

## **A Commentary on Peter Bent's 'The Political Power of Economic Ideas: Protectionism in Turn of the Century America'**

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Peter Bent's paper 'The Political Power of Economic Ideas: Protectionism in Turn of the Century America' addresses an important question as to why the US in the late nineteenth and early twentieth century was still a champion of protectionism, and the role played by economic ideas in the outcome. Specifically, Bent focuses on the Dingley Act of 1897, which raised tariffs to unprecedented levels.

To know the reality of US trade policy in the past, the possible reasons for the trade policy stances of successive governments, and the economic arguments offered in support of their respective trade policy positions, are separate but overlapping issues that are of interest in their own right, but also of relevance for contemporary policy debates. In this regard, Bent's paper is to be commended for drawing our attention to the nature of the economic arguments deployed, and the forms of evidence used, in support of those positions. I say this even as I believe that he overestimates the role that economic ideas played in the eventual outcome; in other words, I would question his assertion that just because the US adopted the most protectionist policy in its own – admittedly protectionist – history, this indicates the victory of protectionist ideas. As the economic historian John Nye claims, when trying to understand the drivers of past policy 'political historians often overvalue the role of ideas in contrast to the more invisible, but longer term forces of economics and politics' (Nye, 2007, p. 110). That is not to say that ideas do not matter, they are indeed important (not least for propaganda purposes) but simply to question the view that they are all-determining in the policies adopted by governments. In this regard, I would also agree with Nye on the unique contribution of historical analysis to understanding past policies, to the extent that it attempts to reveal the constellation of interests, pressures and constraints, as well as economic ideas, that may have impelled governments to adopt the policies that they did. But, notwithstanding my quibble with Bent's view on how impactful economic ideas actually are on policy, I nevertheless applaud and appreciate what he has done in this paper and the seriously threatened tradition within which he is working.

Narrative accounts of economic events matter, not least today, where students of economics are woefully ignorant, not just of the history of their own discipline, but also of economic history. So just knowing that the US (which since post-World War II has been a champion of free trade), had a protectionist history can be revealing to many economists, reared as they have been on static models which assert (as a scientific principle) the universal benefits of free trade.<sup>1</sup>

Another reason why the protectionist stance of successive administrations in turn-of-the-century USA is of such interest is because at that period in its history, the US was already emerging as the world's most productive economy – hardly one whose domestic economic activity required protection from more competitive forces overseas. This reality was

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<sup>1</sup> See Bairoch (1993, p. 43) on his astonishment when discovering that those engaged in a contemporary debate on the merits of trade versus protectionism believed that the US had a free trade past.

not lost on many economists at that time, which made the logic of US policy harder to understand from the perspective of national economic interest. The Harvard economist Frank Taussig, when reviewing the 1897 Act, started his commentary by stating:

'Three or four years ago nothing seemed more improbable than the enactment of a measure affirming once more the principle of an all-embracing protection, and putting it into effect with a vigorous hand' (Taussig, 1897, p. 42).

Indeed, the protectionist policy stance of turn-of-the-century US administrations was viewed by some of its informed citizens as positively injurious to US interests, as another contributor to the debate at that time noted:

'...have we not reached a point in our industrial condition when it may have become a more important problem how to keep the door open for our exports to foreign countries than how to close the door to foreign imports?' (Atkinson, 1903, p. 281).

So, if it is a case of protectionist ideas winning the debate, as Bent implies, what can account for such seeming economic irrationality? Is it a case of applying Joan Robinson's verdict (on the case of free trade in Britain) to protectionism in the US; that is to say, that it was an ideology that had outlived its usefulness, but one that still had a grip on the public consciousness, proving that ideologies can be difficult to counter with reasoned debate and that it takes time to replace one ideology with another.<sup>2</sup> Or, were there other forces at work, that could help us understand why successive US administrations found it so difficult to reverse a policy that had served it so well in its past.

