

(editor's note: This paper was transcribed from a handwritten cursive copy with various difficulties. For a perfect rendition, the reader might wish to consult the original, itself a copy, in the volume entitled *Literary Club Papers* 2, 1886 – 1887 June 5, '86 to May 21, '87)

The Problem of Free Trade

There are very few people who have not given particular attention to the subject who realize to what extent the present protective system of the United States is due to the War of the Rebellion, how the existing high duties on imports are, in the main a result of war legislation which has been clung to and maintained in force long after all other legislation similarly caused has passed away as was natural it should with the disappearance of the demands and necessities which gave it birth.

Without intending any unnecessary intrusion upon the deserved rest of these well-known and weary free trade arguments which have done service in this country, for so many years, and considering their force with such astonishingly small results; nor without attempting to evolve any new arguments in this good cause, I wish to recall to the attention of the Club this evening the history of our protective legislation as it now stands. It is an interesting fact that in the same year that the Declaration of Independence was adopted Adam Smith published the *Wealth of Nations* and the first commercial treaty made by the infant American nation with a foreign country, that made by Franklin and his associates with France in 1778, recites that "the advantages of commerce are founded solely upon reciprocal utility and the just rules of free intercourse;" but the truths of Adam Smith were then but little-known; and the old traditions and prejudices which our forefathers inherited were stronger than his new doctrines; and our first tariff bill, that of 1789 adhered to the then still prevalent but fast languishing idea of protection, but in a very mild form to what has come after it. The duties levied were equivalent to 8 1/2 ad velorem; and were expressly declared to be only temporary, in order to "give the young industries a start." Between 1789 and 1816 import duties were steadily raised. In 1816 after the embargo which with war and resulting non-intercourse had drawn the United States into the distortion and perversion of industries which the false mercantile system with its many restrictions had produced in Europe, manufactures had sprung up to supply the people with what they couldn't obtain from their natural sources of supply, owing to the difficulties of foreign traffic. These industries produced articles always inferior and dearer than those that could have been imported; but the capital invested in them had to be cared for and the industries encouraged; so the act of 1816 was passed again, increasing the duties, all political parties reluctantly agreeing to it for fear of alienating the votes of the encouraged industries.

In 1824 duties were again raised. They now, as collected under the act of that year, averaged 37 percent. For the first time the tariff question became political, and the South took for the first time the stand she often afterwards maintained against high duties as no doubt was natural; for she bought in a high tariff market, and sold in a free one.

After being again raised in 1828, until the average rate was 41 per cent, the tariff was first reduced in 1833 and again in 1846, and again in 1857 until the average rate was only about 20 per cent. But the War of the Rebellion made revenue more necessary, and in

1861 the present era of protection began, and since that time the cry of the infant industries has always been for more, tho' Mr. Clay in 1815 when urging a low tariff of only 25 per cent said that three years would be sufficient to place the manufactures of the country on a footing which would enable them to compete with the world. 1862, 1864, 1865, 1866, 1867 duties were successively raised.

As we have seen, for about 15 years before the war began, the duties remained as fixed by the act of 1846 and reduced in 1857. The act of 1846 had been passed by the Democratic Party with the avowed intention of putting into practice as far as was then possible, the principles of free trade – though this praiseworthy intention was not by any means carried out.

Some purely revenue articles, such as tea and coffee, were admitted free of duty; and on the other hand many articles of manufacture and use in manufacturing, concerning which the protection contest has mainly been waged, were charged with a duty of 30 per cent while often articles again and such as are now carefully protected were admitted at a lower rate of 30 percent, because, not being produced at that time to any extent in this country, there was no special agency at work to ask protection for them. This act of 1846 was what even then and still more now be considered in any other civilized country a high tariff, strongly-protected measure; but it was such an improvement on what had preceded it that it has always been looked upon in the history of our tariff legislation as a long step toward free trade, and a return now to its rates would be equally so considered.

The act of 1857 was another step in the same direction. The maximum duty for protection as distinguished from a duty for revenue was reduced to 24 percent: more raw material was admitted free, and the whole line of duties on manufactures were brought down to the lowest point reached in this country since 1815 the country accepted the tariffs as fixed, and from 1846 to the opening of the war, tariff agitation and discussion ceased almost entirely; and the voice of the disinterested parties of the American workman from the pauper labor of Europe was barely ever heard in the land.

I shall not refer to the prosperity of this period of our history because chestnuts are ripe and I don't want to shake the limb for fear I might bring a shower of them about my ears; but we must hasten quietly by until we come to the Morrill tariff act of 1861.

