WEEKLY COMMENTARY

Has President Trump Learned the Right Economic Lessons from President McKinley?

By Francis Généreux, Principal Economist

Since Donald Trump entered politics in 2015, his slogan has been "Make America Great Again." But it's never been clear which era he thinks is so great. Was it the post-war boom? The Roaring Twenties? Or an earlier time? It now seems clear that Trump believes the US was at its peak during the so-called Gilded Age, the period between the Civil War and the turn of the 20th century. That's when the United States completed its westward expansion, American industrialists built massive conglomerates, and the country quickly rose through the ranks of the world's great nations. A key figure during this period was the 25th President of the United States, William McKinley. In fact, he seems to be one of the only previous presidents that the current occupant of the Oval Office admires. But is Trump right to be inspired by that period? And has he learned the right lessons from President McKinley's time in office?

Remember that Donald Trump was a protectionist long before he became president. This was also the case with William McKinley. As McKinley ascended the Republican hierarchy, he fully embraced and promoted the party's post-Civil War belief that high tariffs on imports would protect American industry.[1] Basically, McKinley was the Tariff Man of the 1880s. In 1890, as Ohio's Congressional representative and head of the powerful Ways and Means Committee, he championed a substantial increase in US tariffs, which had already been high since the Civil War. It's worth pointing out a few things about the debates of that era. First, the tariffs were clearly imposed at the behest of Congress, not the president. McKinley probably had more influence on US trade policy as a member of the House of Representatives than he did as President of the United States. Second, although protectionism was clearly on the rise at the end of the 19th century, public opinion was deeply divided on the subject, with many of the same arguments circulating as today.[2] The Republicans (especially in the Northeast) insisted on protectionism at all costs, stressing that it was necessary to support domestic production, profits and revenues. The Democrats, particularly in the South but also in rural areas of the West, argued that protectionist measures artificially increased the cost of living for most of the population, and that tariffs mainly protected the value of the assets of the rich while undermining the US's ability to export its own products. These arguments could easily come from President Trump's recent memos or the Wall Street Journal's latest editorials.

The McKinley Tariff Act of 1890 raised the effective tariff rate on affected imports by 4 percentage points, from 44.8% to 48.8% (graph 1 on page 2). This was a substantial jump. But since the Act also eliminated tariffs on sugar, it shrank both the relevant tax base and federal revenues in one fell swoop. Strange as it may seem, that was the point. In the 1880s, high tariffs resulted in large budget surpluses for the government. In fact, the surpluses were so big that political pressure mounted to reduce revenue streams, including tariffs. The protectionist Republicans definitely didn't want that to happen. In the 19th century, the debate over trade policy centred on the reason

[1] Merry, Robert W. *President McKinley: Architect of the American Century.* New York, Simon & Shuster, 2017

[2] Irwin, Douglas A. Clashing Over Commerce: A History of US Trade Policy. Chicago, The University of Chicago Press, 2017.

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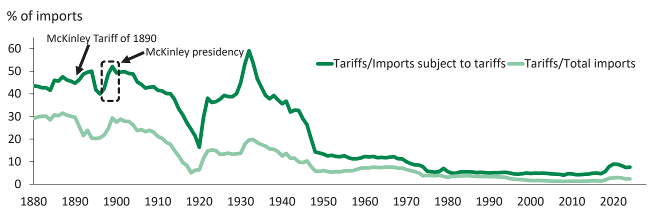
for imposing tariffs. Were they supposed to protect domestic producers or provide revenue? In 1887, tariffs represented nearly 60% of federal revenue and paid for more than 80% of federal expenditures (graph 2). They therefore generated a substantial surplus at a time when there were no personal or business income taxes. President Trump may very well look wistfully back on that period. But nowadays that kind of approach to tariffs and the budget would be reckless—even dangerous. The US would need to impose effective tariffs of more than 50% on all US imports (compared to the actual rate of 2.3% in 2024) to generate enough revenue just to offset the budget deficit expected for 2025. Raising tariffs enough to turn them into a major source of funding could end up lowering revenues as both imports and economic activity plummet. In addition, protectionism and retaliatory measures from other countries would also have a cost. For example, when China imposed retaliatory tariffs on US agricultural products during Trump's first term, Washington wound up paying US$60 billion to US farmers. This was [92% of the revenue generated by the new tariff]() on Chinese imports.