While Bent does supply some context to the Dingley Act, the main thrust of his paper is focused on exploring the economic concepts employed by different interested parties, as well as presumably more disinterested economists. But, in the spirit of what I already said, which is that ideas are not enough to explain the twists and turns of government economic policy, I believe that it is useful to supplement his account with more details of the economic and political situation at that time, as related primarily by Frank Taussig. While not disagreeing with Bent that Taussig was a prominent free-trade advocate (which would have coloured his view of events), he was, nevertheless, a very informed commentator – one who knew intimately the minutiae of tariff legislation and the political, electoral and fiscal constraints that inevitably impacted on the shape of policy. So, specifically, as regards the 1897 Act, while he agreed that '[it] was the outcome of an aggressive spirit of protection' he was more circumspect in attributing this position to the 'verdict of the people' (Taussig, 1909a, p. 358). Indeed he claimed that the Democratic victory of 1894 had more solid ground for maintaining that the 'popular verdict had been against high handed protection than the Republicans in 1897 that it had been in favor [sic] of such a policy' (p. 358). Also, Taussig does not go as far as Bent, who characterises the legislative record of the Democrats in the previous administration as 'free trade'. Rather for Taussig, the preceding administration had simply begun a policy of trade liberalisation, moreover he deemed 'most of the steps in this direction [to be] feeble and faltering' (p. 318). The single exception to his judgement that the previous

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<sup>2</sup> Joan Robinson was trying to explain why there had been such an outcry when Keynes turned apostate and argued for protection in Britain in the 1930s. Her conclusion was that the ideology of free trade (that served Britain so well in the nineteenth century) still reigned, despite the very different economic circumstances of the country, showing that an ideology can outlive its usefulness, as well pointing to the irrational element that is inherent in all ideologies (Robinson, 1962, p. 84).

Democratic party's legislative record on trade was 'anxiously conservative' was the decision to allow for 'the free admission of wool' (p. 321). All of the tentative steps in a liberalising direction that were adopted by the previous Democratic administration were reversed by the newly victorious Republican government. The starkest testament to this *volteface* was the Tariff Act of 1897, as introduced by Representative Dingley. Taussig, like Bent, acknowledged the importance of economic events in the Republican victory, namely the economic crisis that developed in the mid 1890s during the period of Democratic Party governance. However he denied that the Republican victory of 1896 reflected major public disillusionment with the policy of trade liberalisation. Instead, for him, the outcome of the 1896 election was fought and won on the question of monetary policy:

'Thus the election of 1896 turned on the question of the free coinage of silver. The popular verdict was clear on that question and that question only' (p. 322).<sup>3</sup>

Saying that, he still admitted the seeming inevitability of higher tariffs, given what he called the 'political complications of 1896-97', while maintaining at the same time that the Act of 1897 was excessive, even when judged by the political exigencies of the situation. This was so much the case that that it even disheartened those who supported the Republicans on the money issue (p. 358).

So if, according to Taussig, the move towards unprecedented protectionism was not wholly in keeping with the popular mood, what political forces could explain it? First, there was the complexion of the national legislature which, despite the Republican victory, did not give them free hand on 'either the tariff or currency' (Taussig, 1897, p. 44). Then there was the pressing issue of the Treasury deficit and urgent need for fiscal revenue (p. 45). So in 1897, the newly elected President, William McKinley, asked Congress to deal solely with import duties and fiscal revenue (p. 45). For Taussig, the issue of government finance should have been separate from that of industrial policy, even as he admitted that they were historically intertwined, both in the US and in most countries (p. 45). Later he supplied details of the extent of the fiscal crisis, which had been ongoing since 1894, which, for him, fundamentally reflected the inadequacy of federal legislation for the collection of fiscal revenue and, consequently, the over reliance on customs tariffs for revenue purposes. Nonetheless, the political debate on the issue of fiscal revenue was (inevitably) partisan, with Republicans attributing the federal deficit to the trade liberalising legislation of the previous Democratic administration (Taussig, 1909a, p. 325). A feature of the 1897 Act that may seem surprising was the measure that restored duty on the importation of raw wool, ostensibly against the economic interests of wool manufacturers, a group favoured by the Republicans. Taussig's explanation was the Republican government's need to placate Senators from the far western ranching States, who held the balance of power. They did so by re-imposing duties on raw wool, which directly benefited the farmer (Taussig, 1897, p. 50). Of course, this inevitably led to escalating tariffs on manufactured woollen goods in order to compensate manufacturers for the increased cost of the raw material. According to Wright (1905, pp. 62425), wool manufacturers, though aware of the cost to them of increased duties on raw wool, consented (though not all) to this measure out of political necessity, feeling that it was the only hope they had of getting increased protection for their goods. And he claims that they

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<sup>3</sup> The Democratic Party was seen as the silver party, or the party of cheap money, which best represented the economic interests of farmers and debtors. The Republicans were on the other side of the debate.

were not disappointed in the outcome, admitting that the Dingley Act offered them more protection than any previous tariff (p. 626).

So this reading of the reasons for the Dingley Act and its exact nature, would, in my view, place the emphasis on the government revenue crisis (and limited instruments for raising taxes), the complex character of the legislature, as well as what Taussig refers to as the 'old predilection' of the Republicans for protection.