This act was passed with the avowed intention of restoring the rates of 1846 and it forms no part of the financial legislation of the war. The most important change made by it was the substitution of specific for ad valorem duties a usual pretext for the restrictionist for a covert interest in the actual amount of duties which are paid. The specific duties established by the act of 1861 were in many cases considerably above the ad valorem duties of the act of 1846 though Mr. Morrill and the other leading advocates of the measure only asked to have the rates of 1846 restored. The other changes worthy of mention, even the increased duties on corn and wool, by which it was hoped to attract firmly to the Republican Party some dutiful states, notably Pennsylvania. This episode furnishes an apt illustration of one of the many dangers which attend a system of protection.

The politicians for their political and party ends may meddle with the tariff and disturb

the business of the country. At this time it is due to them to say that the manufacturers were not asking any change in the tariff. Most of the manufacturing states if we can judge from the expressions of their leading representatives to be found in the Congressional Globe took no part in this movement for higher rates. Mr. Rice said, Cong. Globe 1860 page 1867 "The manufacturer asks no additional protection, he has learned among other things that the greatest evil next to a ruinous competition for foreign sources is an excess of protection which stimulates a like ruinous and irresponsible competition at home" – Mr. Sherman of Ohio said in the same debate "When Mr. Stanton says that the manufacturers are urging and pressing this bill, he says what he certainly must know is not correct. The manufacturers asked over and over again to be left alone. The tariff of 1857 is the manufacturers's bill." – Ten years after that debate, Mr. Morrill himself said Cong. 61 69–70 p 3295 "The tariff of '61 were the flood-gates. Fort Sumter was fired on in April '61 and as early as in the extra session of that summer the need of additional revenues for carrying on the war was felt, additional duties were imposed, and the cornerstone of our present system of protection was laid upon the firm foundations which the Morrill act had prepared for it. In the next session a further increase was made; and from that time until 1865 no session passed in which the duties on imports were not in some respects increased.

In 1862 there were two important taxation acts passed one of which was made the excuse for the other, and therefore both should be mentioned. The Internal Revenue Act of July 1862 was a comprehensive excise law. Specific taxes were imposed on certain products, a general ad valorem tax imposed on other manufactures. Licenses were required in many callings, and income tax laid common [] were taxed on their gross receipts etc.

The tariff act was passed subsequently in the same month with the object as was stated by its promoters primarily to increased duties only as might be necessary to offset the effect of the Internal Revenue act.

Mr. Morrill said in his speech introducing this bill Cong. Globe 61–62 p. 1196 – "It will be indispensable for us to revise the tariff on foreign imports so far as it may be seriously disturbed by any internal duties, and to make proper preparation xx If we bleed manufactures, we must see to it that the proper tonic is administered to it at the same time." Also Mr. Stevens said in the debate which followed: "we intended to impose an additional duty on imports equal to the tax which had been put on the domestic articles. It was done by way of compensation to domestic manufactures against foreign imports." Thus under cover of the need of revenue the increase of protection was begun.

The next step was the batch of three revenue acts passed June 30, 1864, forming together perhaps the greatest measure of taxation in the legislative history of the world. The first of these acts provided for in enormous increase and expansion of the internal revenue system. The second provided for a corresponding increase in the duties on imports; and the third authorized a loan of \$4,000,000,000.

The tariff act was introduced and passed like its predecessor of '62 under the management of Mr. Morrill, and he gave the same reason for its necessity but this does not explain or excuse the act which was passed. The general willingness on the part of the people in the north whose representatives filled Congress, to submit to any amount of taxation which

was thought necessary by their leaders for the vigorous prosecution of the war the end of which in those dark days before the dawn seemed much farther off than it had appeared in '61. gave the protectionists such an opportunity as they had never had before in any country; and they used it.

By the act of 1862 the average rate of the tariff on dutiable commodities was made 37.2%; and by the act of 1864 this average was raised to 47.06, and these duties fixed by an act which was introduced in the most critical time and pushed through Congress because of the necessities of the situation, being considered only two days in the House and one day in the Senate is still, 23 years after the basis of our system of imports and rates on almost all the articles with which the protective controversy is concerned are the rates fixed in the haste and darkness of June 1864.

In Heyl's "Import Duties" any of you can find the act of 1864 printed in full those parts which are not in force being distinguished by small type and you will be surprised to find how few sections are set down as repeated.

Strengthened by the sinews furnished by this act, the manufacturing interests of the country became strong enough to hold on to the rates therein provided; and have, with the aid of the protective sentiment which the war and what preceded it bred in the people of the North had they even enable to increase those rates.

The present generation, and the generation that preceded us at the North were brought up, imbued with the protective idea; and we all know how difficult it is to eradicate the dogmas of our fathers from among our beliefs, for they come to be a part of our very natures. We are prone to adhere to the established order of things and to cling to the beliefs of our childhood where they are fortified as the protection theory has been fortified by being associated with what was politically orthodox.