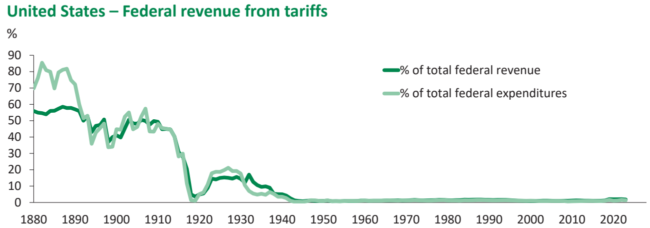
Graph 1
Tariffs Were Particularly High in the McKinley Era

United States – Effective tariffs



U.S. Census Bureau, U.S. International Trade Commission, Douglas W. Irwin, Peterson Institute for International Economics and Desjardins Economic Studies

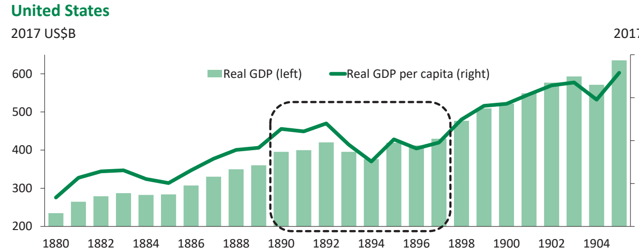
Graph 2
Tariffs Were a Major Source of Revenue at the End of the 19th Century. That's No Longer the Case.
United States – Federal revenue from tariffs



U.S. Census Bureau, Office of Management and Budget and Desjardins Economic Studies

Was the United States really that great during the Gilded Age of high tariffs? The data on this is mixed. At first glance, the US economy appeared highly unstable. According to the National Bureau of Economic Research, there were eight recessions between 1869 and 1900, four of which occurred in the final decade of the 19th century. Obviously, back then the economy was heavily influenced by agrarian cycles and the initial ups and downs of industrialization. Neither governments nor monetary policy (since there was no central bank) played a stabilizing role. And to be honest, tariffs weren't entirely responsible for the situation. That said, more open economies can alleviate certain domestic hardships by turning to external markets, which is something President Trump should keep in mind. Real GDP didn't go up for most of the 1890s (graph 3). The recessions of that decade were mainly the result of a rigid monetary policy based on the gold standard, which tightened credit conditions and held back the surge in industrial investment.

Graph 3
There Are Many Reasons Why the Economy Failed to Grow After the McKinley Tariff Was Introduced
United States



measuringworth.com and Desjardins Economic Studies

Despite all that, once we take a closer look, we can see the economy nevertheless made some great strides. Real GDP more than doubled between 1880 and 1900. The population grew significantly during the period, primarily due to robust immigration. The discovery and extraction of natural resources (including iron, wood, coal and oil) on US soil fuelled the industrial boom. The inflow of skilled labour drawn to the land of opportunity helped encourage the adoption of new techniques. This dramatically boosted [productivity](), which grew even faster than it did in the reigning superpower of the time, the United Kingdom. All these factors certainly played a much bigger role than tariffs in the massive (albeit highly unequal) increase in the wealth of the US population. President Trump needs to understand that an economic boom under a slightly more protectionist policy is only possible if the domestic market and the American population increase sharply, which his administration's immigration policy is very much against.

William McKinley's arrival in the Oval Office after the election of 1896 coincided with a cycle of stronger economic growth. This was when the United States truly became an industrial power. It was also a period of US territorial expansion, with the annexation of Puerto Rico, Guam, the Philippines and Hawaii. McKinley also played a role in Cuba's independence, in the protection of China's territorial integrity against the colonial powers, and in the planning stages of the Panama Canal. Here again we see McKinley's influence on Trump, with his imperialist pretensions toward Canada, Greenland, Panama and even Gaza.

President McKinley's more outward-looking foreign policy ultimately affected his trade policy. Once he saw the strength of domestic production, and the limits of domestic demand, McKinley started to favour opening up to international trade. He laid the groundwork for a policy of reciprocity, which involved negotiating short-term bilateral treaties. These weren't free-trade agreements, but targeted reductions of tariffs based on each country's characteristics. Congress gave him the power to negotiate these treaties. During the period between 1899 and 1901, he negotiated, but failed to get Senate approval of, treaties with France, Argentina, Ecuador, Nicaragua, the United Kingdom and Russia. It's worth pointing out that reciprocity has historically been linked to opening up markets. President Trump appears to have forgotten this, as he uses the term to justify higher tariffs.

