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FROM SUGAR TARIFFS TO CASTRO

THE QUARTERLY INTERVIEWS TRADE EXPERT MARY ANASTASIA O'GRADY

Protectionism is in the news again. The Trump Administration openly seeks to protect domestic industries from foreign competition by levying new taxes on imports. The old practice of imposing tariffs, another word for such taxes, dates back to the founding of our nation.

In Coolidge's time, tariffs were the official policy of the Republican Party. Coolidge came to the presidency after the passage of two tough tariffs, the Emergency Tariff Act of 1921 and the Fordney-McCumber Tariff of 1922, which became law under Coolidge's predecessor Warren Harding.

Tariffs, including those on goods from Latin American and Caribbean nations, were established wisdom, and Coolidge too accepted, even welcomed, them.

Yet, the U.S. tariffs of the 1920s on products and raw materials from our southern neighbors, did damage that ranged far beyond that decade, as Mary Anastasia O'Grady, editorial board member of the *Wall Street Journal*, told the *Coolidge Quarterly*.

Ms. O'Grady, who writes the paper's "Americas" column, said: "The early consequences were economic. But there were other, later, consequences, including damage to the political culture. And that endured."

The trouble started well before Coolidge. Coming out of the colonial period, Latin American nations needed to trade freely if they were to build cities and great institutions. But as in the United States, there was always a split between "free traders" and "fair traders." So, whenever U.S. producers moved to shut out competition from the South, the Latin nations were ready to retaliate with their own tariffs–or shut America out entirely.

Cuba, which Coolidge visited while in office, provides a good example. Cuba had one export industry: sugar. Yet, US sugar beet producers wanted households from coast to coast to buy domestically-produced sugar, not sugar cane from Cuba. In the 1920s alone the beet sugar industry spent $500,000 to push for protection. Coolidge sympathized with another sugar lobby, that for maple syrup. His birth state, Vermont, was one of the nation's leading producers of the syrup. Some of maple syrup's competition came from the Canadian North (maple sugar), not the Latin South (cane or beet sugar). Lest Coolidge forget his loyalty, newspapers and syrup processors constantly warned him to accept no substitute: "President Coolidge's favorite sweetening is maple syrup, none of your cane-sugar-maple-flavored combinations, but the real thing right out of the Vermont woods," commented the *Omaha World–Herald* in 1924.

Other U.S. politicians, especially Republicans, also sided with U.S.-based companies. In the period from 1913 to 1930, the tariff on Cuban raw sugar increased from one cent per pound to two cents, according to economic scholars Richard Sicotte and Alan Dye. When, in 1924, the U.S. tariff commission recommended that the tariff on sugar be reduced by half a cent, the President did not act on the recommendation. Coolidge was protecting the U.S. sugar industry, but also, of course, raising the price of sugar. That delay, Clem Shaver, chairman of the Democratic National Committee said, was "costing American consumers of this staple article of food an average of $145,000 a day." Shaver concluded, accurately enough: "It is a great boon to the [domestic] sugar barons." For a while, Cuba seemed to thrive nonetheless. Americans told themselves Cuba could do well even with tariffs, in part because the tariff laid on Cuban sugar was lower than the tariff imposed on some other foreign producers. But then came the Great Depression, as Ms. O'Grady notes. By 1932, the Cuban economy shrank by about 30%. Wages for Cuban sugar workers fell to less than half of what they had earned before. To add insult to injury, the U.S. Congress passed, and President Herbert Hoover signed, the Smoot-Hawley Act, another tariff law, raising hundreds of tariffs, including that on Canadian maple sugar and Cuban cane sugar.

"The important thing about Smoot-Hawley in Latin America," says Ms. O'Grady, "was that it hit economies that were not diversified and therefore vulnerable."

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>
> **Mary Anastasia O'Grady**

At that time Latin America generally, like Cuba, produced mainly commodities. The U.S. economy was a big market for those commodities. Sales of commodities were how Latin countries got their hard currency, which enabled them to buy what they did not make.