Taussig, when trying to understand why US protectionism persisted for so long, went so far as to say that it was not the product of deliberate choice. He was not talking about the whole history of US protectionism, but what he called the extreme and intolerant protection that existed in turn of the century USA.<sup>4</sup> In his address to the American Economics Association in 1905, he attributed it to historical accident, by which he meant the Civil War which lasted from 1861 to 1865 (Taussig, 1905, p. 62). For him, the revenue exigencies of the Civil War resulted in very high tariffs and these were maintained afterwards because of:

'... custom and iteration ... The industries of the country have become habituated to it; and what is no less important, public feeling has become habituated to it' (pp. 62-63).

He compared protectionism in the US, and its public support, to free trade in England, in terms of being 'accepted doctrines' which gained extra hold because of the concomitant material prosperity that these countries enjoyed. For Taussig it was clearly a case of *post hoc ergo propter hoc*, and he felt that change in the legislation was not likely until that correspondence was broken (p. 63). He reiterated this point when talking about the Tariff Act of 1909, claiming that populations' thoughts become habituated to the legislative *status quo*, which he found to be, not only natural, but sensible (Taussig, 1909b, p. 8). The upshot of this is that abrupt policy shifts are both inexpedient and politically impossible, so that change has to happen in gradual steps. Yet, Taussig also explained the protectionist bias of US legislation at that time, as being a product of the US government structure, where the US Senate exercised greater power than the House, due to its smaller size and longer term. That the US Senate had a protectionist orientation was due to the greater subservience of the Senators to monied interest, and the unique representative nature of the Senate, where thinly populated States had disproportionate power (pp. 16-17). While he did not label this exercise of power as deliberate corruption, '... since there is no ground for suspecting anything more than direct contributions to party chests' (p. 32), he nevertheless alleged that the outcome was much the same as if there had been corruption.

When discussing the economic concepts deployed by protectionist politicians, Bent highlights that the Republican Party was seen as the party of US business interests, which, despite the rhetoric of free enterprise, believed that government should attend to the economic interests of industrialists. Even if US industry was more competitive than the international competition (as many economists at that time asserted), it would still have made sense for the Republican Party to champion protectionism – as long as it perceived that its business constituency was best served by this policy stance. This would have been the case if US industry made the most of its profits from supplying the US domestic market. In such a scenario, any policy measures that limited international competition enhanced those profits. But US business practices were, at that time, in the process of change, as US industrialists started selling more to overseas markets. Protectionism could hardly have served their

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<sup>4</sup> Taussig (despite rejecting a universal argument for infant industry protection) does say that it is his belief that manufactures in the USA were advantageously promoted by restrictions on imports in the *early years* of the nineteenth century (Taussig, 1905, p.50).

business interests. What can explain their lack of political influence? Were they unaware of the policy stance that best served them? Were they insufficiently organised politically? Or was it still the case that the international market was less important to US business interests than the domestic one? Whatever the reason, one can only presume that the Republican Party must have been still catering to its predominant power base by adopting protectionist, rather than liberal, trade policies.

The prominence given to the government's role (obligation?) in imparting confidence to the business community is an interesting and important point, anticipating Keynes' emphasis on animal spirits as a key driver of economic activity. The importance of the revenue aspect of the Dingley Act has already been discussed, but I was struck by Bent's view that its quantitative estimation of expected tariff revenue was a (rare) example of a politician working through ideas in a rigorous way. For Taussig, the confidence with which Representative Dingley forecast the expected revenue yield from the legislation was misplaced, indeed he viewed all such predictions as little better than guesswork. His reasoning was simple, which was that dutiable imports fluctuated too much and too unexpectedly to provide any stable basis for such precise prophecies (Taussig, 1897, p. 67). But, the salient point, which resonates especially today, is that the quantification of social phenomena and quantitative predictions of related phenomena, while useful, need to be accompanied with an attendant social health warning, as all too often they are complicit in creating a dangerous illusion of precision and control.

As Bent says, the woollen industry was a powerful and politically active one, which had pushed for more protection against imported products. But, they exhibited their social responsibility by calling for stable, not prohibitively high tariffs. Their rhetorical restraint may also have reflected the heterogeneous nature of the woollen industry (including farming), and a realisation that there were upper limits to the price of wool and woollen products. The complex situation facing those in the woollen industry was elaborated on by both Taussig and Wright, with the former citing directly a formal communication from the Wool Manufacturers to the Ways and Means Committee on the rationale for their demands, which made reference to the heterogeneity of production conditions within the US (p. 49, footnote). For Wright (1905, p. 628), there was an upper limit to price that the wool tariff could effect, given the input needs of manufacturers and domestic supply constraints. Nevertheless, Taussig (1897, p. 52) estimated that the Dingley Act of 1897 pushed the effective net rate of protection of the woollen sector to an unprecedented 55 percent.

