Donald Trump and the history of tariffs and trade

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The 2016 elections focused more on U.S. international trade than any presidential election since 1992, particularly due to the criticisms that Bernie Sanders and Donald Trump expressed toward free trade policies and key U.S. trade agreements. Trump's candidacy also brought renewed consideration to the historically Republican use of protectionist tariffs as a means to aid American business and manufacturing.

Prior to winning the election, Trump proposed several trade policies as part of his "Contract with the American Voter"—his original 100 Days Plan—including a proposal to renegotiate or to withdraw fromthe North American Free Trade Agreement (NAFTA) of 1994, to withdraw from the Trans-Pacific Partnership (TPP), and to establish tariffs to end offshoring. Trump described these actions as aimed "to protect American workers."

Now President-elect Trump, as CNN reports, will begin the process of reshaping America's trade policy"on Day 1 of his administration," according to a memo drafted by his transition team. For instance, Trump's team has discussed a proposal to impose tariffs as high as 10 percent on imports, which could be implemented via executive action or as part of a tax reform package pushed through Congress. Trump's Chief of Staff Reince Priebus also proposed a 5 percent tariff on imports.

But what will higher tariffs mean for the U.S. economy? Is there any historical precedent for what Trump is proposing? A brief review of the history of tariffs and trade in the United States might help to put Trump's tariff proposals in perspective.

History of protectionism

The origins of instituting higher domestic tariff rates to ensure "home market" growth of industry can be traced back to Alexander Hamilton. Hamilton's *Report on Manufactures* (1791), drafted while he served as the nation's first Treasury Secretary, summarized for Congress methods to improve U.S. manufacturing. Hamilton argued for "protective duties" on foreign imports (except certain raw materials) to enable U.S. manufacturers to "undersell their foreign competition" and to raise national revenue; prohibitions on certain exports to ensure a cheap domestic supply, with losses offset by a steadier, more extensive home market; government-funded bounties (or subsidies) to promote production; and lowered duties on certain raw materials used in domestic manufacturing, like wood, copper, cotton, and silk.

Hamilton offered theoretical justifications for protecting manufacturing as an economic philosophy, countering Jeffersonian arguments that agricultural development was the ultimate source of wealth; instead, manufacturing—which could increase productivity, improve agriculture, and diversify employment—should be protected and encouraged, he argued. As Dartmouth economist Douglas Irwin writes, "To this day, the report is often heralded as the quintessential American statement against the laissez-faire doctrine of free trade and for activist government policies—including protectionist tariffs—to promote industrialization."

Hamilton, however, was skeptical of "exorbitant" tariffs that could grant to manufacturing "a premature monopoly of the markets" and even "beget a general spirit of smuggling." Hamilton's failure to embrace a high protectionist tariff ironically led import-competing manufacturers to align with the Jeffersonian Republicans, who were more inclined to enact harsher tariffs. (As President, Jefferson even enacted a disastrously strict embargo against England and suspended trade with Europe.) Yet over time, even Jefferson changed his mind on manufacturing. In 1816, he wrote to Benjamin Austin: "We must now place the manufacturer by the side of the agriculturist. . . . Shall we make our own comforts or go without them at the will of a foreign nation? He, therefore, who is now against domestic manufacture must be for reducing us either to dependence on that foreign nation or to be clothed in skins and to live like wild beasts in dens and caverns. I am not one of these." As Jefferson recognized, the United States was a manufacturing nation, and its tariff and trade policies affecting manufacturing interests were intricately intertwined with the future and success of the American economy.

Congress passed the first protective tariff in 1789, placing a 5 percent tax placed on most imported goods. From 1790-92, subsequent Acts raised rates to as high as 15 percent, yet (in the absence of a federal income tax) were mostly aimed at raising revenue. But in 1816 Congress adopted an explicitly protectionist tariff, with rates between 25-30 percent. Protectionism peaked in 1828 with the so-called Tariff of Abominations, under which average tariff rates rose to nearly 49 percent. This precipitated the Nullification Crisis and foreshadowed Southern secession, leading to the Civil War.

By 1857, tariffs were down again, to around 20 percent; yet protectionists—culminating in the Republican "Standpatters" of President William Howard Taft's day—wanted to keep tariffs high. The Hamiltonian emphasis on moderate duties to encourage, but not protect, domestic producers, served the interests of port-city merchants, but did not meet the demands of domestic manufacturers who wanted to shut the door on foreign imports. As Paul Wolman explains in *Most Favored Nation: The Republican Revisionists and U.S. Tariff Policy*, protectionists further argued that the size and value of the U.S. market justified higher foreign rates, and warned that too-low rates would encourage the growth of "cheap labor" in Europe and would hurt the U.S. market in the long run. As steel, oil, and other Northern and Midwestern industries demanded protection, protectionism would come to dominate most of the Republican Party and its policies. Over time, U.S. industries like steel and oil soared; U.S. Steel became the first billion-dollar company in the United States.

