Revisiting the McKinley Tariff of 1890 through the Lens of Modern Trade Theory

[o3 Deep Research] *

Abstract

This paper was written with a one-shot prompt (from Kevin Bryan) on o3 Deep Research, no iteration, 10 minutes of thinking. The Tariff Act of 1890, better known as the McKinley Tariff, was a pivotal episode in U.S. trade policy, dramatically raising import duties to near-record levels. This paper provides an analysis of the McKinley Tariff by integrating historical evidence with insights from modern international trade theory. We revisit the economic and political debates of the 1890s using contemporary trade models—including models of heterogeneous firms (Melitz, 2003), Ricardian comparative advantage in general equilibrium (Eaton and Kortum, 2002), and other new trade theory advances—to re-evaluate the tariff's impacts. Historical data on trade flows, tariff rates, and industry output are analyzed alongside contemporary accounts to assess the short- and long-run effects of the tariff. We find that while the McKinley Tariff accelerated the development of certain industries (notably tinplate production) and was implemented in an era of changing comparative advantage for the United States, its overall welfare effects were mixed and likely negative when evaluated with modern trade metrics. The tariff's protective gains to manufacturers came at the cost of higher prices for consumers and implicit burdens on agricultural exporters. However, consistent with modern trade models, the United States' large market power meant some tariff incidence was borne by foreign exporters. The paper concludes by drawing parallels between the McKinley Tariff episode and contemporary trade policy tensions, including recent U.S.-China tariff disputes and debates over protectionism in the global trading system.

1 Introduction

In October 1890, *The New York Times* ran a headline lamenting rising prices: "Up Go The Prices Now; How the McKinley Tariff Taxes the Necessaries of Life."[1] This contemporary reaction captured the public anxiety toward the Tariff Act of 1890, commonly known as the McKinley Tariff. Named after Congressman (and future President) William McKinley, the act raised average import duties to unprecedented heights—nearly 50% on dutiable imports, up from roughly 38% previously (Taussig, 1914). It exemplified the zenith of 19th-century American protectionism, provoking fierce debate between proponents who argued it

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[1] *New York Times*, October 21, 1890.

would safeguard American industries and critics who warned of higher consumer costs and international retaliation.

This paper revisits the McKinley Tariff with the benefit of modern economic theory and historical hindsight. Our goal is to provide a fresh analysis of the tariff's causes and consequences by blending a narrative historical approach with analytical frameworks developed in international trade economics over the past few decades. Specifically, we employ insights from "new trade" models—including heterogeneous-firm models (Melitz, 2003), multi-country Ricardian models (Eaton and Kortum, 2002), and gravity-based approaches—to interpret the impact of the McKinley Tariff on trade flows, welfare, and the U.S. economy's structural transformation. We also draw on primary historical data and accounts to ground our analysis in the realities of the late 19th century. Ultimately, we compare the historical trade debate to contemporary issues such as U.S.-China trade tensions and the resurgence of protectionism, highlighting enduring lessons for current policy.

Why examine a 130-year-old tariff through the lens of modern theory? The late 19th century was a formative period for the American economy, marking its emergence as an industrial powerhouse. Between 1890 and 1910, the United States dramatically shifted from a trade pattern of primarily exporting agricultural goods and importing manufactures to becoming a net exporter of industrial products (Irwin, 2017). The McKinley Tariff was enacted at the cusp of this transformation. Analyzing this policy with today's economic models allows us to quantify and understand its effects in a way that contemporaries could not. Furthermore, many of the debates from the 1890s echo in today's discussions: arguments about protecting industries and workers, concerns about consumer prices, and questions about whether tariffs can rebalance trade or secure national economic interests. By understanding the McKinley Tariff's outcomes, we can better inform these ongoing debates.

