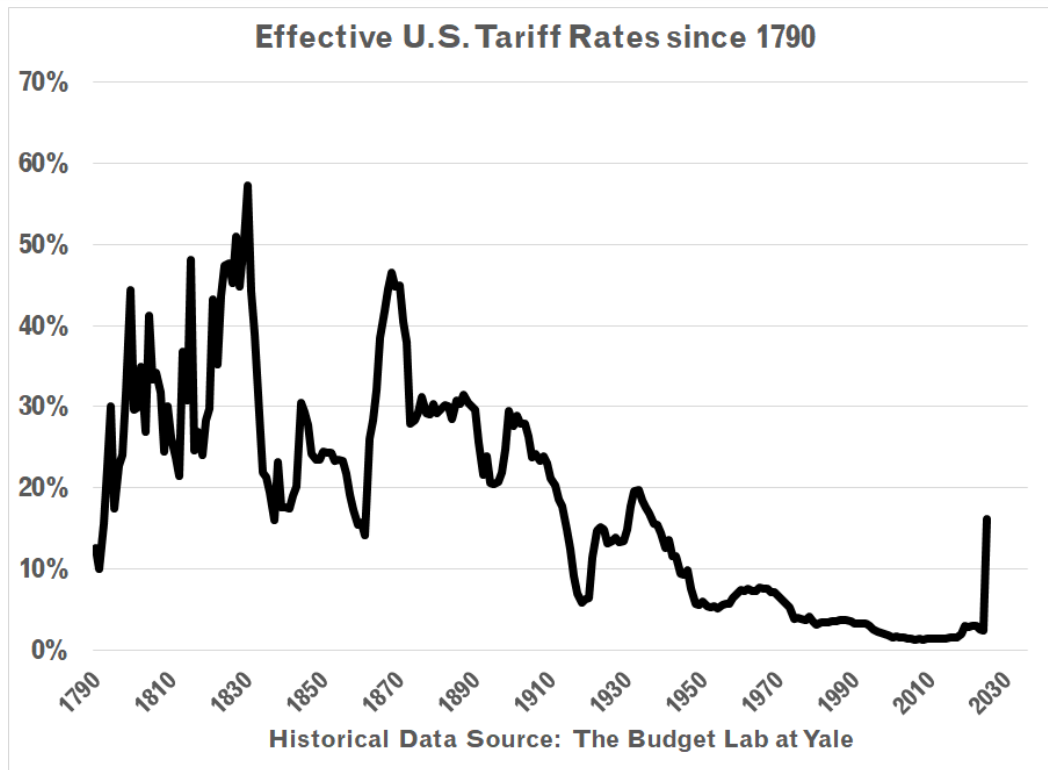


Tariff Debates are as Old as America

Bluford H. Putnam and Donald R. Stabile¹

Tariff debates date back from the earliest days of the United States and even predate the birth of the U.S. as a nation. As Adam Smith wrote, in England tariffs were called customs "as denoting customary payments which have been in use from time immemorial." The current tariff controversies involve the use of emergency powers and are headed to the US Supreme Court for hearings on November 5, 2025, and then an expedited pace to a final ruling. Either way the Court decides, it is likely to be impactful. While much has been said about the what, why, and when of the future Supreme Court ruling, this note provides some historical background on U.S. tariff debates, including a few that have been as divisive and tempestuous as the current debate. The note takes a tour through the tariff debates from Alexander Hamilton, through Jefferson and Madison, then onto Andrew Jackson, then McKinley, and finally the tariffs of the Great Depression, to illustrate how many of the historical issues and tensions remain present in the debate today.

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Alexander Hamilton

When the Constitution was ratified and the government was in session in April 1789, even before it took up the Bill of Rights, Congress considered tariff legislation proposed by James Madison. In the debates over this bill, it was argued that tariffs had two advantages as regards raising revenue. They were hidden because businesses would just increase their prices to pay the tariff, and they were easy to collect at each port of entry. Indeed, this is the reason why many poor countries, struggling to raise revenue for public service provision, initially collect most of their revenues from custom duties to this day. The Tariff Act of 1789, passed on July 4, imposed an average rate of about 10 percent. This first tariff act was all about raising revenue, and indeed, approximately 80 percent of the government's revenue during the first decade of the federal government came from tariffs.

