was the complete and utter rout of the Republicans. Not only has the slender majority which they have in the present House been wiped out, but in the next House of Representatives the majority against them will be more than two to one. It must not be forgotten, however, that the peculiarities of our political machinery will prevent this change in the popular vote from having any effect on legislation for several years to come. In the first place, the newly elected House of Representatives will not meet until December, 1891, so that under the most favourable circumstances no change in legislation could be undertaken before 1892. Next, the Senate has still a Republican majority, and is likely to continue to have one for at least two years to come. Finally, President Harrison retains his veto power over legislation until the expiration of his term in March, 1893. The new House, confronted by a Republican Senate and President, will, therefore, be unable to enact any measure overthrowing the new tariff Act.

When we consider the possibilities after 1892, we are very much at sea. The campaign of 1890 was no more than a preliminary skirmish. The real struggle will come in 1892, when a new President and still another House of Representatives will be elected. What will be the policy of the Republicans and Democrats in the meantime, and what will be the trend of public opinion, it is impossible to say. Other issues—notably those connected with the silver coinage and the currency—may come to the front, and materially affect the constituency and prospects of both parties. But one thing is clear : that the general policy of protection has not yet been definitely rejected. While the new tariff Act was doubtless not popular, and damaged the Republicans at the last elections, other causes contributed to their mishaps. To say the least, they have not improved the Civil Service ; they have not been fortunate, to use again a mild expression, in some appointments to conspicuous public offices. They have tried to pass the bill, popularly known as the Force Bill, for regulating Federal elections in the South, which is fairly open to the objection that

it would check the progress toward better relations between the whites and blacks,—a progress which, while it has by no means solved that most difficult of our problems, is yet an extraordinary example of the capacity of the American to adapt himself to changed conditions. They have alienated many members of their own party by the extravagance of their legislation for pensioning soldiers of the Civil War. All these causes contributed to bring about their discomfiture; to which may be added the usual reaction against the party in power midway in its administration. The tariff Act in itself was in its details an unfortunate measure, calculated to invite attack and defeat. The country has not, therefore, pronounced definitely as to the protective policy, but only as to the policy which the Republicans have pursued in every direction during the last two years. If the Republicans, ridding themselves of the particularly objectionable features of the McKinley Act, plant themselves squarely upon a policy of more moderate protection, and if they rid themselves of some unpopular measures and unpopular leaders, it is by no means clear that they may not succeed in 1892.

Looking now, however, not at the prospect for the next two years or the next five years, but at the probable permanent fiscal policy of the United States, it seems to me clear that there are certain deep-reaching factors which will tend to bring the country away from the policy of protection, and eventually to lower the range of import duties. In the first place, the enormous exportation of agricultural products which now takes place from the United States cannot continue indefinitely. As the population increases within the United States, and as less and less new land becomes available, there will be more mouths to feed within the country, and no fresh natural resources with which to raise agricultural produce. In the second place the industrial character of the American people is such as will make the country, in the long run, an exporter rather than an importer of manufactured articles. The extraordinary advances made by us in the use and invention of labour-saving machinery, and the enormous resources in iron, copper, lead, coal, and natural gas, promise a great development of manufacturing industry in those industries where mechanical skill is most important. As the pressure towards diminishing exports of agricultural produce becomes felt, and the possibility of increased exports in manufactured articles more clear, the cry for free raw materials, which is now being raised effectively by the Democrats, will become more and more effective, and the trend of opinion must be in favour of a more liberal

foreign policy. But how long will it be before this stage is reached? It may come within five years: it may not come for twenty years. The beginnings of the permanent movement may be appearing now, and some reductions from the general high range of duties, especially upon raw materials, may come in the immediate future; but how soon a general change, affecting the whole of the customs duties, will be reached, it is impossible to say. Not a little will depend upon the degree of political skill which the two opposing parties—the Democrats and the Republicans—will show in the campaigns of the ensuing years.

After this lengthy introduction we may pass to the particular measure, the McKinley Act, which has been the occasion of the present agitation in the United States, and which has caused so much excitement in European countries. The central point of the protective system in the United States is in what is known as the wool schedule—the duties upon wool and upon woollen goods; and nothing indicates more clearly the attitude of the two parties than the mode in which they have dealt with these duties. In American politics wool is an article of prime importance. On the one hand it is grown in considerable quantities by the farmers of some central states, and particularly of Ohio, in which the parties are evenly divided, and in which the scale has turned sometimes in favour of one party, sometimes in favour of the other. The farmers in this region have been told for years that the duty upon wool enables them to get higher prices, and so gives them their share in the benefits of the protective system. On the other hand, wool is a raw material consumed in large quantities by the manufacturing industries of the Eastern States, and particularly of New England; and the appeal for free raw material for the benefit of the woollen manufacturer is particularly effective in these states. It may surprise the foreign reader to be informed that nevertheless most of the manufacturers of these states—even the woollen manufacturers themselves—are in favour of the retention of duties upon wool. The explanation is simple enough: the duty upon wool is the price which they pay for the maintenance of the general protective system. The feeling both with the advocates and opponents of protection is that if the duty upon wool is removed, it will be impossible longer to persuade the farmers that the protective system is to their advantage. They will then vote for the abolition of the duties upon woollen goods and on manufactures in general; the whole fabric will come to the ground when once this foundation is destroyed.