Ever since the tariff bill of 1828 first separated the South from the North on this question of protection, Mason and Dixon's has been the dividing line in this country between the two theories; and we at the North have learned to associate the idea of free-trade with the idea of slavery, and latterly with the idea of treason until to be called a free-trader has almost with some people been equal to being called a copper head or the still more dreadful mugwump. It is this interweaving with the idea of protection all that we hold patriotic and loyal that has given it one of its strongest holds; but another and less creditable reason for its standing so long against the progress of the age has been the strength of the lobby.

When millions of money have been invested in certain industries, and these industries have been accustomed to draw from the masses of the people a royal bounty, and on every threat and attack these millions have sent a powerful lobby to the Halls of the Capital and each threatened monopoly has united with other less worthy means every persuasion of prejudice and sophistry to sustain their continuance. Not less potent in producing a public sentiment which has sustained the representatives of the people in their continuance of this iniquity has been the pleasant sound of the name of "protection" to home industry and "protection" to the wages of the American workman which has been blazoned on the banners of the restrictionists.

Almost immediately after the war, the internal revenue taxes were abolished excepting a few such as the taxes on spirits, banks, and matches. All that bore on the productive resources of the country were abolished; and it was expected no doubt by all who had aided in fixing and passing the other legislation relating to duties on imports that they would go with their sister system; but the pressure from the interested domestic producers was great, and they clung fast to all they had got. Mr. Morrill showed what his intention had been in the speech to be found in the Cong. Globe of 69–70 p. 3295. He says: “for revenue purposes and not for protection, 50% in many instances was added to the tariff during the war to enable our home trade to bear the new burdens of internal taxation. Already we have relinquished most of such taxes; so far, they as protection is concerned we might safely remit a percentage of the tariff on a considerable share of our foreign importations — — It is the mistake of the friends of a sound tariff to insist on the extreme rates imposed during the war, if less will raise the necessary revenue. — Whatever percentage of duties was imposed on foreign goods to cover internal taxation on home manufactures should not now be claimed as the lawful prize of protection when such taxes have been repealed. Here is no longer an equivalent.” It should be remembered particularly that Mr. Morrill was himself a protectionist, but he was a conscientious man besides.

Rep. Garfield also said at the same time as reported in Young's Report page 172 “After studying the whole subject as thoroughly as I am able, I am firmly of the opinion that the wisest thing that the Protectionists in this House can do is to unite on a greater reduction of duties on imported articles. — If I do not misunderstand the signs of the times, unless we do this ourselves prudently and wisely we shall before long be compelled to submit to a violent reduction made rudely and without discrimination, which will shock, if not shatter all of our protected industries.” Mr. Garfield, it is worthy of notice had with Mr. Morrow earnestly supported the unsuccessful measure of 1867.

Now this was the state of the case down to as late as 1870. Industry had organized itself in the country in accordance with the high rates of tariff which had existed since 1864. Many industries had grown up or had been greatly extended under the influence of the war legislation, and as that legislation continued unchanged, still more capital was embarked in establishments whose existence and prosperity to a great degree depended on its maintenance. All those who were connected with any concerns of this kind loudly asserted that they would be ruined by any change and as the business world in general tends to be favorable to the maintenance of things as they are and opposed to changes. Those who are particularly interested in any legislation, and have combined for their mutual benefit can always accomplish more than a disinterested force of those who have nothing but the country's general good at heart; and particularly is this true where legislation is to be prevented rather than produced; for in nothing is the axiom that “possession is nine points of the law” more true than in the case of those who possess legislation.

Little by little the country at large, and especially those parts of it in which protected industries were gathered, began to consider the existing state of things as permanent; and so the extreme protection system which had been at first an experiment for aid in a struggle for the government which was adopted hastily without any pretense of

deliberation, gradually came to be accepted as a permanent institution.

The tariff on purely revenue articles such as were not produced at all in the country was soon abolished almost entirely; and as a rule the duties on articles produced in this country, and such as were properly called protective duties were retained at the war figures, or raised above them; and the tariff became exclusively and distinctly a protective measure.

After the failure of the attempt of Mr. David H Wells and Secretary McCullough to reform those abuses in 1867, the tariff reformers were discouraged, and made no further attempt until 1872 when the Committee on Ways and Means introduced into the House a bill which took decided steps in the direction of tariff reform; but which was defeated by the tactics of the protectionists who caused to be introduced into the Senate a Bill proposing simply a horizontal reduction of 10% which divided the reform force; and passing the Senate was put thro' the House by Messrs. Kelly and Dawes, aided by the powerful influence of the speaker, Mr. Blaine. Joined with this horizontal reduction, which was the sop throne to the protectionist Ceberus, was a sweeping reduction of the tariff on the non-productive sources of revenue.