"So, when the U.S. imposed tariffs we not only damaged key export markets but also deprived citizens of these countries of the money to buy what they needed. Our tariff policy reduced Latin nations' standard of living."

By 1933, Cubans weren't asking for a reduction in tariffs, they were begging. The president of the Cuban Chamber of Commerce in the United States, Carlos G. Garcia, sought to lure American politicians away from tariffs by reminding them what a healthy Cuba could buy from U.S. merchants struggling in the Depression era: "Approximately 10,000 hogs," commenced the list, and went on to "15,000,000 pounds of bacon . . .,10,000,000 pounds of milk and milk products…1 million barrels of wheat flour."

President Franklin Roosevelt and his Secretary of State, Cordell Hull, came from the Democratic Party, then pro-trade, and they did move our policy toward freer trade, lowering tariffs on Cuba in 1934. But the U.S. also switched to a quota system whereby Congress could limit or increase the amount of sugar to be imported at will. Under that system, Cuba often lost.

Weary of both the high tariffs and the arbitrary tinkering with the tools of American protectionism, Latin leaders started turning their nations inward. Cuba endured a revolution.

Mexico and other nations tried out a theory known as Import Substitution Industrialization, notes Ms. O'Grady. "The new goal was to protect 'infant industries' at home," she says. (The concept of the infant industry comes from the German economist Friedrich List; in his own day even Alexander Hamilton spoke of "infant manufacture.") That is, nurture industrial production domestically and protect the producers from foreign competition until their companies and product were big and strong enough to face competition from abroad. Latin nations did not need to import."

Even before the infant industry narrative took hold, the U.S. recognized its mistake. Suddenly, the roles had reversed, and the U.S. began begging for free trade, as in Secretary Hull's 1938 plea to Mexico: "I am sorry and disappointed to see any country find itself in a position where it feels compelled to raise already high trade barriers with their ultimate hurtful effects, just at a time when most of the nations were and are giving increasing attention and efforts to the lessening of free trade," Hull told a press conference.

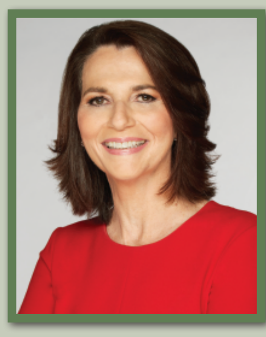
But the "infant industry" philosophy was a flawed one. These infants lacked competition, notes Ms. O'Grady, "so, obviously, they never produced items as good as what was on the international market." And, she also notes, the infant industries also quickly became government favorites, earning subsidies. Indeed, they often came to be state property.

In other words, the "infant industry" theory contributed to the industrial cronyism and corruption still plaguing so many Latin nations. Ironically, notes Ms. O'Grady, many of the economists who argued for government involvement in the economies were from the U.S., or had trained there. "They took the ideas that no one wanted here and imposed them there. Latin America was their sandbox."

Cuba never truly recovered politically, and in 1959 fell to Fidel Castro. Mexican-American relations eventually improved, and trade expanded, culminating in the North American Free Trade Agreement. But now, with President Trump's plans for a U.S. tax on Mexican imports, Mexico is bracing for another downturn.

When Coolidge first entered national politics in 1920, he received some books arguing for free trade from his old college friend, Dwight Morrow (later Coolidge's ambassador to Mexico). Morrow hinted that Coolidge ought to rethink his support for GOP protectionism. But Coolidge, then still a governor, responded firmly: "My observation of protection is that it has been successful in practice, however unsound it may be in theory. That must mean that the theories have not taken into account all the facts."

Nearly 100 years later, "all the facts" about protectionism have accumulated, and those facts are mostly negative. One wonders what Coolidge, surveying a century of squandered opportunity, would decide about protectionism today.



MARY ANASTASIA O'GRADY writes the weekly "The Americas" column on politics, economics, and business in Latin America and Canada for *The Wall Street Journal*. O'Grady joined the paper in 1995, becoming a senior editorial page writer in 1999 and an editorial board member in 2005.

