

ECONOMIC VIEWPOINT

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

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American protectionism is nothing new. President Trump's trade policy is built on a long tradition. Some of the biggest advocates of high tariffs were Republican politicians of the late 19th century, including William McKinley, the 25th President of the United States. In fact, the current occupant of the White House called McKinley a "great president" yesterday. But is Trump right to be inspired by that period? And has he learned the right lessons from President McKinley's time in office?

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.

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.

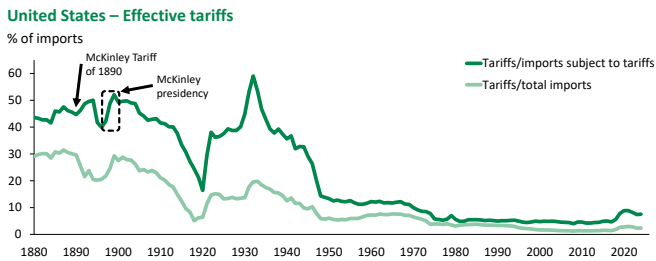
McKinley probably had more influence on US trade policy as a member of the House of Representatives than he did as President of the United States. Second, although protectionism was clearly on the rise at the end of the 19th century, public opinion was deeply divided on the subject, with many of the 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

¹ MERRY, Robert W. *President McKinley: Architect of the American Century*. New York, Simon & Shuster, 2017, 608 p.

² IRWIN, Douglas A. *Clashing Over Commerce: A History of US Trade Policy*. Chicago, The University of Chicago Press, 2017, 860 p.

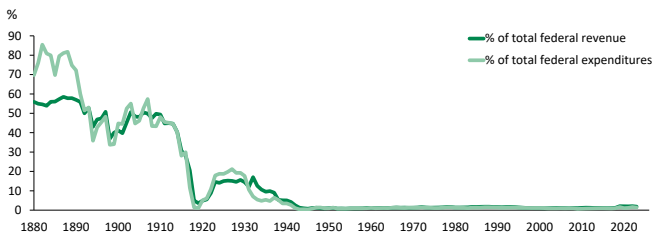
Graph 1
Tariffs Were Particularly High in the McKinley Era



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

Republicans definitely didn't want that to happen. In the 19th century, the debate over trade policy centred on the reason 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.

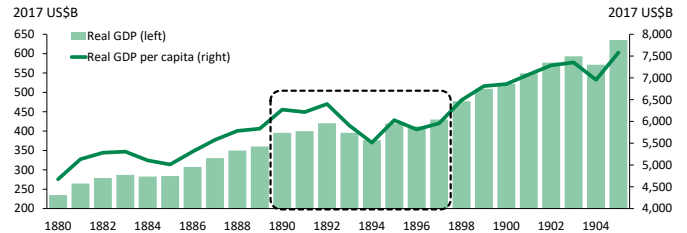
Graph 2
Tariffs Were a Major Source of Revenue at the End of the 19th Century ... That's No Longer the Case



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



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.