**Tariff Policies**

A **tariff** is a tax on imports or exports between sovereign states. ... **Tariffs** can be fixed (a constant sum per unit of imported goods or a percentage of the price) or variable (the amount varies according to the price). Taxing imports means people are less likely to buy them as they become more expensive.

Who pays for tariffs? The United States imposes **tariffs** (customs duties) on imports of goods. The duty is levied at the time of import and is **paid** by the importer of record.

(It is **not** the nation shipping the goods.)

**Tariff Structure, 1789-1857**

1789 8½ %

1816 35%

1824 37 – 41 %

1828 44% - Tariff of abominations

1832 35 – 40%

1833 Compromise Tariff; reduction to 20%

1842 35 – 40%

1846 25%

1857 20%

A tariff amounts to a tax on imports. Tariffs have been far more important in the history than they are at present. At one time they provided the bulk of the federal government’s income. Nowadays, we do not look upon the tariff as a big revenue producer.

Historically, tariffs have had two principal purposes: (1) to obtain revenue (2) to provide protection from foreign competition. Actually most of the tariffs have combined these two factors--they have both brought in revenue and protected domestic businesses.

Our first tariff was passed in the first year of the nation's history--1789. The first tariff was designed to produce revenues for the federal government--that is, to be low enough to encourage the importation of foreign goods in quantity. But it also had mild protective features. The first tariff also revealed a characteristic of tariff policy-- the pull of local interests. Each section of the country naturally has wanted protection on what it produced and cheap rates on what it imported. New England, for example, wanted a high tariff on rum which it produced and a low tariff on sugar, which it imported. There usually was nothing scientific about establishing tariff policy. In fact such policy was at the mercy of the politicians who all too frequently ganged up on consumers in behalf of special interests.

Up to the 1820s the proponents of high tariffs generally based their argument on the need to protect infant industries. European industries, so this argument ran, already were well developed. Our own new and struggling industries didn't have a chance with this entrenched competition unless shielded by tariff legislation. Therefore, said tariff proponents, imports should be heavily taxed until domestic industries could stand on their own feet. The trouble was, even after infant industries became powerful adults, they still insisted on tariffs--in order to maintain the profit structure to which they had become accustomed.

Another argument in support of high tariffs, used from early in the history until recent years is the higher wage argument. This thesis maintained that a protective tariff was necessary to preserve high wages in America--which we would have to reduce wages to European and Asian levels if we competed with foreign manufacturers based on free trade or something akin to it. This argument has been used by both employers and employees. Historically, this argument at times ignored the productivity factor--the fact that the productivity was greater than that in many foreign countries. Today, of course, productivity is as great or greater in many other nations as it is here. At any rate, the higher wage argument--having the support of both management and labor--is one that naturally has struck a responsive chord among legislatures.

After 1816, the tariff took on a decidedly protective tinge, in an effort to assist new industries, which had developed during the War of 1812. There was a feeling that these industries might be needed again in the event of another war. Therefore they should be protected from the dumping of goods in America by the British and others. All sections of the country agreed on the need to protect the infant industries, including the South. John C. Calhoun, of South Carolina, in fact, was a vigorous supporter of a higher tariff in the national interest. But the year 1816 was the last time the South would support a high tariff. From then on, it advocated lower, or no tariffs.

By the 1820s sectional feeling on tariffs had congealed, and tariff-making became a study in sectional politics. The East, anxious to protect industry, favored high tariffs. The South, on the other hand, protested strongly against protectionism. Why? Because the South was an agricultural area. I t had to buy almost all of its manufactured goods from abroad or from protected Northern industries. Either way, a high tariff meant higher prices on manufactured goods. Southerners also feared that high tariffs would cut down on English exports to the U.S. If this happened, the English might import less from the U.S. The South stood to suffer if England couldn't earn dollars to buy Southern cotton. Before the Civil War cotton was England's greatest import as well as the South's greatest export. But if England got short on dollars, she would look around for other sources of cotton. So the South, traditionally, said that she paid for any high tariff, while the North got the benefits of it.

The South, however, was outnumbered in Washington, and Congress in 1824 and again in 1828 raised the tariff to new heights. The South was furious over the increase in tariff levels, and it was all that Calhoun could do after passage of the so-called Tariff of Abominations of 1828 to keep tempers in check. Calhoun's home state, South Carolina, was so embittered that it threatened to declare the tariff null and void. Calhoun prevented any such drastic action in 1828, while expressing hope that the next tariff enactment would provide adjustments favorable to the South. But the Tariff of 1832, although it slightly scaled down rates, was unsatisfactory to the South. Accordingly, South Carolina not only threatened to nullify the tariff, but to secede from the Union. The state figured that the President, Andrew Jackson, would be sympathetic toward its plans because he was of Southern origin--a Tennessean.