Ms. O'Grady has won the Fund for American Studies' Walter Judd Freedom Award (2012), the Association of Private Enterprise Education's Thomas Jefferson Award (2009), the International Policy Network's Bastiat Prize for Journalism (2005), and the Inter American Press Association's Daily Gleaner Award for editorial commentary (1997). She serves on the board of directors of the Liberty Fund.

CALVIN COOLIDGE AND THE TARIFF: A HISTORICAL POLITICAL CONTEXT

BY DAVID PIETRUSZA

Like taxes in general, tariffs ("Duties"), per Article I, Section 8, Clause 1 of the Constitution, are a proper power of the Congress. To wit: "The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States . . ."

The general welfare clause, however, is a tricky one, the slipperiest of constitutional slippery slopes, and by 1816, Congress was levying tariffs not merely for revenue but to "protect" the young republic's still younger industries.

Not everyone was on board with that, particularly those paying steep rates on imported goods (or higher prices for protected domestically-produced items). Some have contended that Southern secession was fueled not so much by slavery as by tariffs. That's a stretch, but South Carolina's 1833 "Ordinance of Nullification" was, indeed, triggered not by slavery, but rather by the federal tariffs of 1828 and 1832. In 1861, the Confederate Constitution barred "any duties or taxes on importations from foreign nations [to] be laid *to promote or foster any branch of industry.*"[1] (emphasis added)

Republicans thought otherwise. Direct descendants of the defunct Federalists and Whigs, they inherited Alexander Hamilton's support for tariffs, as well as Henry Clay's concepts of an "American System" of internal improvements and the protection of industries and workers.

An interesting—and largely overlooked—thread courses through the fabric of G.O.P. history: an opposition to cheap labor depressing the living standard of free American labor. Such an animus manifested itself not only in tariffs but also in opposition to slavery and later in calls to restrict immigration in the 1920s and to stop illegal immigration today.

In any case, the child is father to the man. And in Calvin Coolidge's youth, tariffs were the great issue dividing America's two parties. In December, 1887, Democrat Grover Cleveland devoted his entire State of the Union address to the topic, demanding downward rate revision.

Following the Panic of 1893, Democrats finally got to revise tariffs downward. The Depression only worsened, leading to William McKinley's massive victory in 1896's presidential race. Neither the failure of 1894's Wilson-Gorman Act tariff reductions, nor the ultimate triumph of the author of 1890's protectionist McKinley Tariff were lost on the impressionable Coolidge.

A person's politics may result from inheritance and circumstance, but also from geography. Coolidge hailed from Vermont, not exactly a manufacturing powerhouse, but a state benefiting from tariffs on sugar and on wool (The McKinley Tariff raised the tariff on wool; it placed sugar on the free list but provided a compensating subsidy to domestic producers). Coolidge later lived in Massachusetts, a pro-protection hotbed. It was even said that Thomas O. Marvin, head of Boston's pro-protection Home Markets League, wrote his speeches on the issue. That, however, was not the case, though in January, 1926, Coolidge did re-appoint Thomas as head of the federal Tariff Commission.

We may have lost sight of it today, but budgets should be balanced. Tariffs brought in money.[2] In 1912, they amounted to twenty percent ($311 million) of all federal revenue. Postage stamps and fees amounted to $245 million. Liquor taxes (soon to evaporate with the onset of Prohibition) netted $230 million. If one eliminated tariffs, or simply lowered rates, how might one adequately fund the federal government?[3]

The consumer never got away scot-free. The very first excise tax triggered more than protest; it triggered rebellion: 1791's so-called "Whiskey Rebellion." Excise taxes were one thing. The income tax was quite another. When Democrats again controlled Congress in 1913, they once again cut tariffs, passing the so-called Underwood Tariff. In both 1894 and 1913, they needed to replace the revenue forfeited by downward rate reductions. In both instances, they instituted an income tax. The Supreme Court struck down their first attempt, but their second try remains with us, thanks to the Sixteenth Amendment. Reformers had long decried the log-rolling, favoritism, and crony capitalism of tariff legislation. The income tax merely shifted—and arguably worsened—such practices to another corner of the tax law, while ominously ratcheting up Washington's prosecutorial and financial powers.