We proceed as follows. Section 2 provides historical background on the McKinley Tariff, including its political context, key provisions, and immediate economic impact as recorded by 19th-century observers. Section 3 reviews prior empirical findings on the tariff's effects from economic historians and contrasts the period's conventional wisdom with insights from modern trade theory. Section 4 reinterprets the McKinley Tariff through the frameworks of contemporary trade models: we discuss how a large tariff would be expected to operate in models of comparative advantage, monopolistic competition with heterogeneous firms, and general equilibrium trade with multiple countries. Where possible, we bring historical data to bear on these theoretical predictions (for example, examining trade flows and industry output before and after the tariff). Section 5 revisits specific outcomes, such as the development of the U.S. tinplate industry as an "infant industry" case study, and analyzes tariff incidence and welfare through modern quantitative trade metrics. Section 6 concludes by linking the lessons from the McKinley Tariff to present-day trade policy issues, including the recent U.S.-China tariff escalation, debates over the merits of protectionism, and the role of institutions like the WTO in preventing tariff wars.

2 Historical Background: The McKinley Tariff of 1890

The McKinley Tariff must be understood in the context of the late 19th-century United States, a period marked by rapid industrialization, intense partisan rivalry over trade policy,

and shifting global economic dynamics. Following the Civil War, the U.S. had maintained relatively high tariffs, initially as a means to generate federal revenue and later as a tool for protecting nascent industries (the classic "infant industry" argument). By the 1880s, tariffs had become a central cleavage in American politics: the Republican Party staunchly supported high protective tariffs, while the Democratic Party generally advocated for lower tariffs to reduce consumer costs and the federal budget surplus (Irwin, 2017).

William McKinley, an Ohio Republican and chair of the House Ways and Means Committee, was a leading champion of protectionism. Under his leadership, and with Republicans in control of Congress and the White House (President Benjamin Harrison), a sweeping tariff bill was crafted in 1890. After extensive debate and over 450 amendments in Congress, the Tariff Act of 1890 was signed into law on October 1, 1890 (Taussig, 1914). Its primary feature was a steep increase in import duties: average tariffs on all imports rose from roughly 38 percent to 49.5 percent (Taussig, 1914), one of the highest levels in U.S. history up to that point. Table 1 summarizes the magnitude of the McKinley Tariff in comparison to preceding and succeeding tariff acts.

Table 1: Major U.S. Tariff Acts and Average Tariff Rates on Dutiable Imports

Tariff Act	Year	Average Duty (% on dutiable imports)
Morrill Tariff (post-Civil War)	1865	$\sim 47\%$
Tariff of 1883 ("Mongrel" Tariff)	1883	$\sim 40\%$
McKinley Tariff	**1890**	**49.5%**
Wilson–Gorman Tariff	1894	$\sim 40\%$
Dingley Tariff	1897	$\sim 52\%$
Underwood Tariff	1913	27%

Sources: Taussig (1914), Irwin (2017). Exact averages are historical estimates.

The McKinley Tariff was notable not only for its high average rates but also for its specific provisions. It raised duties across a wide range of manufactured goods to protect U.S. industrial producers. For example, the duty on woolen manufactures, glass, and certain metal products increased substantially. In the case of tinplates (thin sheets of iron or steel coated with tin, used for canning and other purposes), the tariff rate was hiked from 30 percent to 70 percent (Irwin, 2000), a move explicitly intended to stimulate the creation of a domestic tinplate industry (we analyze this outcome in Section 5). McKinley became known as the "Napoleon of Protection" for his role in orchestrating these increases.

Curiously, even as it raised most tariffs, the McKinley Tariff made some high-profile cuts. It placed raw sugar on the duty-free list, eliminating the import tax on sugar, which was at that time the single largest source of U.S. tariff revenue. To placate domestic sugar producers (primarily in Louisiana and some territories), the act provided them with a subsidy (a bounty of 2 cents per pound of sugar produced domestically) instead of tariff protection. Items like molasses, coffee, tea, and hides were also made duty-free (Irwin, 2017). These changes reflected a strategy to reduce the federal government's budget surplus by sacrificing some revenue (from sugar tariffs) while avoiding lowering industrial tariffs that protected domestic manufacturers (Irwin, 2007). The act further authorized the President to negotiate