The tariff Act of 1883 made a slight reduction in the duty

upon wool. The Mills Bill, passed by the Democrats in 1888, admitted it free of duty ; and that change was felt by both parties to be of incisive importance. The McKinley Act, on the other hand, not only maintained but raised the duties on all classes of wool. Retaining the classification which had previously existed, it divided wool into three classes : clothing wool, combing wool, and carpet wool. The duty on clothing wool goes up from ten to eleven cents per pound, and that on combing wool from ten to twelve cents per pound. The changes in the third class, carpet wool, can be best shown by a tabular statement. The duty is changed from specific to *ad valorem*, as follows :—

Old Rate :—	{	If worth 12 cents or less per pound, duty 2½ cents.
	{	If worth more than 12 cents per pound, duty 5 cents.
Rate under the McKinley Act :—	{	If worth 13 cents or less, 32 per cent. <i>ad valorem</i> .
	{	If worth more than 13 cents, 50 per cent. <i>ad valorem</i> .

In addition, there are certain provisions as to the application of the classification, which tend to make these duties more rigorous. Thus, if any wool of the third class (carpet wool), has been improved at all by an admixture of merino or English blood, it must be classified as clothing or combing wool. Again, if a bale of wool stated by the importer to be dutiable under one class, shall contain any wool whatever of another class, the whole bale is subject to the duty of the higher class. Provisions of this sort, combined with certain regulations of a separate administrative bill, also passed by this Congress, make the changes somewhat greater than they seem to be on the surface.

It is not probable that these duties upon wool, which must strike the European reader as most curious illustrations of an extreme protective policy, will have any considerable effect in checking the importation of wool, or in stimulating its domestic production. The class of wool described as carpet wool, used chiefly in the manufacture of carpets, is grown only to a very slight extent in the United States. It is of a coarse quality grown mainly in semi-civilized countries, and is imported from all quarters of the world ; from Russia, from Asia Minor, from the Argentine Republic, from India. With the same labour and the same amount of attention the wool grower in civilized communities can secure a better quality of wool, commanding a higher price ; accordingly he confines himself to the more profitable sort. The supply of carpet wool

has therefore been obtained almost exclusively by importation. The demand for an increase in the rate of duty upon it has been due chiefly to a suspicion, which existed rather in the minds of the self-styled advocates of the farmers than in the minds of the farmers themselves, that wool belonging properly to the clothing or combing class has been entered as carpet wool and so has escaped the higher duty. This suspicion explains the division of carpet wool into two classes according to its value, and the higher duty upon the more valuable class. It explains also the provision, before referred to, by which carpet wool having any admixture of merino or English blood is to be treated as belonging to the higher classes. The increase of the duty upon carpet wool has been a thorn in the flesh for the manufacturers of carpets, whose industry is large, and is carried on under a domestic competition so keen as to make impossible any unusual profits. Moreover, their processes of manufacture are little, if at all, behind those in European countries, and foreign competition is not much to be feared; the indirect advantage which the manufacturers are supposed to get, that of bolstering the duty on their own product, is consequently not very tempting to them. Some prominent manufacturers of late have come out squarely in favour of free wool; in other words, have left the Republicans and joined the Democrats. From the public point of view, the duty on carpet wool must be regarded as an unreasonable obstacle, difficult to defend on any ground, to a simple and natural division of labour. The free raw material cry was raised against it with effect, and the item was one of those ill-judged details in the new Act which contributed to the recent Republican defeat.

On clothing and combing wool the changes of duty, as the reader will see, are not considerable, and serve to emphasize the opposition of the Republican party to the Democratic policy of free wool rather than to make any substantial change. The maintenance of the high duties upon wool, which were imposed during the course of the Civil War, and which I have described elsewhere at some length,¹ is due to a curious turn of historical causes. During the last two generations the general tendency has been for wool-growing to shift to new countries, in which the population was not yet dense enough for agriculture proper. As improved means of communication have made possible the transportation of wool for great distances, the wool-growing of the world has been transferred largely to Australia, the Argentine

¹ In my *Tariff History of the United States*, pt. iv., chap. iii.

Republic, the Cape of Good Hope, and other new countries. In the United States a similar process has shown itself within the country. Wool-growing has steadily shifted westward. In the middle of this century, as population became more dense in the Eastern States, the number of sheep in these declined, and the quantity of wool grown became less; while in the Central States and in the Mississippi valley wool-growing became a considerable industry. As population became more dense in these Central States in turn, and as railways penetrated the region west of the Mississippi and Missouri, wool-growing again shifted further westward, and became a great industry on the wide plains of the Far West, and in the fertile but unsettled lands of California. In our own time, as population is advancing into the Far West, and as California is becoming a more and more thickly settled State, the tendency again appears for wool-growing to decline there, and make way for agricultural operations.