Discussions of tariffs for trade protection arrived in 1791. The U.S. Congress requested a report from the Secretary of the Treasury Alexander Hamilton concerning the state of manufacturing in the country. In his report, Hamilton provided a very clear and insightful discussion of the

difference of using tariffs for government revenue as compared to protecting emerging industries. Hamilton was in favor of using tariffs to protect emerging industries, however, in this report, Hamilton wanted Congress to appreciate how tariffs should be levied to maximize the government revenue needed to finance the new country. Hamilton argued that to fund the government, tariffs should be applied to imported goods whose demand would not be greatly impacted by a reasonable tax of say 10 to 20 percent. By contrast, to protect emerging manufacturing industries, tariffs would need to be prohibitively high on selected imports so as to dramatically curtail import demand for these specific goods. The high rate effectively eliminates the ability of protective tariffs to raise revenue.

While the economic concept of the elasticity of demand had yet to be formalized, Hamilton clearly appreciated that tariffs for the purpose of raising revenue would be most effective if applied only to goods that were less price sensitive in terms of demand. That is, to raise revenue one should apply moderate tariffs to goods with inelastic demand, and for protectionist purposes, one needs tariffs to be prohibitively high preventing the import of the goods as well as eliminating any expectations of revenue. During Hamilton's tenure and for the next two decades, tariffs were used primarily as a revenue raising tool for the government and not for protectionism.

Jefferson and Madison

With the election of Thomas Jefferson as president in 1800, tariff policy saw a shift with tariffs becoming the only form of taxation. Jefferson had run on a platform of abolishing all internal taxes. Hamilton's internal taxes were mainly excise taxes. The most unpopular was the tax on whisky, which penalized the western states where the whisky was produced, prompting a short-lived "Whisky Rebellion" in 1794.

Jefferson's Secretary of the Treasury, Albert Gallatin, supported the plan to focus on tariffs as the primary revenue raiser by providing estimates that showed that tariffs would produce \$9.5 million in custom receipts at a collection cost of 4 percent. Internal taxes would garner \$600,000 at a collection cost of 20 percent -- collection costs being measured as the personnel and related administrative outlays incurred by the government to collect the taxes. Jefferson added the argument that tariffs were mainly on luxury goods, so the plan would redistribute income to the poor. The result was that internal taxes were eliminated on April 2, 1802. To

make up the difference, tariffs were raised to an average of 15 percent during Jefferson's years compared to 10 percent in the previous decade.

This emphasis on tariffs as the only form of taxation to raise revenue for the government had the unintended effect of opening the door for tariffs to be used to protect domestic industries. During the period of 1802 to 1807, tariff collections had increased by 60 percent. The robust flow of revenue allowed Congress to cut tariffs, and they did so selectively, for example by repealing the tariff on salt. A protectionist debate ensued. A Congressman from Massachusetts argued that as a result of the salt tariff, a flourishing salt industry had arisen in his state. With a few more years of the salt tariff, that industry would grow enough to make the U.S. self-sufficient in salt. Protectionism was not part of Jefferson's agenda, however, and the salt tariff was eliminated.

The next stage of the Jefferson-Madison era introduced the topic of protectionism due to geopolitical events. During the Napoleonic wars in Europe, U.S. merchant ships were often seized by the British, and occasionally by the French. President Jefferson wanted the U.S. to remain neutral, and he requested Congress to enact an embargo on international trade in 1807. Customs receipts were cut in half in the following year. This result was a harbinger of the problem of relying heavily on one form of taxation. The Embargo Act was repealed in 1809, just before Jefferson left office. In its place, the U.S. Congress passed the Non-Intercourse Act, which reopened trade with all nations *except* Britain and France.

When James Madison followed his good friend Jefferson into the presidency, he retained the same tax policy but with one exception, internal taxes. Madison and his secretary of the Treasury, Albert Gallatin, favored internal taxes but could not persuade Congress to impose them. The coming war changed their minds.

War of 1812

The War of 1812 was fought between the U.S. and Great Britain, including its colony, Canada. The War brought a stifling blockade of U.S. ports, and a decline in tax collections. Congress responded by doubling tariffs and imposing internal taxes, and that changed the post-war tariff debate to one about fostering economic security as well as raising government revenue. The internal tariffs included a direct tax on land, houses, and slaves; excise taxes on whisky and

other liquors, sugar, carriages, and retail licenses; as well as stamp duties for various legal documents.