Not every Republican blindly supported every tariff. Tariffs cost consumers money. Consumers voted. As there are always movements afoot to "reform" the tax code, talk invariably floated of "revising" the tariff. But it was all akin to riding the tiger: How might one dismount and what was one to do at that point? Invariably, a movement to reform the tariff *here*, ended up *way over there*. Republican efforts under Taft (the Dingley Tariff) and later Hoover (Hawley-Smoot) misfired badly. Even anti-protection Democrats fared worse with the Wilson-Gorman tariff reduction of 1894.

Revising the tariff was dodgy business. The party in power often lost seats. Worse, it seemed dangerous *for* business. As Speaker of the House "Uncle Joe" Cannon observed in 1902:

> . . . it is always demoralizing to business to have Congress being at work on revising the tariff. The manufacturer waits to see what will be the result, working only on orders; the merchant buys only what he feels certain he can sell; and the ordinary consumer buys only what he needs. Everybody waits to see what will be the result, for nobody knows in advance just what schedules will be changed or what the changes will be. It always means at least a year of uncertainty, and I don't believe the people of this country want a year of uncertainty to check the prosperity we have.[4]

Uncertainty is bad for business. And if something wasn't "broke," Calvin Coolidge was the last person to "fix" it. For a variety of reasons, he remained a strong protectionist as long as he lived.

Assuming the presidency in August, 1923, Coolidge continued his support for protectionism, citing it, alongside restricted immigration as the basis for continued prosperity. ("Those who toil have always profited from Republican control of Government. . . . no deflation of wages has occurred. While the cost of living has gone down, wages have advanced. The twelve-hour day and the seven-day week have practically been abolished"[5]). Coolidge hoped to leave politics behind him when he departed the White House, but that was not to be. Called upon to bolster the slim 1932 re-election chances of his star-crossed successor, Herbert Hoover, he responded with a series of articles in *The Saturday Evening Post*.

Not surprisingly, he once again advocated a strong tariff. The Hawley-Smoot Tariff of 1930 had proven immensely unpopular. Many blamed it for worsening America's already grievous Depression. Issues of free trade aside, raising taxes (any sort of taxes) in an economic downturn is rarely, if ever, enlightened. Herbert Hoover raised tariffs, income taxes, *and* excise taxes.

Hoover lost badly in 1932. Little by little, tariffs largely passed from the scene. As promised, consumer prices shrank. But so did much of American manufacturing. The arguments are compelling on both sides—free trade and fair trade—and show no signs of vanishing.

COOLIDGE AND THE U.S. TARIFF COMMISSION

The early Progressive Movement had always evinced a strong faith in the rule of "experts" over that of career politicians. Accordingly, in 1916, Congress established the U.S. Tariff Commission to scrutinize rates "scientifically" and to propose revisions—either upward or downward—for the President to implement by his proclamation. Established by a Democratic Congress under Woodrow Wilson's leadership, the hope, no doubt, was to revise tariffs mostly downward. Free traders had, however, not counted on what might happen when administrations change. As trade historian Douglas A. Irwin notes: "From 1922-29, the Tariff Commission issued 41 reports recommending changes in duties, and the president made 37 proclamations adjusting duties. In 32 cases, duties were increased—often by the full 50 percent allowed by law—on 16 types of chemicals, wheat, flour, butter, straw hats, print rollers, and pig iron, as well as on narrowly defined goods such as taximeters, men's sewed straw hats, sodium nitrate, precipitated barium carbonate, and onions. The five reductions were on minor and obscure products: mill feed, bobwhite quail, paintbrush rollers, phenol, and cresylic acid."[6]

Particularly vexatious was the aforementioned issue of sugar. Thanks to the recusal of a Harding-appointee and the defection of a Progressive Republican, in 1924, the Commission bucked Administration pressure and formally recommended a reduction from 1.76 cents to 1.23 cents per pound (sugar then cost 5 cents per pound[7]).[8] Coolidge ignored their recommendation.