This process, as it happens, was interrupted in the United States by the effects of the Civil War. The sudden cutting off of the supply of cotton caused a great demand for wool, and for about a decade wool-raising was highly profitable. It increased, therefore, in those regions of the Mississippi Valley, in which, under normal circumstances, it would have tended slowly to decline. The process, as it happened, was coincident with the issue of inconvertible paper money, and a consequent artificial rise in general prices. A few years after the Civil War, when cotton resumed its place as the most important and abundant of textile materials, the normal situation was reverted to. The price of wool fell sharply, wool-growing shifted rapidly to the unsettled western regions, and the considerable returns which the farmers had been getting for their wool shrank. This change, again, came with the distressing fall in prices which was the inevitable result of the contraction of the paper currency and the necessary preliminary to the resumption of specie payments. These causes, not to mention others also at work, made the condition of the agricultural producers in the heart of the country far from prosperous; and in their depression they grasped at legislation promising aid in any direction. The maintenance of the duties upon wool was one step by which the legislators could seem at least to aid them.

But the endeavour to stave off the working of wide-reaching economic forces has not succeeded. The westward movement of wool-growing has continued. The wool clipped in the region east of the Mississippi river has continued to decline, and the consider-

able increase in the production of wool which has taken place since 1870 has been exclusively in the Far West. But population is thickening in these regions, and wool-growing is not likely further to increase even in them. Indeed there are already signs that it is beginning to slacken ; and the outlook is that the United States will rely on the importation of wool even more in the future than in the past. Under these circumstances the restiveness of the woollen manufacturers under the duty upon wool becomes greater and greater, and it has become a serious question for them whether it is not worth their while to throw over the duty on wool and submit to the reduction of the duties upon their goods, rather than to continue to pay the heavy duty upon their raw material. The National Association of Woollen Manufactures, in which a large proportion of the woollen manufacturers of the country are organized, has protested against the recent additions to the duty on wool, even while requesting an increase of the duties upon their goods. Within the ranks of the woollen manufacturers themselves there is a strong and growing minority who would accept the complete abolition of the wool duties, and take their chances on the consequent reduction of those on woollens.

The other side of the present system of duties on wool and woollens appears in the duties upon woollen goods. The general scheme of the duties upon woollen goods is to impose, in the first place, a specific duty of so much per pound or per yard, whose object is merely to compensate the manufacturer for the duties upon raw wool and to place him in the same position as if he got the wool free of duty. Over and above this there is an *ad valorem* duty, which alone is supposed to protect him. In 1867, when the compound system was first systematically applied, this net protective duty was expected to be 25 per cent. The actual *ad valorem* rate was put at 35 per cent., the extra 10 per cent. affording compensation for certain internal taxes, and certain duties upon dyes and other chemicals. These internal taxes, and most of the other charges, have since disappeared. Nevertheless the *ad valorem* duty on woollens not only has retained the additional 10 per cent., but has even been pushed to a higher rate. The first steps toward a higher net protection were already taken in the Act of 1883 ; and in the McKinley Act there is hardly a trace of the nominal moderation of the original scheme. The situation will be most easily explained by presenting the duties under the Act of 1883 and under the McKinley Act, on 'woollen cloths,' which include most goods for men's wear, and form

the most important single item in the manufacture of woollen goods.

The old duty was	}	On cloths worth 80 cents or less per pound, 35 cents per pound, plus 35 % <i>ad valorem</i> .
		On cloths worth more than 80 cents per pound, 35 cents per pound, plus 40 % <i>ad valorem</i> .
The duty under the McKinley Act is	}	On cloths worth 30 cents or less per pound, 33 cents per pound, plus 40 % <i>ad valorem</i> .
		On cloths worth between 30 and 40 cents per pound, 38½ cents per pound, plus 40 % <i>ad valorem</i> .
		On cloths worth more than 40 cents per pound, 44 cents per pound, plus 50 % <i>ad valorem</i> .

It will be seen that, while there is no marked change in the rate of duty on the cheapest kinds of woollen cloth, there is a distinct and real increase, even after making allowance for the changes due to the heavier duty on wool, in the rates on the more expensive qualities. For example, on woollen cloths worth between 30 and 50 cents per pound, the total duty is in the neighbourhood of 150 per cent upon the value—a rate so very high that it is safe to say that congress would never have imposed it except in the guise of a compound specific and *ad valorem* duty. It is hardly necessary to inform the sagacious reader that the heavier duty on the finer and more expensive cloths is due to the fact that those only are imported into the United States. The coarser and cheaper cloths, made chiefly of domestic wool, with an admixture of cotton and shoddy, are not imported under any circumstances, and, indeed, there is ground for belief that with free wool and without any duty whatever upon woollens, these goods would be made in the United States without fear of competition from foreign manufacturers. More expensive goods, however, continue to be imported in great quantities, notwithstanding a duty which was already high under the earlier legislation; and it is to the continued importation of these and to aid domestic manufacturers in undertaking their production that the duties in the McKinley Act have been adjusted.