President McKinley's violent death in September 1901 put an end to his new, less protectionist approach. He gave his final speech on the day before his assassination. He took the opportunity to clearly state what might have guided his second presidential term: a genuine call for diplomacy and open markets. Two passages seem particularly relevant during the Trump era:

"No nation can longer be indifferent to any other. And as we are brought more and more in touch with each other the less occasion there is for misunderstandings and the stronger the disposition, when we have differences, to adjust them in the court of arbitration, which is the noblest forum for the settlement of international disputes."

"The period of exclusiveness is past. The expansion of our trade and commerce is the pressing problem. Commercial wars are unprofitable. A policy of good will and friendly trade relations will prevent reprisals. Reciprocity treaties are in harmony with the spirit of the times, measures of retaliation are not."

Hopefully President Trump will ultimately look past President McKinley's protectionist beginnings to see what McKinley learned while he was in power and what he really wanted to accomplish.

What to Watch For

UNITED STATES

MONDAY March 3 - 10:00	
February	
Consensus	50.5
Desjardins	50.5
January	**50.9**

ISM Manufacturing index (February) – The ISM Manufacturing index finally surpassed the 50-point mark in January, reaching 50.9, its highest level since September 2022. This 1.7-point monthly increase was also the biggest advance in almost a year. Gains in the production, new orders, employment and export orders components are particularly encouraging. That said, we expect to see more volatility in the coming months as the US imposes tariffs and other countries retaliate. February's regional manufacturing indicators also aren't providing a very good read. The ISM Manufacturing index likely stayed in expansion territory in February but probably edged down to 50.5.

WEDNESDAY March 5 - 10:00	
February	
Consensus	53.0
Desjardins	52.0
January	**52.8**

ISM Services index (February) – While the ISM Manufacturing index hit a two-and-a-half-year high in January, the ISM Services index declined. That said, at 52.8, it remains relatively strong and continues to point to fairly robust economic growth. Based on regional and consumer confidence indexes, the ISM Services index probably fell further in February to 52.0.

FRIDAY March 7 - 8:30	
February	
Consensus	158,000
Desjardins	135,000
January	**143,000**

Change in non-farm payrolls (February) – After net hires ended 2024 with a bang, we saw more timid growth in January. We normally see a pullback after strong monthly growth, and severe weather and the California wildfires exacerbated the situation. Weekly unemployment claims fell over the first half of February, suggesting a pick-up in hiring. However, deteriorating consumer confidence in the job market and uncertainty surrounding potential cuts to the federal government payroll bode less well for the future. February was milder than January, but the storms that hit mid-month could have briefly impacted the job market. We're forecasting a net gain of 135,000 jobs in February. We expect unemployment to stay put at 4.0%.

FRIDAY March 7 - 15:00	
January	**US$B**
Consensus	n/a
Desjardins	20,000
December	**40,847**

Consumer credit (January) – Consumer credit balances posted their strongest monthly growth in December, excluding any increases caused by methodological changes. Term credit and revolving credit (credit cards and lines of credit) increased by similar amounts. Based on weekly banking credit data, consumer credit likely moved higher in January, although not at the same pace as in December.

CANADA

WEDNESDAY March 5 - 8:30	
Q4 2024	**q/q**
Consensus	n/a
Desjardins	0.6%
Q3 2024	**-0.4%**

Labour productivity (Q4) – We anticipate that labour productivity increased 0.6% q/q in Q4 2024 following a 0.4% contraction in Q3. This expected rise likely reflected robust economic activity, as business sector real GDP probably increased 0.5% in Q4. At the same time, business sector total hours worked had a flat profile in the final quarter of 2024. That said, we expect slowing population growth and the potential tariffs from the second Trump administration to influence the trajectory of productivity in Canada.

THURSDAY March 6 - 8:30	
January	**$B**
Consensus	n/a
Desjardins	2.80
December	**0.71**

International trade (January) – Canada probably ended the first month of 2025 with a trade surplus. The significant depreciation of the Canadian dollar likely impacted the trade balance, resulting in a boost in nominal exports and imports. We also expect oil exports to have provided a small bump in response to the extra transport capacity from the TMX. In contrast, we anticipate that Canadian import volumes fell, likely driven by a decline in motor vehicle sales. Our trade forecast continues to contain a lot of uncertainty given the threat of tariffs from the US, which could lead to unexpected fluctuations in the trade balance.