Rates were finally lowered under President Woodrow Wilson's Underwood Tariff of 1913, yet raised again by the infamous Smoot-Hawley tariff of 1930, "the last outrage inflicted by the Republican protectionists," which raised rates on imports to their highest levels in over 100 years as a response to the Great Depression. Yetthis led to retaliatory tariffs by major U.S. trade partners, which restricted trade and contributed to prolonged effects of the depression. As a report by the CATO Institute notes, "the memory of the Smoot-Hawley tariff has kept Americans committed to a free-trade policy"—at least until recently.

From revisionism to free trade

Tariff revisionists who fought the protectionists for lower rates came from variety of businesses, organizations, and political parties—from conservative Democrats to progressive Republicans. At the beginning, revisionists did not go so far as to advocate free trade, as some Democrats did, but instead focused on moving away from high protectionism to reduce, but not eliminate, tariffs. They argued that U.S. manufacturing had already passed through its "infancy" stage and no longer needed absolute protection—what was more important was strengthening the growing European and American market interdependence. Soon, political leaders began to agree that the United States needed lower rates in order to maintain its industrial and financial growth, as many European states began to enact "open door" trading policies across the world. The protectionist tendencies of U.S. businesses increasingly conflicted with the expanding and increasingly complex international economy: If the United States did not keep up by adjusting some rates downward, it would be left out.

Eventually, as U.S. corporations realized the virtue of the global economy—and the potential for the nation to become the world's dominant economic power, perhaps even empire—they too leaned toward reductionism and freer trade policies. Consumers would join the fight for revisionism as well, as they often paid the price for protectionism. High tariff walls both increased the price of imported goods as well as enabled domestic manufacturers to charge higher prices—creating an artificial price "floor"—without fear of foreign competition lowering prices in the U.S. marketplace. Tariff reductionism gave way to a stronger free-trade consensus, which led to modern free trade bilateral and multilateral agreements, such as the North American Free Trade Agreement (NAFTA) that abolished tariffs between the United States, Canada, and Mexico.

Trump's Protectionism revival

President-elect Trump has pledged to raise tariffs to protect domestic manufacturing jobs and to punish U.S. businesses that offshore jobs for cheaper labor. Thoughthere are limited ways that Trump could alter tariffs himself, as well as unilaterally withdraw from trade agreements like NAFTA, under Article 1, Section 8 of the Constitution, comprehensive tariff reform may require congressional action.

Some commentators point out that Trump's brand of protectionism may result in businesses bringing "extra-economic considerations to bear on their decisions about when and how to downsize, lay off workers, outsource jobs, and make other communally disruptive changes," and thereby decide to keep U.S. manufacturing jobs. Others argue that bringing back higher protective tariffs won't result in more jobs, because rising productivity and technological advancements are the real cause of job loss in manufacturing, regardless of what trade barriers may be in effect.

By the same token, other economists argue that although free trade creates wealth, it also does not necessarily create jobs—it instead "creates income for the community by reallocating jobs and capital from lower-productivity to higher-productivity sectors of the economy." So free trade may reduce domestic labor-intensive manufacturing or textile jobs, but may breed more technical jobs in electronics, for instance, where skilled employees may have a "comparative advantage."

But Trump seems committed to pursuing a protectionist agenda—evidenced by his nomination of protectionist Robert Lighthizer for U.S. Trade Representative. Yet this may put Trump further at odds with the pro-trade wing of the Republican Party.

Democratic President Grover Cleveland in 1894 tread dangerous ground by taking up the tariff battle. The resulting Wilson-Gorman bill failed to satisfy western agrarian interests, and the struggle split the Democratic Party; after its defeat in 1896, it would not come back into power until the election of 1912. President William Howard Taft decided to take on the tariff issue again in 1909, something that even his ordinarily-combative predecessor, Teddy Roosevelt, had hesitated to do as Roosevelt was aware that a tariff battle could divide the Republican Party. Indeed, the Republican Party did split over the Payne-Aldrich Tariff of 1909, which helped lead to Democratic wins in the 1910 and 1912 elections.

As the protectionist House speaker "Uncle Joe" Cannon once observed: "No matter how great an improvement the new tariff may be, it almost always results in the party in power losing the election." If Trump indeed decides to take up tariff revision, he and the Republican Party may be treading historically fraught ground, and will test whether Cannon's thesis rings true.