Bent mentions how the National Association of Wool Manufacturers defended their case for protection on the grounds that reduced uncertainty enabled them to make better business decisions, as well invoking the high wage argument. This was undoubtedly a clever (and still much used) tactic, to claim that legislative measures were not just in the interests of those lobbying for them, but also in the broader social interest. The case that they made seemed both reasonable and temperate; saying that tariffs facilitated the payment of higher wages, while not being wholly responsible for them. Of course, it was precisely the kind of argument that enraged Taussig, who while acknowledging its popular force, designated it 'claptrap' and furthermore asserted that most economists were in broad agreement with his position (Taussig, 1905, p. 35). For Taussig, the fundamental cause of high wages is labour productivity, which combines the benefits of high wages with low prices.<sup>5</sup> By contrast,

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<sup>5</sup> This is still an article of faith among his neoclassical descendents. For example, Paul Krugman rubbished the concept of unfair or exploitative trade by invoking essentially the same argument; that is to say that it is average productivity in a country that determines aggregate wage levels. Or as he pithily put it referring to currently low paid labour in developing countries 'if they achieve Western productivity, they will be paid Western wages' (Krugman, 1998, p. 30).



maintaining high wages in a sector through protection, has the attendant ill of high domestic prices and the misallocation of resources (pp. 36-37).

As far as the views of economists are concerned, Bent alleges that economists fell on both sides of the free-trade versus protectionism debate, with many taking an intermediate position of favouring protection of certain sectors and free trade in other sectors. He correctly cites Frank Taussig as the most prominent of the free-trade advocates and one whose discussion was primarily theoretical. By contrast, according to Bent, most other economic studies at that time tended to be resolutely empirical, often concentrating on the effects of trade policy on particular sectors and regions. Because of the challenges posed by inadequate national data, these empirical studies were usually of a case study nature, which inevitably intertwined qualitative analysis with quantitative evidence to back their claims. Taussig's theoretical exposition on trade was dismissive of most of the arguments of the protectionists, even as he acknowledged the real challenges posed by competition induced reallocation of resources, and the tendency of free traders to minimise this uncomfortable reality (Taussig, 1905, p. 37). The only concession that Taussig would make to protectionist claims was the infant industry argument, and even then he was reticent, asserting that it was not always successful, and that even where it seemed to have been successful, one could not preclude the possibility that other forces were responsible for a country's economically successful transformation (p. 49). He went so far as to allege that history showed, not only the insufficiency of the infant industry argument, but also its lack of necessity, in some instances. Essentially, for Taussig, the arguments for and against protection of young industries, could only be made inductively, on a case-by-case basis (p. 48). However, from his own inductive and historical research, he admitted that industry in the US had been facilitated by such a policy in the first half of the nineteenth century (p. 50).

The US economists whose names are synonymous with the American System (of which infant industry protection was such a prominent component), namely Alexander Hamilton and Henry Carey, argued for temporary protection until such time as industry reached its competitive maturity. Arguably, by the 1890s, much of US industry was mature enough to compete on the global stage, so this argument could no longer be invoked. So it is unsurprising that the argument for protection had to change, as it did, becoming one about workers' wages and the need to protect them from lower waged international competition. What is questionable is whether there were US economists invoking this argument. The evidence does not support this view.

Walker (1890), in his review of protection and protectionists in US history, made the well-worn point that there was no positive correlation between wages and cost of production, on the contrary, stressing that cost of production could be low when wages are high, and *viceversa*. He conceded that if a sector needed protection to defend its wage level, then it was so protected at 'the general charge' (p. 274), by which I take him to mean, at public expense. Certainly none of the economists' writings cited by Bent invoke the wage argument as an economic rationale for protection, on the contrary, when they do refer to it, they invariably do so in a dismissive fashion. Taussig's views on this matter have already been mentioned. Hess called the wages defence argument 'wearisome' citing the relevance of 'the cost of labour per unit of output' (Hess, 1911, p. 672). And Atkinson was beating from the same drum when he asserted that:

'It is now an accepted truth, axiom, or principle in economic science that, in all arts to which modern science, invention, and mechanism can be applied, the highest rates of wages or earnings are recovered or derived from the sale

of products made at the lowest cost of labor computed by the unit of product, either by the bushel, the pound, the ton, or the yard' (Atkinson, 1903, p. 281).