This appears still more strikingly in the duties on dress goods. The woollen cloths referred to in the last paragraph are goods for men's wear. On dress goods for women the duties under the new Act have been changed thus:—

The old duty was	}	If worth 20 cents a yard or less, duty 5 cents a yard plus 35 %.
		If worth over 20 cents a yard, duty 7 cents a yard plus 40 %.

The duty under the McKinley Act is $\left\{ \begin{array}{l} \text{If worth 15 cents a yard or less, duty 7 cents a} \\ \text{yard plus 40 \% .} \\ \text{If worth over 15 cents a yard, duty 8 cents a} \\ \text{yard plus 50 \% .} \end{array} \right.$

It will be seen that by a shifting of the line of classification, and by an increase of the duty upon all classes of dress goods, the range of duties is made very high. On some cheaper qualities the new rates will be equivalent to an *ad valorem* duty of between 150 and 200 per cent. These goods are largely imported from France, England, and Germany. The total importations of 1889 were no less than 20,000,000 dollars in value, notwithstanding a duty which, under the old Act, averaged about 75 per cent. upon their value. The manufacturers desired to secure for themselves this large market, and the Republicans have aided them by duties which doubtless are meant to be prohibitory. Whether the new duties will, in fact, prove to be prohibitory remains to be seen. The duties of the older Act were also meant to bring about the domestic manufacture of these goods, and failed to do so. It is by no means clear that the great and abiding forces from which the international division of labour results will not prove too strong even for the high barrier which it is now attempted to put in their way. As the matter stands, however, this question may not be fairly put to the test. With the result of the recent elections staring them in the face, domestic manufacturers must hesitate to embark their capital under the shelter of a duty whose repeal in the early future is not improbable. It is, therefore, very possible that the new duties will simply tax the consumers of these commodities—the women and children who wear the cloths—without having any considerable effect in stimulating domestic production.

I may digress here to call attention to some administrative difficulties which are likely to arise under the woollens duty. The reader will observe the peculiar gradation of these duties. Thus, dress goods which are worth fifteen cents or less per yard pay one rate of duty; those worth more than fifteen cents per yard pay a much higher rate of duty. This method of grading duties according to the values of the goods is the result of an attempt to escape from the difficulties both of specific and *ad valorem* duties; an attempt, however, likely to be confronted by these difficulties in as troublesome a form as before. Our protectionist system has led to the occasional application of *ad valorem* duties as high as 50 and 60 per cent. Any commodity of which the different qualities shade into each other by slight degrees cannot easily be

subjected to a specific duty. A duty, for example, of so much per pound upon all silks would be very heavy upon the cheaper grades of silks, and very light on the finer grades of silks. The same difficulty arises with regard to woollen goods, which shade by gradual gradation from very expensive to very cheap. High *ad valorem* duties, however, present such temptations to fraud and under-valuation that they are almost sure to be demoralizing, as has been abundantly proved by our experience with the duties upon silks. A general *ad valorem* duty upon woollen goods would certainly meet these same difficulties of under-valuation. On the other hand a uniform specific duty would bear too heavily upon the cheaper goods. Hence this device, not new in the McKinley Act, but applied more widely than ever before, of grading the duties according to the value of the goods. It has been applied not only to woollen goods, but to cottons, to gloves, and to a considerable number of other articles. Obviously the difficulty of under-valuation is not really got rid of. Thus, if dress goods are worth somewhere in the neighbourhood of fifteen cents per yard, the temptation upon the importer to invoice them and value them so as to bring them under the fifteen cent line, and so to escape with a lower duty, is enormous. It is safe to say that the extension of the graded valuation system in the McKinley Act will be followed by repeated attempts to escape its provisions by under-valuation of goods. It is true that a separate administrative act, which goes by the name of the McKinley Administrative Bill, attempts to meet this difficulty by more stringent provisions as to appraisal and valuation, and by heavier penalties for fraud and under-valuation. But the ingenuity of importers, stimulated by the premiums on dishonesty offered by the new tariff rates, may be relied upon to put the business of importing into less and less scrupulous hands, and to counteract more or less completely the efforts of the government officers.

The changes in duties upon other textile manufactures can be disposed of briefly. The general policy in regard to them is similar to that which we have seen to exist on woollens; to leave unchanged, or even to decrease, the duties on those goods which are not imported, and to increase them on those whose importation continues. Thus the duty is reduced upon the cheaper quality of cotton goods, such as ordinary shirtings and sheetings; goods of which the United States already export considerable quantities and of which a still larger exportation may be expected as the economic conditions of the United States develop in the direction I have already hinted at. But on the finer cottons, such

as lawns, laces, embroideries, the duty is increased. On cotton plushes it is made very high indeed ; and on cotton stockings, an article of which the importation in large quantities has continued, a complicated system is adopted, not unlike that adopted on woollen goods. The old duty upon cotton stockings had been 40 per cent. ; in its place comes the following system :—

If the value is under 60 cents a dozen, the duty is 20 cents per dozen, plus 20 per cent.