reciprocity agreements: if other countries imposed unfair restrictions on U.S. goods, the President could re-impose tariffs on sugar, coffee, tea, etc., as retaliation. This reciprocity clause led the Harrison administration to forge trade agreements with countries such as Brazil (encouraging access for U.S. manufactures in exchange for continued free entry of coffee and sugar). Thus, the McKinley Tariff was both protectionist and an early forerunner of the reciprocal trade negotiating framework that would reappear in U.S. policy in later years (notably under the 1934 Reciprocal Trade Agreements Act).

The immediate economic effects of the McKinley Tariff were mixed and the subject of considerable controversy at the time. As the *New York Times* excerpt suggests, American consumers and merchants observed a rise in prices of many imported consumer goods once the tariff went into effect. Importers rushed to bring in goods before the tariff increase became effective, leading to a temporary surge in late-1890 imports and then a sharp drop in early 1891. Many basic household items—from clothing and shoes to canned goods—saw retail price increases attributed to the new duties. Contemporary accounts in newspapers around the country detailed the higher cost of living and often criticized the tariff for "taxing the necessities of life." In one vivid political cartoon from *Harper's Weekly* in 1890, the tariff was depicted as a barrage of new taxes falling on the common consumer's back.

From a fiscal standpoint, the removal of the sugar duty caused an interesting outcome: despite the general increase in tariff rates, U.S. customs revenue actually fell in the first year of the McKinley Tariff. Treasury data show that customs revenue in FY1891 (after the tariff) was around $215 million, down from about $225 million in FY1890 (Irwin, 2007). This decline was largely due to lost sugar duties. Indeed, economic historian Douglas Irwin calculates that if sugar imports are excluded, tariff revenue from other imports rose by roughly 8 percent after 1890 (from $170 million to $183 million) (Irwin, 2007). In other words, higher duties on protected manufactures did raise revenue from those imports, but that gain was more than offset by the elimination of duties on sugar. The U.S. government, running surpluses in the late 1880s, could afford this revenue loss; in fact, Republicans saw it as preferable to cutting protective tariffs to reduce the surplus.

On the political front, the McKinley Tariff quickly became unpopular with many voters, especially in agrarian states and among urban consumers. In the congressional elections of November 1890, just a month after the tariff became law, the Republican Party suffered a landslide defeat, losing the House of Representatives to the Democrats. Tariffs were a major campaign issue, and backlash against the McKinley duties was arguably a key factor in that election result (Irwin, 2017). The swing was dramatic enough that William McKinley himself lost his re-election bid for his Ohio congressional seat in 1890 (though he later became Governor of Ohio, and in 1896, President). The Democratic victory set the stage for the Wilson–Gorman Tariff of 1894, which partially reversed the McKinley Tariff by lowering average rates (though not as drastically as Democrats originally sought). Ironically, however, by the time the Democrats managed to reduce tariffs in 1894, the country was entering the severe Panic of 1893 depression, and other issues (like monetary policy and the gold vs. silver standard debate) had overtaken tariffs as the central political question (Irwin, 2017).

In summary, the McKinley Tariff was a high-water mark of 19th-century U.S. protectionism. It encapsulated the Republican Party's philosophy of the time: that high import tariffs would "secure the American market for the American producer" and uphold high wages for American workers. Indeed, the Republican campaign platform in 1896 would proudly reaf-

firm protectionism as "the bulwark of American industrial independence" and claim that it "puts the burden of revenue on foreign goods" while guaranteeing prosperity at home (Chang, 2002). However, the short-term fallout included political backlash and noticeable price increases for consumers. The longer-term economic effects are less immediately evident from simple observation, as many other changes were happening in the 1890s. To disentangle and evaluate those effects, we now turn to systematic empirical evidence and the interpretive power of modern trade models.