So it may be more accurate to attribute the high wage argument to industry appeals and Republican Party philosophy than to prevailing ideas among economists. This is the position of the economic historian Bairoch, who said that protectionism to safeguard American wage levels, was a central plank of Republican Party policy in the 1890s (Bairoch, 1993, p. 36).

So what were the arguments deployed by those economists who favoured protection, or some degree of protection? Bent claims that economists were on both sides of the protectionist debate, which I find to be a strong assertion in light of the evidence, as published in the predominant US economic journal at that time, the *Quarterly Journal of Economics*. Certainly Line (1912) comes across as the most protectionist of the economists cited, claiming that the removal of the duty on wool in the 1894 Tariff Act had had an adverse economic effect on sheep farmers in the North Western States of the US, and that it was only the anticipation of a reversal of this policy that enabled many farmers to survive. But Line also pointed to the decline of the industry in that region of the US, due to other forces at work, and doubted whether protection had any real impact on the process of change. Wright (1905), also acknowledged the assistance that tariffs provided to producers of raw wool, even as he felt that it was 'deceptive' (p. 645) in that the aid was less than one would expect given the size of the nominal tariff. Wright could be regarded as being less pro-protectionist than Line, to the extent that he did not believe such a policy could, King Canute style, hold back the other forces leading to the (inevitable) decline of the woollen sector. These forces that he identified were – improved global accessibility, changing demand patterns for textiles and alternative uses for land. The writings of Line and Wright have a distinct sectoral focus (albeit a sector with a lot of political clout) but Wright's geographical canvas was broader, in that he looked at the impact of policy on the wool industry across the whole of the US. This broader perspective, allied with the heterogeneous nature of US farming, may explain Wright's more pessimistic tone, when it comes to the efficacy of protectionism in assisting a sector.

Of the other economists mentioned by Bent, he put Hess (1911) on the free trade side of the debate, with most others occupying the middle ground between ardent free traders and realistic protectionists. But what is being discussed here are the arguments that they used, as no doubt, even free-trade advocates would not disagree that freer trade would be to the economic detriment of some sectors, even leading to their inevitable demise. The issue then became one of whether policy should be used to prevent the decline of certain sectors and the economic and social justification for such measures. Hess was as narrowly focused as Line and Wright, in looking at the impact of trade policy on the paper industry, even as he came down on of the liberal side of the protectionist controversy. He defended his stance by claiming that, in some instances, no amount of protection will save 'unsuitably located mills' (Hess, 1911, p. 681), but the more forceful part of his argument was that such a policy penalised the consumer and, above all, led to serious environmental damage. Bent points out that Hess also alluded to the emergence of a monopoly (paper trust) soon after the enactment of the 1897 tariff, and that this tendency was one that concerned some economists.

The *zeitgeist* at that time was to be increasingly critical of monopolies, which were an emerging phenomenon on the US economic landscape. For Taussig, the more critical public attitude had to do with the belief that domestic producers were making 'unreasonable profits' (Taussig (1909b, p. 7). This fed into the debate on protection at that time, to the extent that trade policy facilitated this process. Beardsley (1901) drew attention to the fact that most monopolies in the US were to be found in protected industries. He believed that so rapid had been the consolidation of industries in the sectors protected from foreign competition, that the

tariff issue needed to be reconsidered. So as far as US trade policy was concerned at that time, Beardsley was arguing for more trade liberalisation. But Bent is correct in saying that Beardsley was not anti-protection *per se*, only fearful that it could facilitate monopolisation of industry to the social detriment. He defended tariffs for uncompetitive US industries,

‘... if a protective tariff is to be maintained at all, those industries in which cost of production *for any reason* [my emphasis] are higher in this country than abroad furnish its proper field’ (Beardsley, 1901, p. 384).

This is, of course, straightforward protectionist sentiment of the sort that so depressed Taussig, since as he correctly said:

‘...any tariff so implemented as to equalise the cost of production between US producers and their international competitors would result in the complete stoppage of international trade’ (Taussig, 1909b, p. 2).

So Beardsley, notwithstanding his concerns with the particularity of US trade policy and its effect on the structure of industry, notwithstanding his call for more trade liberalisation, still articulated a protectionist argument that ran contrary to orthodox trade theory, as expressed, not just by British classical and neoclassical economists, but also by their mainstream American heirs, such as Taussig.