If the value is between 60 cents and \$2.00 a dozen, the duty is 50 cents per dozen, plus 30 per cent.

If the value is between \$2.00 and \$4.00 a dozen, the duty is 75 cents per dozen, plus 40 per cent.

If the value is over \$4.00 a dozen, the duty is \$1.00 per dozen, plus 40 per cent.

In this case the raw material, cotton, is even cheaper in the United States than in foreign countries, and the whole of the complicated and heavy duty is effective protection. It is an almost desperate effort to secure the manufacture of the article within the United States.

On linen goods, of which only the coarsest qualities are now made in the United States, the finer qualities being obtained only by importation, the duty goes up from 35 to 50 per cent. Linen laces and embroideries are advanced from 30 to 60 per cent. On silk goods, the manufacture of which, under the stimulus of the protective duties of the last thirty years, has reached a very large development in the United States, the general duty remains as it was before, at 50 per cent. *ad valorem*. But silk laces, embroideries and ready-made garments go up from 50 to 60 per cent. and silk plushes are subject to a very heavy graded specific duty. Indeed, plush goods of all sorts, whether manufactured of cotton, wool, or silk, have been singled out for especially heavy duties, their production being as yet inconsiderable in the United States, and their importation very large.

Fifteen years ago, even ten years ago, the duties upon iron would have been considered the most important part of the protective system. But in recent years the situation of the iron manufacture in the United States has changed in an extraordinary way. Enormous beds of the richest iron ore have been discovered in the Central-Northern part of the country, along the shores of Lake Superior, and cheap communication by water and rail has brought this iron ore into easy communication with the great beds of coal in the heart of the country, in Ohio, Illinois and Pennsyl-

vania. The iron industry west of the Appalachian chain has grown with portentous rapidity, and in the year just elapsed the total production of iron in the United States for the first time exceeded the production in Great Britain. The bulk of the iron in the United States is made far away from the seaboard, and the greater part of the producers of pig-iron can defy foreign competition. A similar development has taken place in the South, where large beds of iron ore, not so rich in quality as those of the North, have yet the advantage of being situated close to great deposits of valuable coal. The result has been this extraordinary development of iron manufacturing, which may have surprising consequences in the future. If the means of transportation during the next two decades continue to improve as they have improved during the decades just passed, or if by an enlargement of the canals around Niagara Falls and around the rapids of the St. Lawrence river, the great iron region of the North is brought into easy water communication with the world at large, the United States is likely to become a great iron-exporting country, and eventually to take the place of Great Britain as the great purveyor to the world of this indispensable instrument of modern civilization. The far-reaching effects of this change on the distribution of the world's trade will easily suggest itself to the reader. Meanwhile, the change has had for its immediate effect to make the duties upon pig-iron of very much less consequence to the United States than they were twenty years ago or even ten years ago. The duty now has an effect only in maintaining certain furnaces and establishments which are situated near the Eastern seaboard, and which might be affected in their local market by the competition of British iron; although even to these it is not probable that the competition would have any considerable effect. No demands were made for an increase in the duty, which accordingly is left in the McKinley Act at the old figure (\$6.72 per ton). Indeed, the only demands heard were for a lowering or entire abolition of the duty. It is felt in some of the cities on the Atlantic seaboard that the higher stages of the iron industry, for which pig-iron is a raw material, would be aided if the duty were abolished; since these cities are for all practical purposes nearer to England than to the Western States, which are now the centre of the domestic production of pig-iron.

Much more significant than the duty upon pig-iron is the duty upon iron ore, which is of practical effect in regard to those grades of ore which contain little phosphorus, and are therefore available for the manufacture of steel by the Bessemer process. The development of the great beds of iron ore of this quality in

the West has put at a disadvantage the eastern steel establishments, which must use Bessemer ore, and must get it either by a long railroad haul from the west, or by importation from abroad. A strong movement has therefore set in among the iron and steel manufacturers of the east in favour of the free admission of iron ore. Large steel works have already been established on the Atlantic seaboard, which use ore imported from Spain, Cuba, and Elba, and which are hampered by the present duty of 75 cents per ton on the ore. In most of the Eastern States a strong feeling exists against the retention of the duty on this most raw of raw materials.

Remarks of the same sort may be made as to the retention of the duty upon coal. The production of coal in the United States is so enormous, the beds are so rich, and are situated so far in the heart of the country that any considerable importation of coal is out of the question. In certain smaller districts, and more particularly in New England on the Atlantic coast, and in the northern stretch of the extreme Pacific coast, from San Francisco northward, the natural source for the supply of coal happens to lie across the Canadian border. In these two regions the duty upon coal has therefore some effect. That duty is a curiosity in economic legislation. If these regions of Canada had happened to become a part of the United States (and those who are familiar with our political history will know that there were dates when a strong possibility of this sort existed, especially for the extreme western district), their supplies of coal would certainly have been considered a blessing for New England and for the Pacific coast. The accident of political separation has caused the duty to be imposed, which cannot be otherwise than a drawback, so far as it goes, upon the prosperity of these districts. In New England, which depends mainly upon its manufacturing industry, that drawback may be of some moment; though it must be said that the quality of Canadian coal available for New England seems not to be of the best, and that the remission of the duty would probably have less effect than its advocates expect. But surely New England is entitled to any advantage which may be obtained in that direction, and the refusal to remit the duty in the McKinley Act (the duty remains as before at 75 cents per ton) was doubtless among the causes which contributed to the defeat of the Republican party at the last election.