FRIDAY March 7 - 8:30	
February	
Consensus	n/a
Desjardins	20,000
January	**76,000**

Net change in employment (February) – The Canadian economy likely added 20k new jobs in February. Population growth should have continued to slow as the government strives to curtail immigration. Tariff-related uncertainty continues to weigh on business investment and may translate into weaker hiring in the future. Given the muted population trajectory, the below-average job gains expected in this print should translate into a one-tick increase in the unemployment rate, bringing it to 6.7%.

FRIDAY March 7 - 8:30	
Q4 2024	**m/m**
Consensus	n/a
Desjardins	79.5%
Q3 2024	**79.3%**

Industrial capacity utilization rate (Q4) – We anticipate that capacity utilization ticked up to 79.5% in Q4 2024 from 79.3% in Q3. We expect this modest move higher reflected a small boost in activity in construction, forestry, manufacturing and resource extraction. In contrast, the expected weakness in utilities was likely due to unusually warm weather in late fall that led to lower activity in Q4. Looking ahead, we expect capacity utilization to stabilize as the economy experiences conflicting forces of falling-but-still-high interest rates, increased oil exports, potential tariffs from the second Trump administration and slowing population growth.

OVERSEAS

MONDAY March 3 - 5:00	
February	**y/y**
Consensus	2.3%
January	**2.7%**

Eurozone: Consumer price index (February – preliminary) – Eurozone inflation rose in January, continuing its slight upward trend that began late last summer. The year-over-year change in the overall consumer price index (CPI) increased from 1.7% in September 2024 to 2.5% in January 2025. This spike in the CPI was mainly driven by energy prices, which gained 3.0% on a monthly basis in January, the biggest jump since fall 2022. Excluding food and energy, the situation is more stable, with core inflation holding steady at 2.7% for the past five months. Even if prices continue to move higher month over month, base effects should support a moderation in year-over-year CPI growth in February.

THURSDAY March 6 - 8:15	
March	
Consensus	2.50%
Desjardins	2.50%
January 30	**2.75%**

Eurozone: European Central Bank meeting (March) – The European Central Bank (ECB) is set to cut rates by 25bps, bringing the benchmark 2-week refinancing rate to 2.65% and the deposit facility rate to 2.5%. In total, the ECB has cut rates by 125bps since May 2023. The market is pricing in a 25bps cut next week followed by another 60bps by December 18. The OIS curve is implying a terminal rate of around 1.8%, at the lower end of the 1.75%–2.25% range for the neutral rate given by Lagarde. With such a steep reduction already priced in, the market's focus will be on whether the ECB signals a pause at its next meeting on April 17. We expect the ECB to cut by 25bps at each of its next three meetings on March 6, April 17 and June 5, then hold rates steady at 2%.

SATURDAY March 8 - 20:30	
February	**y/y**
Consensus	n/a
January	**0.5%**

China: Consumer price index (February) – China's annual headline inflation rate jumped from 0.1% in December to 0.5% in January. But this was mainly due to base effects, as inflation hit a low of -0.8% in January 2024. Pork prices swung even more dramatically, with this January's 13.8% surge contrasting with a 17.3% decline one year earlier. China's economic situation remains precarious, and price trends are consistent with slowing GDP growth. We'll need to watch inflation closely to see if it eases again once base effects subside in the coming months.

Economic Indicators

Week of March 3 to 7, 2025

Day	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 3	10:00	Construction spending (m/m)	Jan.	0.1%	-0.1%	0.5%
	10:00	ISM Manufacturing index	Feb.	50.5	50.5	50.9
	12:35	Speech by Federal Reserve Bank of St. Louis President A. Musalem				
	---	Total vehicle sales (ann. rate)		15,900,000	16,300,000	15,600,000
TUESDAY 4	---	---				
WEDNESDAY 5	10:00	ISM Services index	Feb.	53.0	52.0	52.8
	10:00	Factory orders (m/m)	Jan.	1.4%	1.9%	-0.9%
	14:00	Release of the Beige Book				
THURSDAY 6	8:30	Initial unemployment claims	Feb. 24–28	n/a	237,000	242,000
	8:30	Trade balance – goods and services (US$B)	Jan.	-91.3	-129.9	-98.4
	8:30	Nonfarm productivity – final (ann. rate)	Q4	1.2%	1.3%	1.2%
	8:30	Unit labor costs – final (ann. rate)	Q4	3.0%	2.9%	3.0%
	10:00	Wholesale inventories – final (m/m)	Jan.	n/a	0.7%	0.7%
	15:30	Speech by Federal Reserve Governor C. Waller				
FRIDAY 7	8:30	Change in nonfarm payrolls	Feb.	158,000	135,000	143,000
	8:30	Unemployment rate	Feb.	4.0%	4.0%	4.0%
	8:30	Average hourly earnings (m/m)	Feb.	0.3%	0.3%	0.5%
	8:30	Average weekly hours	Feb.	34.2	34.1	34.1
	10:15	Speech by Federal Reserve Governor M. Bowman				
	10:45	Speech by Federal Reserve Bank of New York President J. Williams				
	12:20	Speech by Federal Reserve Governor A. Kugler				
	12:30	Speech by Federal Reserve Chair J. Powell				
	13:00	Speech by Federal Reserve Governor A. Kugler				
	15:00	Consumer credit (US$B)	Jan.	n/a	20.000	40.847
CANADA						
MONDAY 3	---	---				
TUESDAY 4	---	2025 British Columbia Budget				
WEDNESDAY 5	8:30	Labour productivity (q/q)	Q4	n/a	0.6%	-0.4%
THURSDAY 6	8:30	International trade ($B)	Jan.	n/a	2.80	0.71
FRIDAY 7	8:30	Net change in employment	Feb.	n/a	20,000	76,000
	8:30	Unemployment rate	Feb.	n/a	6.7%	6.6%
	8:30	Industrial capacity utilization rate	Q4	n/a	79.5%	79.3%