The collection of internal taxes had proven difficult in the early years of the republic, but these new taxes were easier to collect than in the past for a few reasons. By 1812, the U.S. federal government had evolved into a more efficient and well-structured bureaucracy able to better handle internal tax collection. And the new taxes were spread around, not as onerous, and enjoyed some popular support which was absent in the previous period when the tariffs were targeted on whisky and luxury goods.

The main tariff lesson the U.S. learned from the blockade of its ports was just how dependent the economy was on certain types of imports. Madison pointed out that domestic manufacturing had grown substantially during the war and told Congress that it might be a good idea to protect it with higher tariffs. Some members of Congress agreed and the use of tariffs to protect essential industries became a part of the tariff debates, even though the immediate post war tariff legislation of 1816 was focused more on revenue to pay for the war (it actually reduced tariffs) and not as much on protectionism. The protectionism debate had begun in earnest.

The Tariffs Controversies of 1820-1832

The protectionists in the U.S. Congress that had been awakened by the War of 1812 had gained enough political clout by 1820 to introduce tariff legislation where protectionism was front and center, and with it there were clear winners and losers. To give two prominent examples arguing the case for protectionism, Henry Clay observed that other countries protected their industries and Daniel Webster argued that as the government used tariffs for revenue, it would be easy “to give great advantages to those classes of manufacturers which we may think most useful to promote at home.”

The industries being protected by high tariffs were largely manufacturing firms in the North and spreading a little to the now Mid-West (meaning western Pennsylvania and Ohio). These manufacturing industries largely competed with imported goods coming from Europe, and they were the beneficiaries of the new protectionist tariffs.

At the time, U.S. exports were almost exclusively agricultural or related raw materials, and they were shipped overseas from the South. Cotton made up about half the country's exports, with another 10 percent to 15 percent coming from tobacco, and the rest related to grains, including rice, as well as timber. The South realized the potential that impacted countries might retaliate against their agricultural exports. In short, the South was the big loser. As Frank William Tausig writes in his classic book, *The Tariff History of the United States (1888)*:

“The South took its stand against the protective system with a promptness and decision characteristic of the political history of the slave states. The opposition of Southern members to the tariff bill of 1820 is significant of the change in the nature of the protective movement between 1816 and 1820. It is possible that the Missouri Compromise struggle had opened their eyes to the connection between slavery and free trade. At all events, they had grasped the fact that slavery made the growth of manufactures in the South impossible, that manufactured goods must be bought in Europe or in the North, and that, wherever bought, a protective tariff would tend to make them dearer.’ (Page 73, in the 2005 Elibron Classics replica edition of the 1888 version published by G.P. Putnam’s Sons in New York and London.)

The Tariff Act of 1820 was passed by the House of Representatives but could not make it through the U.S. Senate due to the strong and united opposition of southern Senators. Four years later, the highly divisive and protectionist Tariff Act of 1824 did pass both houses of the U.S. Congress and was signed into law by President John Quincy Adams. It had been supported by all the presidential candidates. The Tariff Act of 1824 increased import duties on wool, textiles, iron, among other items to protect manufacturing industries in the North and some more western states. In 1828, even more aggressive tariffs were passed into law, setting off furious protests by the South and creating the Nullification Crisis. South Carolina led the fight, passing its own Ordinance of Nullification in 1832, arguing that if a state felt a law was unconstitutional, it could nullify the application of the law within its borders. Eventually the crisis was diffused when Henry Clay pushed through the Compromise Tariff of 1833, starting a process of lowering tariff rates.

At this point, appreciating the context of the divisive nature of U.S. politics during this period is an appropriate sidebar. The 1824 Presidential election was hotly contested by four

candidates, Andrew Jackson, John Quincy Adams (son of the second President of the U.S.), William Crawford (from Georgia), and Henry Clay (Speaker of the House of Representatives). Jackson won about 40 percent of the popular vote, and 99 electoral college votes with 131 needed for a majority of the 261 electoral votes. With no outright majority, the 12th Amendment to the U.S. Constitution was triggered, throwing the decision to the House of Representatives, and the horse trading began. Henry Clay threw his support to Adams, Adams was elected President, and then Adams appointed Clay as his Secretary of State.

Needless to say, Andrew Jackson was not happy with this result. Jackson ran again in 1828 and won a clear majority, and again for a second term as President in 1832. Jackson was a populist from the South. Among other things, Jackson put loyalists in many positions of power; he did not support the high protectionist tariffs. Jackson formed the Democratic Party and Clay and Adams formed the Whig Party during this divisive period.