3 Prior Analyses and New Trade Theory Insights

How did the McKinley Tariff affect the U.S. economy? Economic historians have explored this question using the tools of their times, and their findings provide a starting point for analysis. In this section, we first review some key empirical and historical studies on the late-19th-century U.S. tariffs. We then discuss how modern trade theory can add further insight, by providing conceptual frameworks for understanding tariffs that were not available to analysts in 1890.

3.1 Historical Empirical Evidence on the Tariff's Effects

One immediate effect of a tariff is to raise domestic prices of imported goods. Contemporary observers in 1890-1891 clearly noted this outcome: prices of imported textiles, tinware, glassware, and other consumer products increased. What is harder to measure without modern data analysis is how much of the tariff was passed through to consumers versus absorbed by foreign exporters via lower export prices. This question—known as the incidence of a tariff—was later studied by economists using historical price data. Irwin (2007) examines price movements of traded goods in the late 1880s and early 1890s to infer tariff incidence. His findings suggest that the high tariffs of the era (averaging roughly 30–50%) did not translate into an equally large increase in domestic prices of imports; instead, domestic prices rose by a smaller amount, implying that foreign exporters reduced their prices (in gold terms) to maintain some market presence. In effect, the United States, as a large importer, was able to push part of the tariff burden onto foreign producers by worsening their terms of trade. Quantitatively, Irwin estimates that the average 30% U.S. tariff of the 1880s functioned more like a 15% effective subsidy to import-competing domestic producers and an 11% tax on exporters, rather than a full 30% wedge (Irwin, 2007). This means domestic import-competing firms got a 15% price boost relative to foreign competitors (not the full 30%), and U.S. exporters (primarily farmers) suffered about an 11% price disadvantage in world markets due to foreign retaliation or exchange rate effects.

Another empirical consideration is the tariff's impact on trade volumes. U.S. import data show that after the McKinley Tariff, import volumes (especially for certain goods) declined as expected. For example, the quantity of tinplate imports fell significantly once the 70% duty came into force, as domestic production started to replace imports (see Section 5.1). Overall, the early 1890s saw a reduction in import growth, though part of this coincided with the 1893 depression which dampened all trade. U.S. export growth in the early 1890s was sluggish as well, partly because of global conditions and possibly due to some foreign

retaliation (though no major foreign power instituted a specific anti-U.S. tariff in direct response, many were already raising their own tariffs in this period). On net, the U.S. trade balance actually improved during the first half of the 1890s. Historically, the U.S. had often run trade deficits as a developing agrarian economy, but from the 1870s onward it typically ran trade surpluses. In fact, between 1870 and 1970, the U.S. goods trade balance was on average a surplus of about 1.1% of GDP (Reinbold and Wen, 2019). The 1890s fit this pattern: despite the tariff (or perhaps in part because of it), the U.S. maintained a surplus, exporting more goods (like cotton, wheat, meat, and increasingly some machinery) than it imported. We note, however, that attributing the trade balance to the tariff alone would be simplistic; macroeconomic factors and European demand for U.S. exports played significant roles.

A major question is whether the McKinley Tariff achieved its core aim: protecting and fostering American industries. Anecdotally, certain industries claimed success. The most famous case is the tinplate industry. Before 1890, the U.S. imported virtually all tinplate (mostly from Britain). Previous attempts to start domestic production in the 1870s had failed due to cheaper British competition. The McKinley Tariff's steep duty gave a strong price umbrella for American entrepreneurs to enter the market. By the mid-1890s, new tinplate mills in Pennsylvania were producing a large share of domestic consumption. By 1897, the U.S. tinplate industry was sufficiently established that it was meeting over one-third of domestic demand, a trigger that (by a provision of the 1890 law) could have led to the tariff's removal (though in practice the Dingley Tariff of 1897 kept protection high) (Irwin, 2000). Other industries that benefited included woolen textiles (shielded from British imports) and certain types of machinery and tools.