Note: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Standard Time (GMT -5 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of March 3 to 7, 2025

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
MONDAY 3							
Italy	3:45	Manufacturing PMI	Feb.	49.7		46.3	
France	3:50	Manufacturing PMI – final	Feb.	45.5		45.5	
Germany	3:55	Manufacturing PMI – final	Feb.	46.1		46.1	
Eurozone	4:00	Manufacturing PMI – final	Feb.	47.3		47.3	
United Kingdom	4:30	Manufacturing PMI – final	Feb.	46.4		46.4	
Eurozone	5:00	Consumer price index – preliminary	Feb.	0.4%	2.3%	-0.3%	2.5%
Japan	18:30	Unemployment rate	Jan.	2.4%		2.4%	
TUESDAY 4							
Japan	0:00	Consumer confidence	Feb.	35.3		35.2	
Italy	3:45	Unemployment rate	Jan.	6.3%		6.2%	
Eurozone	5:00	Unemployment rate	Jan.	6.3%		6.3%	
WEDNESDAY 5							
France	2:45	Industrial production	Jan.	0.5%	-0.1%	-0.4%	1.7%
Italy	3:45	Composite PMI	Feb.	50.0		49.7	
Italy	3:45	Services PMI	Feb.	51.0		50.4	
France	3:50	Composite PMI – final	Feb.	44.5		44.5	
France	3:50	Services PMI – final	Feb.	44.5		44.5	
Germany	3:55	Composite PMI – final	Feb.	51.0		51.0	
Germany	3:55	Services PMI – final	Feb.	52.2		52.2	
Eurozone	4:00	Composite PMI – final	Feb.	50.2		50.2	
Eurozone	4:00	Services PMI – final	Feb.	50.7		50.7	
Italy	4:00	Real GDP – final	Q4	0.0%	0.5%	0.0%	0.5%
United Kingdom	4:30	Composite PMI – final	Feb.	50.5		50.5	
United Kingdom	4:30	Services PMI – final	Feb.	51.1		51.1	
Eurozone	5:00	Producer price index	Jan.	0.3%	1.3%	0.4%	0.0%
Italy	5:00	Retail sales	Jan.	n/a	n/a	0.6%	0.6%
THURSDAY 6							
Eurozone	5:00	Retail sales	Jan.	0.1%	1.9%	-0.2%	1.9%
Eurozone	8:15	European Central Bank meeting	March	2.50%		2.75%	
China	---	Trade balance (US$B)	Feb.	140.35		124.64	
FRIDAY 7							
Germany	2:00	Factory orders	Jan.	-2.5%	2.6%	6.9%	-6.3%
France	2:45	Trade balance (€M)	Jan.	n/a		-3,905	
France	2:45	Current account (€B)	Jan.	n/a		2.4	
Eurozone	5:00	Net change in employment – final	Q4	n/a	n/a	0.1%	0.6%
Eurozone	5:00	Real GDP – final	Q4	0.1%	0.9%	0.1%	0.9%
SATURDAY 8							
China	20:30	Consumer price index	Feb.		n/a		0.5%
China	20:30	Producer price index	Feb.		n/a		-2.3%

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Times shown are Eastern Standard Time (GMT -5 hours).