The political divisions of this period intensified leading up to the Civil War, which put the tariff debates on the backburner. For the next half century through the reconstruction period after the Civil War, there was a revival of internal taxes and the emphasis of tariffs remained on revenue. Nevertheless, the tariff debate was brewing again. The post-war period was one of growing industrial production and with power concentrated in large firms that, in turn, began exercising their influence to lobby the government to protect them from global competition.

President McKinley

William McKinley was a vigorous and effective advocate for higher tariffs to protect U.S. industries. As a Congressman from Ohio, he pushed through the Tariff of 1890 which raised the average tariff rate to nearly 50 percent, leading to substantial inflation for many popular consumer goods. President Grover Cleveland signed the Wilson–Gorman Tariff of 1894, which lowered tariffs in response to consumer pressure and worries about potential inflation.

Nevertheless, when McKinley took office as President, he advocated for and signed into law the Dingley Tariff of 1897, pushing average tariff rates back up toward 50 percent providing major protectionist benefits for the emerging large companies in this era of industrialization. But the political tide in favor of tariffs turned with the Panic of 1907 (recessions were called panics back then) which highlighted the financial fragility of the U.S. economy and turned populist sentiment away from the trusts and large corporations seen as dominating the economy. William Taft ran

for President in 1908 and campaigned in part on tariff reform. After he came into office, modest tariff reforms were included in the Payne–Aldrich Tariff of 1909. And the push to become less dependent on tariffs took a major step forward with the enactment of an income tax in 1911.

Smoot-Hawley Tariffs of the 1930s

The Smoot-Hawley Tariff of 1930 is infamous in the analysis by many economists, standing right behind the Federal Reserve's failure to act as a lender of last resort to the banking system, for helping turn the recession of 1929-30 into the Great Depression of the 1930s. The new tariffs were applied on some twenty thousand imported goods with average rates hitting 60 percent. The combination of high U.S. tariffs on imports and retaliatory tariffs by many countries on U.S. goods fed the negative consumer sentiment of the times and led to a large contraction in world trade.

The protectionist tariffs of 1930, as well as those imposed in the late 1890s by McKinley intersected with deep recessions. While one can debate whether the high tariffs were a major cause of the recessions, the political backlash set the stage for the free-trade movement that commenced with the Reciprocal Trade Agreements Act (RTAA) of 1934, allowing for negotiations to reduce tariffs on a bilateral basis.

Post-WWII through 2016

After WWII, twenty-two countries plus the U.S. met in Geneva in 1947 and negotiated a multilateral framework for reducing tariffs known as the General Agreement on Tariffs and Trade (GATT). While there were several modest pieces of tariff legislation, the next major move toward freer trade was the Trade Expansion Act of 1962 which allowed up to 50 percent tariff reductions and introduced Trade Adjustment Assistance (TAA) for displaced workers. The Trade Act of 1974 introduced "fast track" Congressional approval.

The big free trade agreement of the 1990s was the North American Free Trade Agreement (NAFTA) Implementation Act, which removed most tariffs among the U.S., Canada, and Mexico. 1995 saw the creation of the World Trade Organization (WTO), which effectively replaced GATT as the framework for tariff and trade negotiations.

The last major move in the direction of multilateral trade agreements was the Trade Preferences Extension Act & Trade Promotion Authority (TPA) of 2015 which allowed the negotiation of the

Trans-Pacific Partnership (TPP) and other trade deals. Shortly after taking office in 2017, President Trump pulled the U.S. out of the TPP, and the era of a pullback from free trade toward an America-First agenda commenced.

Current Tariff Controversies

President Donald Trump, in his first term, launched a tariff initiative mainly aimed at China as a protectionist response to inexpensive Chinese goods and for national security reasons relating to digital and computer chip technology. Revenue raising was not part of the objective. China responded with retaliatory tariffs as well as dramatically shifting their massive demand for soybeans from U.S. farmers to Brazil and Argentina. President Joe Biden left most of the Chinese tariffs in place. In his second term, President Trump has vastly widened the scope of his tariff initiatives to include virtually all trading partners, to raise revenue, to address protectionist challenges, as well as security issues.

