



## **Clashing Over Commerce: A History of US Trade Policy**

*Douglas A. Irwin.* University of Chicago Press;  
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### **Introduction**

Throughout the U.S. trade history, the degree of protectionism that the United States (US) should adopt has always been at the center of its trade policy and a leading source of its domestic political conflict. Douglas A. Irwin's book *Clashing Over Commerce* discusses comprehensively the history of US trade policy from the colonial period to modern days, including recent economic developments under the presidencies from Bill Clinton to Donald Trump. This book provides readers with a broad overview and detailed descriptions of changes of tariffs and principal objectives of trade policy, the continuous debate on trade policy between the Republicans and the Democrats, and the forces and interest groups behind the decisions of policymakers. Throughout the book, Irwin demonstrates how the history of US trade policy has been deeply intertwined with its economic and political situations, which are contributing factors to the evolution and consequences of US trade policy. Instead of taking a position on historical events and figures, Irwin provides us with an unbiased history of the political economy and the effects of trade policy. Thus, this book deserves a wide audience. Readers with basic knowledge of international trade who are interested in US trade history will relish this book.

This book review is organized following the same order as *Clashing Over Commerce*, which chronologically divides the US trade history into three periods: revenue, restriction, and reciprocity. The main objectives of these three eras are: raising revenue, restricting imports to protect domestic producers from foreign competition and opening domestic markets to commerce with other countries through reciprocity. Here, we also discuss the significant events in each period to give readers a demonstration of US trade policy in practice.

### **Part One**

During the colonial period, the US economic regulations and its trade policies were manipulated by British mercantilism. While several non-importation movements were embraced domestically against British suppressive tax policies, these movements had little impact on Britain's policy decisions due to the modest volume of British products exported to the American colony. One example of British tax policies that provoked outrage in what became the US is the Stamp Act of 1765 that imposed a tax on printed paper and documents. This act faced great resistance as it was imposed without consent from the colonial legislature to directly raise revenue to defend the American frontier. Even though the American imposed embargo in early 1775 eliminated imports from Britain until 1778 and moved the nation further towards independence, the colonies were

disadvantaged and their efforts to expand trade with other European nations were unsuccessful.

The first part of this book continues with the establishment of the federal government and concludes with the outburst of the American Civil War in 1861. During this period, the trade policy of this new nation served mainly to raise government revenue. The first US tariff policy enacted by the new US federal government took effect on August 1, 1789. This tariff schedule imposed three types of duties on US imports, namely the specific duty, ad valorem duty and duty-free treatment with most imports subjected to varying levels of ad valorem duties. As the nation moved into the post-independence period, the trade-policy struggle shifted from maintaining trade with Britain to whether the tariff should be implemented to protect native industries. This new debate over protectionism later gave rise to the first “protectionist” Tariff in 1816 to protect the domestic manufacturing sector. The debate over protectionism was centered on the conflicted interests of Southern cotton producers and Northern cotton textile sector, with the latter facing greater foreign competition as well as inefficient production technology until the introduction of the power loom. Towards the end of this period and with the occurrence of the Civil War, the Northern interest group gradually came to dominate and protective tariffs were then maintained for decades.

Among many British Acts that sparked domestic resistance against the Empire during the colonial period, an interesting phenomenon arose with the passage of 1773 Tea Act. The purpose of this legislation provided the East India Company with monopoly power over tea trades in British colonies while simultaneously eliminating the tea smuggling business in North America. By forcing previously smuggled tea to be traded legally, this increased supply of legal tea actually reduced the price of imported tea. However, the Boston Tea Party rebelled against this Act and Americans refused to unload tea from East India Company's ships. Ironically, as one might mistakenly equate the Boston Tea Party's action with previous non-

importation movements against unfair British tax policies, a vast majority of merchants in the Tea Party were found to be involved in the tea smuggling business. Therefore, this seemingly just protest was, in fact, an attempt to secure tea merchants' illegal profit from smuggling.

## Part Two

In the second era of US trade policy, the main objective from the Civil War to the Great Depression was to restrict imports for the purpose of protecting domestic industries. High protective tariffs remained in this period even though several debates on tariff policy occurred and attempts to change America's tariff policy were frustrated. The first contentious debate on postwar tariff policy took place because of the bill proposed by Justin Morrill in 1866 that would increase some import duties. While Republicans regarded high tariffs as a means of protecting domestic producers and maintaining high wages for workers, Democrats opposed protective tariffs, arguing that these tariffs burdened consumers and farmers and hindered export growth. Both the Mongrel Tariff of 1883 and the McKinley Tariff of 1890 failed to make significant changes in postwar tariff policy. However, the increasing exports of manufactured goods and the shift of labor and capital from agriculture to industry in the U.S. between 1890 to 1912 had the potential to change trade policy. Although both Republicans and Democrats planned to increase exports, their debate on protective tariffs was unsettled and the Congress rejected a policy of reciprocity, leading to unchanged high tariffs. Later in the 1920s, instead of protecting manufacturing from foreign competitions, protecting agriculture became the goal of US trade policy. The resulting Hawley-Smoot Tariff of 1930 raised the average tariff rate on dutiable imports but did not significantly exacerbate or ameliorate the Great Depression according to most economists.