Also, as far as the dangers of monopolies were concerned, their existence could not be exclusively attributed to protectionist trade policy. Indeed, rather presciently, Beardsley acknowledged that ‘... international competition could lead to international combinations’ (Beardsley, 1901, p. 387). Likewise Commons (1892), whose views are of particular interest as one of the pioneers of the American Institutional School (natural heirs to the German Historical tradition), had an ambiguous view on protection, not least because he realised that different monopolies arose under different competitive conditions. For him, natural monopolies in agricultural land and transportation were facilitated by free trade. By contrast, other natural monopolies, in sources of raw materials and land used for manufacturing, benefited from protection to manufacturing. A common feature of all commercial regimes was that neither labour nor, what he referred to as free capital, ever gained. The beneficiaries were always different types of natural monopolies, by virtue of their ownership of scarce resources. From a policy perspective, he did not attach much significance to the free trade versus protectionist debate as he felt it was a side issue.

‘The controversy between protectionists and free traders is a matter of inferior significance. Whichever side wins, natural monopolies absorb the gain’ (Commons, 1892, p. 484).

Accordingly, given his social concerns, his primary policy recommendation was for a special tax on speculative holdings of scarce natural resources, allied with free trade in raw materials, whereas he remained silent of the issue to free trade or protectionism in manufactures.

Bent cites Atkinson (1903) as another example of an economist whose stance on trade policy was intermediate between the extremes of free trade and protection. I agree that Atkinson was not making a case for absolute free trade, but the tenor of his article was very much in a liberalising direction. In what was an impressive piece of empirical analysis, utilising country-wide census data, Atkinson attempted to show that a liberal trade regime would not have detrimental economic and social effects, in terms of its impact on employment.



'When the facts become established, the dread of business depression predicted, if any complete revision of the duties on imports is undertaken, may be wholly removed' (Atkinson, 1903, p. 282).

And later:

'I think it will prove impossible for any sincere student of the subject to designate one million persons, out of the twenty-nine now occupied for gain, whose industry would be seriously or adversely affected, even if all duties on foreign products of like kind were all at once removed – an act which no one proposes' (p. 292).

While he did allow for tariffs on what he deemed to be luxury goods, the thrust of his article was designed to show that the traded sector of US industry did not need protection, that much 'injudicious' protection hindered exports and that the bulk of the employed population were adversely affected by a policy stance that added to their cost of living.

Of course, empirical work like that of Wright, Hess, Beardsley and Atkinson did not address the essence of the free-trade argument, as articulated above all by Taussig, which was that free trade benefited countries independent of its impact on particular sectors. Whether a certain sector expanded or declined with the change to a liberal trading regime was neither here nor there. Free trade was considered an enlightened policy stance because of its expected impact on domestic resource utilisation and prices. The work of the aforementioned economists at that time was designed, to different degrees, to show that the US could withstand foreign competition, possibly even thrive from it, precisely because it had become such a productive, and consequently, competitive economy. The closest to an economy-wide analysis was the work of Atkinson, and his use of Census data was innovative as well as revealing.

Indeed, it could be considered a foretaste of the type of empirical economic analysis that was to come, even if his approach was static and he did not deploy statistical techniques. However, the accusation of Taussig, which was that such reasoning was effectively reflective of mercantilist thinking, is valid. That is not to say, however, that mercantilist reasoning is incorrect or 'crass' as Taussig (1909b, p.9) suggested. But it does leave us with the perennial question. Why was the US still defending and practising protectionist policies at a time in its economic history when it appeared to have no need to do so, according to either classical, neoclassical or mercantilist logic?

In this regard, a very interesting contributor to the debate was Powers (1899), who advanced a subtle but powerful argument on the determinants of US trade policy and reasons why he believed it was in the process of change. He spoke of the impact of the public mood, by which he meant the culture and ideas and temper of the nation. And he predicted that the US would move away from protectionism and towards free trade as the public mood was in the process of changing. For Powers, the protectionist stance of US trade policy for much of the 19<sup>th</sup> century was not due to the persuasiveness of the infant industry argument, nor that of the subsequent pauper labour argument (though he was not disparaging those arguments, simply claiming that they were irrelevant). Instead, he asserted that they were the outgrowth of unique special conditions of US post-independence history, such as the need for nation building and the creation of a national identity. (In this, he sounds remarkably like Taussig, in his reference to historical accident to explain US protectionism). But Powers goes further in his reference to national moods, which he acknowledged exasperated the economists but

which he claimed could be useful and necessary. For him economic arguments are a *product* of policy, not a *cause* (Powers, 1899, p. 372). So he predicted a change in the public mood more favourable to liberal trade, not least because of US military engagements with Spain and the Philippines at that time, which would change the national imagination. Also,

‘The very growth of foreign commerce itself, from whatever cause, tends to create powerful and organized interests, restive of commercial restraint and forming a hitherto lacking counterweight to the closely organized manufacturing interests which have so successfully supported the policy of protection’ (p. 376).