Not all, but many of the protectionist tariffs have been levied by executive order based on The International Emergency Economic Powers Act of 1977. The act does not mention tariffs specifically as it is focused on economic sanctions, freezing assets, and the like, and this law was invoked by past Presidents related to the Iran hostage episode of 1980, the September 11, 2001, terrorist attack on the U.S., or the Russian invasion of Ukraine in 2022. The use of the emergency powers in this act to levy tariffs may (or may not) have been part of the original intent of the U.S. Congress, and its constitutionality will eventually be decided by the U.S. Supreme Court.

History shows that tariff debates do not end quickly. There are both short- run and long-run consequences to evaluate, and the multiplicity of goals in the application of new tariffs in the current episode will make the analysis that much harder.

Tariffs were the prime source of revenue for the U.S. federal government from the beginning of the country in the late 1700s until the income tax was permanently established in 1911. The weakness of being overly dependent on tariffs for revenue was highlighted during the War of 1812. Perhaps, more importantly, the revenue debate often collides with protectionist sentiment. Hamilton pointed out that revenue raising tariffs should be applied at relatively low rates to goods with less price sensitivity (inelastic demand), while protectionist tariffs had to be high enough to discourage imports and therefore would not be appropriate for raising revenue.

The inflation potential of tariffs was part of the South's opposition to tariffs in the 1820-1832 period. And again, inflation was a political concern with the high tariffs during the McKinley Presidency.

Tariffs, especially protectionist ones, come with winners and losers. The debates in the 1820s often divided the northern and southern states. Manufacturing in the North was protected while the South feared that its agricultural exports would be exposed to reciprocal tariffs from other nations. The high tariff rates of the McKinley era benefited trusts and large corporations and were perceived as hurting typical consumers.

Protectionist tariffs have also been associated with recessions, especially during the Panic of 1907 and the Great Depression of the 1930s. Public sentiment swung against tariffs in the aftermath of these economic disruptions.

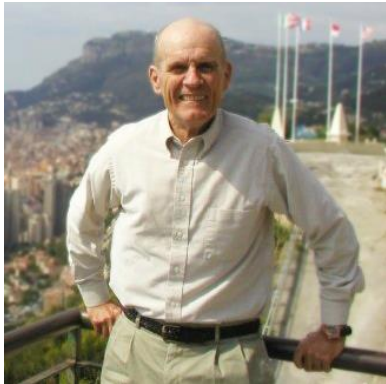
The relationship of tariffs to national security first raised its head in the War of 1812 when the embargo disrupted trade. Security issues are now focused on technology, but the observation that tariffs have a security component is not at all new.

The current increase in tariffs has shown some success with raising revenue. Tariff revenue in 2025:Q2 jumped to about \$258 billion at an annual rate, compared to \$77 billion in fiscal 2024.² Projections for 2026 suggest tariff revenues are highly uncertain given the legal debates, possible future negotiations, and whether or not to include dynamic effects in the form of assumptions about how the new tariff regime might negatively or positively impact real GDP growth and potential future tax revenues. Regardless, the new tariffs are raising significant revenue.

It is too early to tell anything about the impact on U.S. manufacturing output from higher tariffs. There have been announcements of some big U.S.-centric investments, but there has also been a reluctance of many companies to invest until the new tariff regime is more stable. More fundamentally, if tariffs are to reduce the trade deficit they cannot simultaneously be used to increase capital inflows into the United States.

² See data reported in Table 3 of the Monthly Treasury Statement in the line for "Customs Duties."

In conclusion, the jury is still out and will be for a long while on the current tariff policy initiatives and debate. The issues are complex and inter-connected. However, what history clearly teaches us is that the appeal of tariff policies in the U.S. as a means to achieve economic and political goals ebbs and flows, with powerful consequences that take time to unfold.



Donald Stabile is Professor of the College Emeritus with St. Mary's College of Maryland. Don is a noted economic historian, author of many academic articles, and ten books, including *A History of the Bureau of the Public Debt: 1940-1990* with J.A. Cantor. Don has served as the Executive Director of the Cremona Foundation and as the principal archivist at the Norton Townsend Dodge Archives.



Bluford (Blu) Putnam served as a senior consultant for Sterling Trading Tech. Blu retired as Managing Director and Chief Economist of CME Group in 2023, where he was responsible for global economic analysis, worked with the finance department on various strategic issues, and spearheaded the development of the data science team. Blu holds a Ph.D. in economics from Tulane University, has authored several books on international finance, as well as published in academic journals.