As it turned out, South Carolina misjudged its man. Jackson had not taken a personal stand with respect to the Tariff of 1828, nor had he been personally involved in the Tariff of 1832. He was content to leave matters to Congress. However, when he learned of South Carolina's threats to nullify the tariff and secede from the Union, he was aroused and strongly indicated that he would use force to preserve the tariff and keep the state under control if that became necessary. Its bluff called, South Carolina didn't dare move--and at this point, Henry Clay, the great compromiser, worked out a deal. The perfect middleman, Clay was from a slave state, Kentucky, yet was a strong believer in the Union and an exponent of a high tariff. He proposed and pushed through Congress an acceptable settlement, the Tariff of 1833, which provided a gradual reduction of the tariff to a 20 percent level over a 10-year period. In 1842, however, when the Whigs and protectionists regained control of the government, the agreement was scrapped, and the tariff was raised again. But the Democrats soon regained control and eased the tariffs to the time of the Civil War. By 1857 tariffs averaged 20 percent of dutiable imports and 15 percent of the value of all imports--levels with only moderate protective significance. Just before the Civil War, it appeared that the U.S. might join Great Britain as a free trade country. The Civil War put a stop to any move of this kind, as we shall see later.

As to the effect of tariffs upon the American economy prior to the Civil War, it's generally agreed that their protective features encouraged and strengthened many industries, especially the large cotton and woolen textile industries. On the other hand, the tariffs are believed to have retarded the development of the iron industry. High tariffs sheltered the iron manufacturers from the competition of the British, so, as a result, we weren't pushed to develop a full-blown iron industry until a decade or so before the Civil War. It's also generally believed that the dollar value of the foreign commerce was reduced by tariffs. This stands to reason. Almost any kind of a tariff barrier tends to cut down imports. Summing up there's little doubt that the pre-Civil War tariff structure encouraged manufacturers and investors to pursue lines of business that they otherwise might have avoided. So in this sense the tariff structure, with a few exceptions, aided the expansion of American industry, the rise of American industry, during the pre-Civil War period.

***Averages on dutiable goods during the period 1864-1913***

1864 47%

1883 42 – 43% (“Mongrel” Tariff)

1890 49.5% (McKinley Tariff)

1894 40% (Wilson-Gorman Tariff)

1897 57% (Dingley Tariff)

1909 40% (Payne-Aldrich Tariff)

1913 30% (Underwood Tariff)

2019 25% (Trump)

As you'll recall, the U.S. in 1857 had reduced its tariff rates to a level of about 20%. During the Civil War, however, industrialists pushed the tariff from the 20 percent level to a 47 percent peak. In pushing for higher wartime tariffs, industrialists argued that the increases would be only temporary. They maintained, with some justification, that since they were paying higher taxes they needed added protection against foreign competition. Also, they argued that a higher tariff would increase the amount of revenue needed to fight the war. The Tariff Bill of 1864 frankly made tariffs as highly protective as any manufacturer deemed necessary. If any interest was slighted, it was merely because there was no spokesman in Washington to present its claims. Almost needless to say, the higher so-called temporary tariffs took on permanence after the war; and, the tariff structure did not materially change until the 20th century.

Several arguments were used in support of high tariffs during the four decades or so after the Civil War. One was the old infant industries argument, which dated to the founding of the nation. Such new industries as the silk and tin plate industries advanced the idea that they could not survive without heavy protection. Another argument, which increasingly picked up steam after the Civil War, was the higher wages argument. Both industrialists and labor unions argued that a high tariff was necessary to keep American wages from falling to the lower level of European and Asian wage earners. I n other words, so this reasoning went, if the manufacturers were not protected, they'd have to reduce their wage rates to the level of foreign competitors in order to compete successfully with them. The flaw in this reasoning was that it did not take productivity into account. In this respect, the U.S. in general was far ahead of most other countries by the turn of the century. It was true that a reduction in tariffs would have adversely affected a few industries, but the amount of business and number of workers affected would have been small. The national defense argument also began to be heard around the turn of the century, as the U.S. began to move more onto the world stage. The idea was that certain industries--zinc and lead mining, for example--had to be protected and kept healthy if they were to contribute to national defense during an emergency. Finally, the proponents of high tariffs never let anyone forget that the tariff was the chief source of revenue until a personal income tax amendment to the Constitution was passed in 1913. Most critics of the tariff, on the other hand, were not pro free trade. They were for tariff reform, but not for the complete elimination of the tariff. Most of the tariff critics realized that any adjustments had to be gradual, if certain firms and workers weren't to be hurt by reform.

The chief sectional opponent of the tariff continued to be the agricultural South. The South remained anti-high tariff until the post-World War II era. As for the political parties, the Republicans traditionally have championed protection. The Democrats, historically, at least if you judge them by their party platforms, have seemed to be for tariff reduction--for a revenue tariff instead of a protectionist tariff. But the Democrats often were split on the tariff question, and the protectionists within the Democratic ranks frequently would gang up with the GOP to prevent moderation.

As noted earlier, there was nothing scientific about the way tariffs were constructed. They were determined by lobbying and a logrolling, with rate schedules not necessarily related to other schedules. For the most part, tariff lobbies traditionally were the most notorious on Capitol Hill. Usually the lobbyists focused on the Senate, since it had fewer people to influence. The Senate, also, down to World War I, was more sensitive to special privileges. Until1913 members were not elected by the people, but by state legislators, many of whom could be bought. As a result, the Senate often was referred to as a "millionaires club," because so many of its members were millionaires who had bought their way into office.