[1] Northrup, Cynthia Clark and Elaine C. Prange Turney *Encyclopedia of Tariffs and Trade in U.S. History (Vol. 1)* Westport (CT): Greenwood Publishing Group, 2003, p. 90.

[2] Questions, however, arise: If the Laffer Curve impacts income resulting from *income* tax rates (which Coolidge and his Treasury Secretary Andrew Mellon certainly recognized), why might not lower *tariff* rates also yield greater revenue? One could, of course, similarly query Free Trade Democrats: Might not more modest tariff rates (e.g. The Wilson-Gorman and Underwood Tariffs), generate more revenue, and, thus, obviate a need for instituting income taxes? Both questions hint at the possibility that the tariff/income tax debate revolved not so much around revenue, but, rather about industry and job "protection" for Republicans and lower consumer prices and income redistribution for Democrats/Populists/Progressives.

[3] Today, approximately 80 percent of federal revenue is derived from individual income taxes or from payroll taxes funding such programs as Social Security or Medicare. Nine percent derives from corporate income taxes, 2.9 percent from excise taxes, and less than two percent from tariffs. http://www.taxpolicycenter.org/briefing-book/what-are-sources-revenue-federal-government; http://www.progressive-economy.org/trade_facts/tariffs-raised-30-percent-of-government-revenue-in-1912-and-now-raise-1-percent.

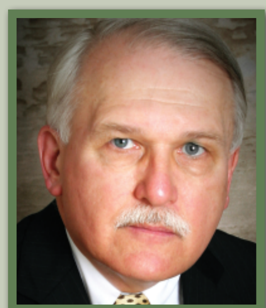
[4] *Washington Post,* 21 August 1902, p. 3.

[5] *Pittsburgh Post-Gazette*, 15 August 1924, p. 6.

[6] Irwin, Douglas A. *Clashing Over Commerce: A History of US Trade Policy* Chicago: University of Chicago Press, 2017, p. 359.

[7] http://www.thepeoplehistory.com/20sfood.html. World War I affected not only American agriculture, with the wartime boom followed by a postwar bust, aggravated by increased wartime production and investment. Cuba's situation was far worse, however, resulting from the cessation and then resumption of beet sugar production in war-ravaged (and German-occupied) Belgium and northern France. (http://online.wsj.com/ww1/cuban-sugar)

[8] Irwin (op cit.), pp. 359-60.



DAVID PIETRUSZA is an award-winning author, historian, and National Advisory Board member of the Calvin Coolidge Presidential Foundation. Pietrusza has written or edited over three dozen books, including *Silent Cal's Almanack: The Homespun Wit and Wisdom of Vermont's Calvin Coolidge* and *Calvin Coolidge: A Documentary Biography*. His next book is *TR's Last War: Theodore Roosevelt, the Great War, and a Journey of Triumph and Tragedy*.

President Calvin Coolidge calls on Cuba's President Gerardo Machado in April 1927 at the Cuban Embassy in Washington (Photo Courtesy of The Library of Congress).

Visiting Havana in January 1928, Coolidge informed the Pan-American Congress: "It is not desirable that we should attempt to be all alike. Progress is not secured through uniformity and similarity but rather through multiplicity and diversity. We should all be intent on maintaining our own institutions and customs, preserving the purity of our own language and literature, fostering the ideals of our own culture and society. In a territory reaching from the north temperate zone through the Tropics to the South Pole, there is room enough to carry worthy activity which is profitable and every ideal which is good. Our geographical location, as well as our political ideals, has endowed us with a self-contained unity and independence. Instead of considering our variations as an obstacle, we ought to realize that they are a contribution to harmonious political and economic relations."

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