Economic historians have attempted to evaluate whether this protection actually spurred nascent industries that otherwise would not have developed, and if so, at what cost. Irwin (2000) provides a detailed case study of the tinplate industry, treating it as an example of the infant industry argument. By estimating cost conditions and entry dynamics, he finds that absent the McKinley Tariff, a competitive U.S. tinplate industry would likely have emerged about a decade later (around the early 1900s) when American steel prices fell to parity with Britain's. The tariff accelerated the industry's birth, but consumers paid higher prices for tin cans in the interim. When weighing those consumer costs against the benefits of earlier domestic production, Irwin concludes that the protection did not pass a cost-benefit test: the welfare losses (to consumers and perhaps related industries) outweighed the gains to producers and any learning-by-doing benefits. This echoes a general finding in the tariff history literature: while high tariffs clearly redistributed income in favor of protected manufacturers, they were not an unequivocal net benefit to the overall economy's growth (Irwin, 2017). Indeed, U.S. economic growth in the late 19th century was strong (about 4.3% real GNP growth annually from 1870 to 1913, faster than Britain's (**?**)), but attributing this to the high tariffs is contentious. Some, like economic historian Paul Bairoch, famously pointed out that the U.S. grew rapidly behind its tariff wall, suggesting a positive role for protection (Bairoch, 1993). Others, such as Irwin (2000) and **?**, argue that growth was driven by deeper factors like abundant resources, innovation, and population expansion, with tariffs possibly shaping the sectoral composition (more industry, less import competition) but not necessarily increasing overall welfare.

Finally, the McKinley Tariff had political and institutional repercussions that are part of

its historical impact. The backlash helped usher in a brief period of lower tariffs (1894–1896), but the return of Republicans to power in 1896 led to even higher tariffs under the Dingley Act. The oscillation of U.S. tariff policy in this era highlighted the deep divide between interests of industrialists (and their workers) versus farmers and consumers. It also hinted at the inefficiencies of extreme protection: by 1896, even McKinley as a presidential candidate spoke of the need for reciprocity and more flexibility, suggesting that perpetual escalation of tariff rates was not sustainable. This foreshadows the later shift toward negotiated tariff reductions in the 20th century (after 1934).

3.2 Modern Trade Theory Perspectives

While historical evidence gives us specific facts, modern trade theories provide a structured way to interpret those facts and make generalizable predictions. The late 19th century economists did not have formal models of international trade beyond classical comparative advantage (Ricardian and early Heckscher-Ohlin ideas) and an understanding of tariff supply-demand effects. Today, however, we can analyze a tariff using several complementary models:

Comparative Advantage and Ricardian General Equilibrium: The classical Ricardian model of trade, updated for many countries and goods by Eaton and Kortum (2002), would view the McKinley Tariff as an increase in the cost of importing goods in which foreign nations had a comparative advantage. In 1890, the U.S.'s comparative advantage was shifting but can be simplified as follows: the U.S. was relatively abundant in land and natural resources (hence efficient in agriculture and raw materials) and catching up in manufacturing productivity but still behind Britain and some European nations in certain industries. Imposing a tariff on manufactured imports effectively pushes the U.S. equilibrium to produce more of those manufactures domestically (moving along its production possibility frontier), and consume fewer imported manufactures. In an Eaton-Kortum style quantitative Ricardian model, one could imagine countries (USA, UK, Germany, etc.) each with a distribution of productivity draws across goods. A tariff raises the effective cost of foreign goods for U.S. consumers by a factor $(1 + \tau)$. The result is that for many goods where the foreign price was only slightly cheaper than U.S. domestic price, the tariff flips the advantage to domestic producers. U.S. import shares should decline, and the domestic share (self-sufficiency) should increase. In fact, we observe exactly that: for example, U.S. consumption of iron and steel goods that were previously imported switched to domestic sources in the 1890s as the industry developed behind protection.