The relationship between protective tariffs and the first merger wave in the US, which was from 1897 to 1903, remains to be discussed. According to Irwin's book, some

scholars have argued that high tariffs caused the first merger wave because an import quota reduces foreign competition and protects domestic producers which leads to higher profits from collusion among domestic companies. The counter-argument is that domestic industries might become less concentrated because import tariffs led to the survival of smaller, less efficient firms. Irwin does not reach a conclusion about this mystery. On the one hand, he concludes that protective tariffs did not promote industry consolidation. On the other hand, he argues that the tariffs imposed on raw materials and intermediate goods resulted in vertical integration among domestic firms. Ironically enough, if high tariffs were not the contributing factor, the Sherman Antitrust Act of 1890 that makes cartels illegal may have led to legal mergers and stimulated the first merger wave. Therefore, which factor played the most significant role in the first merger wave remains controversial.

### Part Three

The third section of this book covers the period after 1932 when we saw an increasing number of cases of bipartisan agreements on free trade policy, a trend of decreasing tariff and an increasingly important role of the US in the globe.

It begins with the New Deal, a policy implemented by Roosevelt to combat the Great Depression. President Roosevelt and Cordell Hull soon realized the disastrous consequences of the Smoot-Hawley tariff and advocated the Reciprocal Trade Agreement Act, which granted the president the power to negotiate trade policy with foreign representatives, with the intention of reducing barriers on both sides. They hoped to minimize the excessive duty while maintaining a sufficient level of protection for the domestic industries. As WWII broke out, the purpose of reciprocal trade shifted from promoting recovery after the depression to expanding trade to keep the peace after the war. Meanwhile, in the US, many abandoned the isolationist views, resulting in "bipartisan support for American participation in the

world." On the other hand, Europe and Asia, having been destroyed by the war, could no longer compete with the US in the world market. This hard-won ease gave rise to a period of lowering tariffs after the war. During this period, the US successfully promoted the enactment of General Agreement on Tariffs and Trade that, along with the Bretton Woods System and the Marshall Plan, created a new order of the world. Nevertheless, the ease didn't last very long. From the 1960s to 1970s, countries and regions in Europe and Asia built up their manufacturing sectors which "ushered in a prolonged and challenging period of adjustment for American manufacturers." The Trade Act of 1974 which re-granted the president the power to negotiate trade policies with foreign countries, further enhanced free trade. In the 1980s, the US experienced a recession accompanied by dollar appreciation, bringing a considerable number of problems to the manufacturing sector. Consequently, the Reagan administration soon responded to this troubled situation by limiting imports in many industries. This period also saw the continued reversal in the mix of partisan views, when more Republicans refused to be isolationists and more democrats became protectionists in trade. Finally, as the globalization continues, as regional trade agreements become popular and as developing countries surge, there is a trend of "increasing polarization politically and economically". Although the US won't lose its world-leading position for decades, we began to see the "deep frustration" of the people of the United States with the government and the performance of the economy.

The most interesting fact in this section is that the steel industry in the US ruined itself in the 1960s. In short, the presence of the prolonged protective tariff and the nation-wide labor union of steelworkers resulted in a counterintuitive fact: to keep foreign competition out, the steel producers kept increasing wages so that the workers wouldn't strike. Under sufficient protection, Americans needed foreign steel only when domestic steel mills stopped during worker strikes. If the workers did strike, as it happened in 1959 when the steelworkers stopped working for as long as 116 days, the robust manufacturing industry which

desperately needed steel could only buy it from the foreigners and brought in competition. By the early 1980s, the wage of steelworkers was 95% more than the average wage in manufacturing. However, the rising wage was not due to increasing productivity. So, the industry became less and less competitive. As a result of the inflated costs, some domestic steel mills gradually lost their market share to foreigners. The import share of domestic consumption of steel grew from 5% in 1960 to 20% in the early 1980s.

## Conclusion

From the ambition and struggle of independence to the turmoil of the Great Depression and world wars, until the new order rooted from globalization, the omnipresent effects of American trade policies have shaped the economies of America and the world. To best serve the country and interests of producers and consumers, the goal of the US trade policy shifted from revenue to protection, to the recent reciprocal prosperity. The changing history of trade policies in the US has always been consequences of “great political debates” backed by the geographical diversity in industrial structure. Therefore, shifts in local industrial compositions and partisan power in the Congress and the Executive Office have been and will always be the leading causes of volatile tariffs and subsidies. America has thrived. To maintain that trajectory, her people ought to handle trade policy prudently to walk, along with the flourishing others, toward the next big era for peace and prosperity.

*Reviewed by Wenjia Cao, Manyun Liu, and Weizhao Sun, Duke University (Student, MA in Economics). They thank Professor Edward Tower and Mia Mikic, ARTNeT secretariat for the constructive feedback.*