Another item in the class of mineral products was the subject of heated discussion. This was the increased duty upon tin plate. By what may be called an accident in the con-

fused mass of legislation passed in the Civil War, tin plates happened not to be subjected to a specially high rate of duty, and they have therefore continued to be obtained, as they were before the war, by importation from England. None have ever been manufactured in the United States, and the importations have been large, amounting in the last year to over \$20,000,000 worth. The duty in the Act of 1883 was one cent per pound, equivalent to about 35 per cent. upon the value. The Protectionists have always complained that this article was unjustly singled out for an exceptionally low rate, and have urged that under the stimulus of a sufficient duty its production would be undertaken in the United States; and, following their usual line of reasoning, they predict that this domestic production must eventually bring about a fall in the price of the article. The McKinley Act finally acceded to their demands by raising the duty to 2 2-10 cents per pound. The new duty is to begin with the 1st of July, 1891. But its continuance is made subject to a curious condition: that, after the year 1896, tin plate shall be admitted free of duty, unless the domestic production for some one year before this date shall have equalled one third of the importations during any one of the preceding years. In other words, the permanent maintenance of the duty is made conditional upon a substantial increase in domestic production. The increased duty so proposed caused an outcry. The canning industry of the United States, by which vegetables, fruits, and meats are put up in tin cans for preservation, has reached an enormous development. Its products are exported in large amounts, and the increased duty upon tin plate, it was alleged, would not only tax the domestic consumer but tend to check exportation. In this case no vested interest could apply for the maintenance and increase of the duty, and the question was squarely presented whether a further and considerable extension of the protective system should be made. There can be no doubt that the proposed extension was unpopular, and that the tin-plate proviso was another of the items that contributed to the Republican defeat.

We may now turn to another and quite different feature in the McKinley Act. This is the change in the duty upon sugar, which has important fiscal as well as economic bearings. As the readers of this Journal are aware, the United States for a number of years have been embarrassed by a difficulty which most European countries would gladly welcome—the possession of a surplus revenue. That surplus revenue has been due chiefly to the import duties which, high as they are, have yet been unable to

prevent a great stream of importation, and a consequent large inflow of receipts into the Government treasury. The surplus is admitted on all hands to be an evil. It has tempted to extravagance in public expenditure. It has caused continual financial complications, because the United States acts as its own banker, keeps its receipts in cash in the Government treasury, and, consequently, is liable at any moment to withhold from the channels of trade a part of the accustomed medium of exchange. The surplus has been used by the Government in paying off the public debt; and so long as there were bonds outstanding which the Government had the privilege of redeeming at par, there was no great difficulty in disposing of it. But these redeemable bonds were all paid off several years ago, and since that time the Government has been compelled to dispose of its surplus by buying its own obligations at a high premium in the open market, a circumstance which has added much to the cry for a reduction of the surplus revenue.

Now, the largest item in the customs revenue is the revenue from sugar. At the same time the domestic production of sugar is not large, being confined in the main to the cane sugar district of Louisiana, and amounting in all to only about one-tenth of the total consumption. Louisiana, as it happens, is a Democratic State, in which the Republicans could therefore lose nothing if they abolished the duty. There has therefore been a strong disposition in the Republican party to abolish the sugar duties, so as to get rid of the surplus revenue, and to be able to come before the public with the assertion that taxes had been reduced upon an article of food of prime importance. At the same time there was an obvious inconsistency in abandoning the Louisiana producers to their fate at a time when other domestic industries received increased support. Moreover, there is a movement of some strength to assist and stimulate the production of beet sugar in the United States. Consequently an endeavour is made to maintain in another way the protection of the domestic sugar producers. This result the McKinley Act attained by making raw sugar free of duty, and at the same time giving a bounty for the production of sugar within the United States. Raw sugar is admitted free; on refined sugar a duty of one-half cent per pound is retained, which suffices to protect the refiners of the United States. In addition, a discriminating duty of one-tenth of one cent per pound is levied on bounty-fed sugar coming from the countries which give a direct or indirect bounty on exportation. Our own domestic bounty on refined sugar produced

within the United States is two cents per pound. The bounty begins on the 1st of July, 1891, and is to last until 1905.