One important insight from modern trade models is the concept of *trade elasticity*, which measures how responsive import volumes are to changes in trade costs. If imports of a good drop drastically when a tariff is imposed, it indicates a high elasticity (consumers either find domestic substitutes or do without the imported variety). If imports persist despite the tariff, elasticity is lower (perhaps due to lack of substitutes). The McKinley Tariff, being large, provides a quasi-experiment for elasticity in the 1890s. Anecdotally, some imports almost disappeared (tinplate, certain woolen fabrics), suggesting a high elasticity as domestic products replaced them. Others, like imported luxury goods or specialties, continued to be imported albeit at higher prices, implying lower elasticity (people still paid a premium for say, fine European linens or wines). In a modern Ricardian or Armington model, one could

calibrate these responses to estimate overall welfare effects. A key formula from **?** shows that the welfare gain from trade (relative to autarky) in a wide class of models can be summarized by the share of expenditure on imports and the trade elasticity. In reverse, the welfare *loss* from raising trade barriers can be approximated. If the U.S. import share of GDP in 1890 was, say, around 7-8% (a rough estimate) and the elasticity of import demand was around 3 to 5 (typical range in the trade literature), one could estimate the real income loss from moving to a more protectionist position. While such an exercise is beyond the scope of this paper to do precisely, qualitatively it likely would show a modest net welfare loss for the U.S. from the McKinley Tariff, because the U.S. was not extremely open to begin with (so the share of imports was not huge), but it did impose a significant distortion.

Another Ricardian insight involves *terms of trade*. As mentioned, if the U.S. was a large importer of certain goods (like British steel), by imposing a tariff it could force foreign exporters to lower their prices to keep selling. This improves the U.S. terms of trade (the price of exports relative to imports). Terms-of-trade improvement is a classic rationale for an "optimal tariff." In 1890, Senator Nelson Aldrich (a Republican ally of McKinley) even argued that foreigners would bear part of the tariff burden by accepting lower profits. Modern trade theory formalizes this: a large country has an optimal tariff $t^* = 1/\varepsilon_{foreign}$, where $\varepsilon_{foreign}$ is the foreign export supply elasticity. If foreign producers are not very responsive (inelastic supply), a large country can gain from a tariff up to a point. However, foreign nations may retaliate, leading to a Prisoner's Dilemma (everyone loses in a trade war). Bagwell and Staiger (1999) note that this terms-of-trade externality is a primary reason trade agreements (like the GATT/WTO) seek to constrain tariffs. In the 1890s, there was no WTO—so the U.S. unilaterally exploited its market power in some cases. The British, being free trade oriented then, did not retaliate, which meant the U.S. may indeed have gained some terms-of-trade benefit. France and Germany were raising their own tariffs for their own reasons (France's Méline tariff of 1892, for example), but not specifically targeting the U.S. The result was a somewhat fragmented global trade environment without coordination.

Heterogeneous Firms (Melitz) Model: One of the most important developments in trade theory in recent decades is the Melitz model of trade with firm heterogeneity (Melitz, 2003). In that model, only the more productive firms can overcome the fixed costs of exporting, and trade liberalization causes within-industry reallocations (the most productive expand, the least productive contract). How would a high tariff look through the Melitz lens? Essentially as a trade *cost* that selects which foreign firms can serve the U.S. market. Under McKinley-level tariffs, many foreign firms that previously exported to the U.S. would find it unprofitable to continue (especially smaller or higher-cost producers). Only the most efficient foreign firms, which can still compete even after paying the tariff, would export to the U.S. Thus, American consumers might still see some imported varieties, but fewer than before, and those that remain could be from the best foreign producers (who can cut prices to absorb some tariff). This implies a reduction in variety available in the U.S. market—a point that consumers in 1890 might not articulate in these terms, but which some historians note: for example, certain specialized machinery or luxury goods simply became unavailable or very costly, reducing consumer choice. Meanwhile, on the U.S. side, domestic firms facing less import competition could expand. The Melitz model predicts that some marginal domestic

firms (which might have been just below break-even under free trade) can now survive when imports are curtailed. This could lead to an expansion of the number of domestic firms (entry of new firms in protected sectors) in the short run. Indeed, the emergence of domestic tinplate producers or expansion of textile mills can be seen as an outcome of this mechanism.