To my mind, Powers presents a very subtle and powerful argument about the development of national consciousness which can be deployed in favour of whatever particular policy stance is useful.

The intellectual arguments used to defend the protectionist *status quo* in turn-of-the-century USA were: confidence and/or reduction in uncertainty (by business and Republican politicians); the protection of wages of US labour (by business and Republican politicians); and the decline of certain sectors in the absence of protection (Line, 1912). Most economic commentators argued for reduced protectionism and increased trade liberalisation. As Bent correctly notes, most of these studies were empirical, frequently case studies, and their arguments ranged from: the inevitability of change which protectionism could not halt (Wright, 1905); sectoral gains and environmental benefits (Hess, 1911); reduction in monopoly power (Beardsely, 1901); and the competitive strength of the overall US economy (Atkinson, 1903). I agree with Bent that the most forceful advocate for the free trade position was Taussig, and that moreover, his arguments were primarily theoretical, even as he was acutely aware of the reality of the economic, political and legislative landscape. What is noteworthy about those economists whose empirical work supported greater trade liberalisation, is that they did not address the issue in terms that theoretical economists regarded as valid. So whether they called for greater liberalisation because, in their view, the US economy was competitive enough to prosper in such an environment, or conceded the protectionist case in instances where US sectors were insufficiently competitive (as did Beardsley, 1901), their implicit emphasis on competitiveness would have been rejected by contemporary neoclassical economists, as it was by Taussig. Almost all neoclassical economists, on both sides of the Atlantic, supported not just the policy of free trade, but the principle as well.

‘The essence of the doctrine of free trade is that *prima facie* international trade brings a gain, and that restrictions on it presumably bring a loss’ (Taussig, 1905, p. 65).

Neoclassical economists (then as now) defended free trade, as a beneficent doctrine with universal application, on the basis of the principle of comparative advantage. Since it was presumed that all countries had a comparative advantage in some sector, discussions on competitiveness were extraneous. A country would be competitive in sectors where it had a comparative advantage and uncompetitive in sectors where it had a comparative disadvantage. But the country as a whole would be economically richer if competitive forces (like free trade) resulted in an economic structure that reflected this imperative. Its resources would be put to the best possible use and consumers would have the benefit of low priced

imports. Those who questioned this principle were classed as not belonging to the neoclassical school.

This division among academic economists, which was generally influenced by their economic method, manifested itself in the UK (the home of Classical Political Economy) during the Tariff reform controversy of 1903.<sup>6</sup> Those economists who came out publicly in defence of free trade (to the extent of penning a letter to the *Times*) were invariably economic theorists, whereas those who favoured a return to tariffs were, by and large, economic historians. Taussig took issue with contemporary German economists (of the German Historical School) for their failure to accept established theory on the doctrine of free trade.

‘In their view there is no established theory and no reason for ascribing greater validity to the doctrine of free-trade than to that of protection. It is all a matter of advantage – or disadvantage in the given case’ (p. 57).

What upset Taussig about the position of the German Historical School (GHS) was that they denied the existence of established theory on economic matters and embraced a policy of relativism and opportunism when it came to a country’s trade policy stance. He attributed this unfortunate tendency to their intellectual deficiencies claiming that ‘On all such questions of principle, we often find a sad lack of clear-cut reasoning among our German colleagues’ (p. 57). Furthermore, ‘this defect does not show itself solely in the protective controversy. It appears in almost every part of the economic field, as soon as the more difficult problems are touched’ (pp. 57-58). For him such a tendency confirmed that they were writers of ‘... *the second rank*’ [my emphasis] (p. 58). I do not think that it is presumptuous to say that what made economists of the GHS second rank, in the eyes of Taussig was, not just their failure to theorise in the neoclassical manner, but their refusal to accept that, in economics, there was any established theory with [almost] universal applicability. Their form of scholarship was hampered by being too wedded to concrete facts.<sup>7</sup>

For the economists cited by Bent, who waded in on the free trade-protectionist debate, facts, both of a quantitative and qualitative nature, were a central part of their arguments. Most argued for a more liberal US trade policy regime on the basis of what they considered to be the reality of US competitiveness. For whatever reason (the compilation of vested interests, political constraints, fiscal issues, inertia, public mood), protectionism continued to be a feature of US trade policy. By contrast, after World War II, the US started to liberalise its trade and became a powerful vocal advocate for the merits of a free-trade policy. What can explain such a Pauline conversion? For some, it could be the changed nature of the political and social constraints that the US faced. Moreover (invoking the relativist logic of the GHS) such a conversion made sound economic sense, given the extent of US industrial supremacy after the war. However, there are those who would attribute the changed US policy stance to the triumph of sound economic ideas and improved economic methods, which must have eventually convinced legislators of the rightness and righteousness of free trade. Douglas Irwin is a case in point.