This bounty, though not entirely without precedent in our economic legislation, is probably a tactical mistake. It is a confession that a protectionist duty is equivalent to a bounty; a confession which obviously is inconsistent with the common assertion that duties are paid by the foreign producer rather than by the domestic consumer, and the other equally common assertion that the effect of duties is to lower rather than to raise the price of the articles on which they are imposed. While the people may be willing to impose what really is a bounty, in the disguised form of a protective duty, they are averse to the direct payment of money out of the public treasury to the producers of particular commodities. The Sugar Bounty was therefore probably a tactical mistake on the part of the Republicans; yet it was one into which they were fairly forced by the necessities of the situation.

Meanwhile, athwart the general abolition of the duty upon sugar has come another set of provisions—the so-called reciprocity provisions—which throw more light than any other feature of the McKinley Act on the peculiarities of our political situation. This reciprocity provision is inserted in separate sections of the Act, quite distinct from its general schedules. It provides that the President by proclamation may cause duties to be imposed on sugar, molasses, coffee, tea, and hides, if he consider that any country exporting these commodities to the United States ‘imposes duties or other exactions upon the agricultural or other products of the United States, which, in view of the free introduction of sugar, molasses, tea, coffee, and hides into the United States, he may deem to be reciprocally unjust and unreasonable.’ The object is to tempt or compel other countries to reduce their duties on American products. Clearly these provisions can apply chiefly to the South American countries—to Mexico, Brazil, the Argentine Republic, and Cuba.

This part of the Act has a double origin. In the first place it is connected with the Pan-American scheme of Mr. Secretary Blaine, of which so much has been heard in European countries. It has been obvious to all observers that the only effective way to bring about more intimate relations between the United States and the other countries of the American continent, has been by closer commercial relations. To this our high tariff has interposed an insuperable obstacle. By the new reciprocity provision, reductions of duties on American commodities are to be sought, not by reducing our import duties, but by the threat of raising them if our

commodities are not admitted into the South American countries at what seem to us reasonable rates. The second source in which the origin of the reciprocity provision is to be sought is more significant. The McKinley Act passed the House of Representatives without it. But the trend of public discussion upon the Act, especially in the West, foreshadowed the dangers of the measure, which have since been made so clearly evident by the election; and there was an uneasy feeling among the shrewder Republican leaders that their tariff measure might prove to be a political mistake. That feeling was strong in Mr. Blaine, not the least shrewd of the Republican leaders; and he may be said practically to have forced the Reciprocity provision into the McKinley Act as a means of securing support in the West for the party measure. He proposed to increase the outlet for the produce of the West, to open for them agricultural markets in regions where they were now handicapped by high import duties. The proviso, in other words, is a bid for the agricultural vote, a bid inserted into the bill at the last moment as a means of conciliating the opposition of which the Republican leaders were uneasily conscious. It has failed to accomplish that object, at least for the present; and it is not clear whether any important results will come from it in the future. Mr. Blaine has succeeded in negotiating a treaty with the newly-established Republic of Brazil by which a remission of duties up to 25 per cent. is conceded on imports from the United States.¹ Whether other treaties will follow, and whether this treaty will have any considerable effect on the trade between the two countries remains to be seen. It is clear that the President would hesitate long, especially after the recent elections, in proclaiming a re-imposition of duty on articles like sugar or hides; and in any case the threat of imposing a duty is not so effective a diplomatic move as would be the offer to remit existing duties. Moreover, it is probable that any remissions of duty secured to the United States would not long remain preferential; the machinery of commercial treaties has usually resulted in making the remissions practically open to all the world. Nevertheless, the reciprocity move is in many ways a shrewd one. It has a distinct economic advantage over the ordinary form of reciprocity,—the simple remission of duties to a favoured country. Such a remission is likely to redound not to the advantage of the domestic con-

¹ Since these lines were written, the announcement has been made that a treaty has also been concluded with Spain, relaxing duties on commodities imported into Cuba.

sumer, but entirely to that of the foreign producer; unless, indeed, the favoured country can easily supply the whole market, or other countries are quickly admitted into the favoured circle. But the reimposition of a duty on the imports from a particular country, if it leaves enough of other competing countries in the field, brings a pressure to bear on the enemy without hurting the consumer at home. The varied sources from which we import our sugar supply give a fair field for exercising this convenient form of pressure, and it is clear that the present Administration means to use the threat of reimposing sugar duties as effectively as it can. Moreover, the reciprocity move points to a development in a direction where even those opposed to the new tariff *régime* must admit a promising field. If the United States reach the stage of exporting manufactures on a large scale,—and I have already indicated my belief that eventually they will,—the first steps will be by ventures in markets like those of the South American countries. Connected with the reciprocity scheme is one for subsidies to steamship lines to these regions, which secured this spring (1891) a qualified success in the last session of the Congress which passed the Tariff Act. It is not impossible (though for the present hardly probable) that stimuli of this sort, coming as they do to reinforce a movement to which other causes give a substantial basis, may leave their mark on the international trade of the country.