The power of lobbyists was demonstrated repeatedly. During Cleveland's administration, in 1894, the House came close to embodying the President's wishes for tariff reform. But then the lobbyists went to work on the Senate, and the result was 634 amendments. As a consequence, the tariff act in question, the Wilson-Gorman Act, reduced tariffs very little. In 1909, Republican President Taft was placed in almost the same situation. In 1908, the GOP, for a change, had advocated tariff reduction in its party platform. Taft took the platform seriously, and got the House to reduce tariff rates. But the Payne-Aldrich Bill of 1909 emerged from the Senate with 847 amendments. This Act did reduce the general tariff level, but didn't affect major items and was regarded by reform advocates as a sellout.

Protectionists, as we've seen, were in the saddle throughout the last four decades of the 19th century. But as the 20th century opened and the progressive movement gathered steam, opposition to extremely high tariffs increased. Some manufacturers, especially those who had to import such raw materials as silk and rubber, began to feel that the tariff was a handicap to them--that high tariffs increased their costs and prices. Also, as manufacturers became more conscious of the export market, they began to see that the tariff worked two ways-- that if we maintained a high tariff, other countries felt justified in placing high rates on the products too. The rapidly developing auto industry, for example, had little desire to see high tariff rates in this country. This industry believed that it could handle foreign competition in the U.S. and wanted only the opportunity to compete on fairly even terms abroad. American farmers also were increasingly bothered by the high tariff structure. They were producing and exporting more, and were sensitive to retaliatory tariffs overseas.

The Progressive movement was gathering strength at a time when the tariff was at an all-time high--57 percent-- and also at a time when the consolidation movement in industry was at its peak. Many reformers, looking at the trusts and at the high tariffs which they felt the trusts fostered, said that both forms of special privilege had to be eradicated. Even the Republicans, under Roosevelt and Taft, thought that some sort of tariff reform was needed, and, in 1909, as mentioned before, they passed the Payne-Aldrich Act. This tariff wasn't what the platform had promised, but was an improvement over the Dingley Tariff. Wilson was a strong advocate of tariff reform, and backed the Underwood Bill of 1913 to the fullest. The pattern was a familiar one, up to a point. The Administration-sponsored bill emerged from the House as Wilson wanted it, but then the lobbyists descended upon the Senate. Wilson met them head on, savagely attacking the lobbyists and warning the Senate that it should not play ball with them. The Senators became so concerned about not making it appear that they were in the hands of the lobbyists that, miraculously, they passed a tariff bill that was even lower than the one passed by the House. The Underwood Tariff was a true reform measure in that it cut rates on key items. It even put on the free list such products as wool, sugar, iron ore, coal and lumber. But the Underwood Tariff had no chance to prove itself. World War I came along and normal trade patterns were disrupted. The GOP returned to power with Harding in 1921, and a high tariff was reinstituted during his administration and maintained until the New Deal period.

It may be added that there was a relationship between the tariff and taxes during the period 1894 to 1913. The Wilson-Gorman Act of 1894 included an income tax, the first in peacetime (we had had one during the Civil War). The 1894 tax was a flat 2 percent on all incomes over $4,000. This tax was opposed by well-to-do people and others less because of the 2 percent tax than because of the principle involved--the idea that if the government could tax people 2 percent, it could also tax them more and eventually plunder wealth. As things worked out, the Supreme Court threw out the tax in the Wilson-Gorman tariff as unconstitutional. In order for Congress to pass an income tax, we had to have the 16th Amendment. This amendment was adopted just in time to permit an income tax to be incorporated in the Underwood Tariff of 1913. The Underwood tax provision differed from the earlier flat tax in that it was graduated. The tax ranged up to 7 percent on incomes over $500,000, and of course this tax got to be a big revenue producer. During this same period, corporations also were taxed on their income. A corporation tax of 1 percent was tied into the Payne-Aldrich Tariff of 1909. This tax was increased steadily starting with the entry into World War I.

Up to World War I, this nation had had a series of crazy-quilt tariffs. After the war, we couldn't afford the luxury of such tariffs. From this point on, we were a creditor nation instead of a debtor nation. Although this fact indicated that we should import more--and reduce tariffs--we were unwilling to face up to such changes until the 1930s. About the only positive step prior to the New Deal was the establishment of a Tariff Commission in 1916. However, this Commission could investigate and make recommendations, but had no power to set rates. Thus its effectiveness was limited.

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Reuters Business News, January 9, 2020 reported: Tariffs imposed by President Donald Trump to restructure the United States’ top trade relationships have cost American companies $46 billion since February 2018, and U.S. exports of goods hit by retaliatory tariffs have fallen sharply, according to an analysis of Commerce Department data.

Exports of U.S. goods hit by retaliatory tariffs from China and other countries fell by 23% in the 12 months ended November, compared with 2017, before the tariffs began, the analysis showed. Even when retaliatory tariffs have ended, those exports haven't bounced back, said Trade Partnership Vice President Dan Anthony.