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<sup>6</sup> The Tariff reform controversy was a product of an unsuccessful campaign launched by Joseph Chamberlain (the Colonial Secretary in the government of the day) in 1903 to abandon Britain’s freetrade policy for a policy of imperial preference.

<sup>7</sup> Unsurprisingly, many years later a similar accusation of lacking theory and being obsessed with facts was levelled at American Institutional economists by their neoclassical peers. This was played out in tit-for-tat articles in the *American Economic Review*, which culminated in Friedman’s famous, and arguably influential, article that laid down methodological prescriptions for how economics should be practised (see Friedman, 1953).

'Free trade ... remains as sound as any proposition in economic theory which purports to have implications for economic policy is ever likely to be' (Irwin, 1996, p. 8).

And Irwin is not alone. Esteemed neoclassical economists from Paul Samuelson to Paul Krugman have vigorously defended what they believed to be the veracity of the principle underpinning the view that free trade is an unmitigated good for all [countries] concerned.

All of which brings me to the issue of economic method. A feature of economic analysis that Bent highlights was the ubiquity of case studies, not least because of a lack of national statistics. While he acknowledged that the lacuna of data inevitably constrained the focus of empirically-oriented economists, he nevertheless emphasised how effective such studies could be in terms of revealing an analysis of more depth. However, he also refers to the challenge of extrapolation posed by limited data. I agree with what he says about the limits and merits of case studies. Undoubtedly researchers today inhabit a qualitatively different environment to those economists who were writing about the impact of trade policy in turn-of-the-century USA. Not least, there is a rich supply of national statistics, an increased array of statistical procedures (to facilitate extrapolation) and amazing computing power. So such increased resources should facilitate improved economic analysis. Yet, quite apart from what the global financial crisis did to the professional reputation of economists, there is a contrary example more pertinent to the topic of this paper – the debate over free trade versus degrees of protectionism. It is now finally acknowledged (though very often reluctantly) the role that protectionism played in the economic success of South East Asian economies. Yet for a long time economists failed to recognise just how interventionist governments in these countries actually were, some going so far as to erroneously hail them as exemplars of freetrade orthodoxy, while others claimed that they industrialised and developed despite protectionism.<sup>8</sup> What can account for such evidential blindness? One possible reason is hegemony of a single method in contemporary economic research. For many contemporary economists, empirical proof of cause is a statistically significant coefficient attached to the relevant explanatory variable. Quite apart from the challenge of finding a variable (or variables) to adequately portray the complexity of a country's trade policy, as well other data and statistical challenges, this is a frighteningly blinkered view of evidence. It creates misplaced confidence that one has found economic causes simply because (imperfectly) measured aspects of social reality appear to be correlated. My point here is not to rubbish statistical analysis or to argue for a return to case study methods, but to highlight the dangers of relying exclusively on one form of evidence. Statistical analysis derives its force by selecting comparable, numerically expressed observations of a few aspects of social reality, and looking for patterns and correlations in the objects selected and measured. This is sometimes called a thin description of social reality, reflecting the uni-dimensional nature of the observations and the fact that only certain features of social behaviour are selected and studied. By contrast, case studies start from the assumption that social and economic life is multi-dimensional and multi-connected and seek to integrate different forms of evidence into a coherent narrative. Far from being unscientific, case studies are a different way of doing science, a different way of finding out about the world. Indeed Morgan (2014) not only defends the case study as a respected epistemic genre, she claims that case studies are eminently suitable as part of social science research, where controlled experiments are impossible. If past and recent history has shown us anything, it is that there are many paths to knowledge, and, given the complexity of the

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<sup>8</sup> For example, Paul Krugman in his very successful international economics textbook speaks of pseudoinfant industries, claiming that some protected industries may have become competitive for reasons that have nothing to do with protection (Krugman et al, 2012, p. 188).

social world, we cannot expect enlightened economic policies if our approach to studying social and economic phenomena is unnecessarily narrow.

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