The attempt to conciliate the farming vote, which is at the bottom of the reciprocity scheme, is seen in other parts of the McKinley Act, especially in the increase in the duties upon certain agricultural articles. Some of these changes are amusing. Thus the duty upon wheat goes up, from 20 to 25 cents per bushel, and that on Indian corn (maize) from 10 to 15 cents per bushel; as if a high duty upon these articles, of which we export hundreds of millions of bushels yearly, could have any effect whatever. Such changes may fairly be said simply to try to throw dust into the farmer's eyes. Equally insignificant in their general effect, although not so unimportant for every section of the country, are the higher duties upon potatoes and eggs, petty exactions in themselves, and effective only where there is a board of trade between Canada and the United States. The duty on barley is also raised, to check a considerable importation of barley from Canada for the use of the great beer-brewing establishments.

Of permanent importance are the higher duties upon hemp and flax, raw materials of which the finer qualities are not grown

in the United States. I have endeavoured to explain elsewhere why these textile materials have never been produced in the United States, and why high duties upon them have never had the expected effect of stimulating their domestic production ; and the length of the present article, already excessive, compels me to refer the interested reader to that exposition. It is enough to say here that these higher duties will certainly not have their expected effect of stimulating domestic production ; that they will hamper to a certain extent the industry for which hemp and flax are raw materials ; and that they have apparently not succeeded, more than the other provisions which we have been discussing, in maintaining the faith of the farmers in the Republican party. They are among those parts of the protective system which, in case of another defeat of the Republicans, may be expected first to disappear.

In conclusion, I may add a word as to the directions into which the new Act is likely to turn the industries of the United States, and as to its bearing on the probable permanent development of those industries. The most effective provisions of the new measure—that is, those most likely to stimulate the domestic production of articles hitherto imported—are the increased duties on the finer grades of cotton, woollen, linen, and textile fabrics. These have been imported very largely from England, Germany, and France. Some of them doubtless will now be manufactured at home. The extent of the change will probably be lessened by the outcome of the recent elections ; for the defeat of the high tariff party suggests a possibility that the new duties will be repealed before many years pass, and may cause manufacturers to hesitate in setting up any expensive plant. But some of the favoured goods can be made without much new investment, by modifying and adapting existing machinery ; and in some cases the investment will very likely be made after all, in the hope that the duties will hold as long as the machinery lasts. On the other hand, it may be a question whether American manufacturers can attain the superiority in style and finish which largely explains the continued importation of so many fabrics under the duties, already high, of the previous Tariff Acts ; and the actual change in the international division of labour may be less than is expected either by the friends or the opponents of the Act of 1890.

Such as it is, the change will divert American labour and

¹ In an article on 'Some Aspects of the Tariff Question,' in the *Quarterly Journal of Economics*, April, 1889, vol. III., pp. 259-292.

capital into channels which may fairly be called unnatural; or, if that phrase savours too much of old-fashioned political economy, into channels to which national character and capacity have so far shown themselves little adapted. The United States are destined to become a great manufacturing country. Indeed, they are so already, and the real question for the future is only as to the kind of manufactures which will develop. The vast mineral resources, of which the effects are already foreshadowed in the enormously rapid growth of the iron manufacture; the ingenuity, mechanical skill, and enterprise of the workmen and business men,—these factors, with the gradual overtaking of the food supply by the rapid growth of the population, must bring about the result sooner or later. But I do not believe the growth will permanently be in the direction into which the new Tariff Act tries to force it; for I do not believe that the measure will be permanently successful in modifying the general economic conditions of the United States. The manufactures which will grow are likely to be, not those which demand high duties, but those for which the whole question of duties is now comparatively indifferent. Such are the manufactures of the staple qualities of cotton goods, of boots and shoes, of tools, household hardware, and utensils, agricultural implements, wooden ware. Industries such as these have already begun to export their products; they are, so to speak, already nearly down to the exporting line. In some, as in the cotton industry, advantages in the supply of raw material are important elements of success. In most of them labour-saving machinery, the neat adaptation of the article to the precise use intended, mechanical skill in new directions and novel processes, the characteristics, in short, which have made ‘American’ almost synonymous with ‘ingenious,’ tell to the utmost. As iron, copper, lead, coal become cheaper within the country, the circle of such industries will widen. The advocates of lower duties insist that, with the free admission of raw materials from abroad it will widen still further; but I have my doubts whether a change of this sort would be as important as they expect. A greater effect would probably come from the change in the value of money and the tendency towards a generally lower range of prices, which might be expected to result from a distinctly lower range of import duties. At all events, it is in these directions that we may look for a growth of manufactures within the United States and for a development of important industries of export, that shall have a stable and permanent basis. How soon the exportation of manufactured articles now

nearly down to the export line will begin to play a large part in our industrial organization, it is impossible to say; still less it is possible to say how soon the American people will become conscious of this opening for their energies, and will adapt their economic policy to its use. The change will not take place in the immediate future, and in any event will come, not suddenly, but by a gradual growth. It is, therefore, not of much immediate interest to the man of business, who is always concerned, as Bagehot has reminded us, with the outlook for the next season or two only. But to the economist, who is concerned mainly with the great and permanent changes in the industrial world, this development presents by far the most interesting phase in the future economic history and policy of the United States.

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