The tax on whiskey and tobacco was lowered, the tea and coffee duties were entirely abolished, the tax on salt was reduced to one half, and some reduction of raw material was made. Were my time longer I might digress here to enlarge on the difference between those which are correctly called revenue, into the coffers of the government, while the latter only feed the treasury of the home producer, and does not and is not calculated to produce any revenue for the government because as imports are made and revenue is paid, the tariff fails of its protective object. As Prof. Sumner said "Protective tariff merely accounts to an act by force of which the government holds the consumer while the domestic producer goes through his pockets. I might mention why the protectionist is always ready when forced into a corner to agree to horizontal reduction, because it can be taken off very easily. To put it on does not need the ability of a financier or a political economist, and the same can be said of the mental power needed to take it off and as was to be expected the reduction made in 1872 was repeated with little difficulty in 1875, notwithstanding the fact that Gen. Grant, the Secretary of the Treasury, and Senators Sherman and Schultz opposed the restoration of the horizontal 10% and supported instead a re-imposition of the duties on tea and coffee as a legitimate means of restoring the increased customs revenues.

From 1877 to 1883 there was an occasional struggle for reform but nothing was accomplished. Mr. Morrison in 1870 and Mr. Wood in 1878 introduced Reform Bills into the House which occasioned some debates, interesting because they displayed the ghastly ignorance of the average American legislators. Upon the subject involved which can be examined in detail by the pessimists who are interested in such discouraging testimony in the Congressional Record of 1875 in 1876 at pages 3321 et seq. and of 1877-8 at pages 2098 et seq.

In 1879 the reformers secured the abolition of the duty on quinine which like Touchstones's Audrey was not much but it was our own. The tariff act in 1883 closes this cheerful play which we have been reviewing.

In 1882 the protectionist Congress passed an act appointing a tariff commission to report the next session and with an eye single no doubt to and unprejudiced view of the question, Mr. J. L. Hayes the Secretary of the Wool Manufacturers Association was made president of this commission.

This committee reported at the beginning of the next session before the House in which revenue Bills must originate that it was unable to agree on any Bill; but finally a Bill was passed through the House for the reduction of some of the internal taxes and to this bill the Senate tacked as an amendment a tariff reform measure, based mainly on the recommendation of the commission which passed the Senate and was reformed by the House to a conference committee consisting of members of both Senate and House; and in this committee the details of the act of 1883 were finally settled.

The object of this reference by the House was no doubt check the reduction of duties as proposed in the Senate bill; and it was successful. Changes made by the conference committee were mainly changes to increase not diminish the protective duties. Mr. Morrison said in the last session of Congress (1883–4) in commenting on the act of 1883, “The office and duty of a conference committee is to adjust the difference between the two disagreeing Houses. This House has decided that bar-iron of the middle class should pay \$20 a ton; the Senate that was to pay \$20.16 a ton. The gentleman of the conference committee recommended this difference –how? By raising the bar iron of this class about both House and Senate to \$22.40 a ton. The tariff commission reported that the tariff on iron ore should be 50 cents a ton. The house said it should be 50 cents a ton. The Senate said it should be 50 cents a ton. Gentlemen of the conference committee reconciled the agreement into a disagreement and made the duty on iron ore 75 cents a ton. Gentlemen of the conference did a similar service for the great cooperation of corporations the Iron and Steel Association by giving it a tax of \$17 on Steel rails which the House had fixed at \$15 and the Senate at \$15.68 a ton.

Cong. rec. 1883–4 p. 2786 Sen. Buck's remarks to the same effect are also interesting and he was a member of the conference committee of which all but three Bayard, Beck, and Carlisle were strong protectionists. The committee consisted of Messrs. Morrel, Sherman, Aldrich, Bayard and Beck from the Senate, and Kelly, Mr. Kinley, Haskell, Randall, and Carlisle from the House.”

These comments of Rep. Morrison furnish a fair sample of the work of that conference committee and of the result of its labors as shown in the Bill of 1883. There were some few reductions of duties by that Bill, notably the duty on woolens the latter of which was not reduced to the point which would permit importation and therefore was left, & still remains, prohibitory. There was some reduction in the duty on pig iron and considerable reduction on steel rails and copper; but of the general details of the act of 1883, it can best be described as a half-hearted and unsuccessful attempt on the part of protectionists to bring about a Tariff Reform and on the whole the changes made were not of enough importance to affect the essential character of the tariff system which has been handed down to us from the war; and therefore the student of political economy in this country and the tariff reformer when they approach our present system and ask that it be changed, should always bear in mind the most important fact which I can only reiterate in closing, that our so-called system is no system at all. The good system implies deliberation and

well-defined course of action. Our present tariff is a hotch potch being the remains of a hastily devised scheme for raising revenue during the war, and shorn of all its revenue-raising properties. It now remains as a dreadful example of what the American Congress will do or will permit to be done thro' it by a determined band of lobbyists.

Charles B Wilby

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