However, the Melitz model also reminds us of efficiency: the new domestic entrants are likely less efficient than the foreign firms that were supplying the market (otherwise they would have existed even without protection). So while production shifts to domestic firms, the overall productivity in that sector may be lower than it was when relying on imports from highly efficient British or German factories. This is a source of welfare loss in modern models—the reallocation is beneficial to certain firms and workers, but the economy produces those goods at higher resource cost. The net effect on productivity in manufacturing could be negative. There is some evidence that late 19th-century U.S. manufacturing had to climb a learning curve; for instance, early U.S. tinplate was more expensive to produce than British imports, until learning and scale economies were achieved (Irwin, 2000). In a Melitz-type dynamic, one could argue the tariff allowed this learning to happen domestically, which might yield future gains (a dynamic externality). But absent clear evidence of such external economies, the safer conclusion is that the tariff caused static inefficiency.

The Melitz model also highlights distributional effects within industries: the biggest U.S. firms likely benefited, and possibly grew larger under protection (facing less foreign rivalry). Some economic historians like Alfred Chandler have documented the rise of large American corporations in the late 19th century; one contributing factor was that a protected large home market allowed U.S. firms to achieve scale behind tariff walls (e.g., U.S. Steel, which formed in 1901, faced limited foreign competition in the domestic market due to tariffs on steel rails and products). This raises an interesting link: high tariffs may have facilitated monopolistic or oligopolistic structures in the U.S. by keeping foreign competitors out. Indeed, Democratic critics in the 1890s argued that the tariff fostered "trusts" (monopolies) that then raised prices on consumers even beyond the tariff effect. Modern industrial organization theory would suggest some merit to this concern: if entry is limited and the domestic market is concentrated, prices can rise further. The McKinley Tariff thus might have indirectly encouraged consolidation in some industries.

Gravity Models and Trade Costs: Another modern perspective is the gravity model of trade, which is an empirical framework rather than a single theory, but it flows from many trade models. The gravity equation posits that trade volumes between two countries are proportional to their economic sizes (GDPs) and inversely related to trade costs (including tariffs). Using a gravity lens, the McKinley Tariff is an increase in bilateral trade costs between the U.S. and all trading partners. We would expect to see U.S. imports from all partners fall relative to what they would have been. Quantifying this in 1890 requires data on bilateral trade. While we won't digress into a full econometric gravity analysis, it is noteworthy that around this time, U.S. imports from the UK (its largest supplier) stagnated, and import growth from other industrial countries also slowed. Meanwhile, U.S. exports were more driven by foreign economic growth (Europe's demand for foodstuffs) than by any direct tariff retaliation. So the net effect in gravity terms is asymmetric: U.S. imports shrank due to higher U.S. tariffs, but U.S. exports did not shrink proportionally

since other countries mostly maintained their market openness for raw materials (Europe wanted American cotton, grains, etc.). This asymmetry would benefit the U.S. terms of trade, as mentioned, but also meant that foreigners might resent the situation—planting seeds for future trade negotiations.

Macroeconomic Context: It is important to note that the McKinley Tariff happened during an era of the classical gold standard. The U.S. remained on gold, and capital flows were significant. A comprehensive analysis of a tariff's effect should consider macroeconomic adjustments: for example, a tariff can cause currency appreciation if gold flows in (since fewer imports mean a trade surplus, ceteris paribus, which might attract gold or cause an adjustment in prices). In practice, after 1890 the U.S. did see gold inflows, but they were soon overwhelmed by the Panic of 1893 which led to gold outflows and pressure on the dollar (Treasury gold reserve). That crisis was largely a banking and monetary one, not caused by the tariff, but it complicated the economic environment. Some observers argued that the tariff aggravated the plight of farmers by making manufactured goods expensive at a time when farm prices were plummeting due to deflation (caused by gold scarcity). This dynamic is reminiscent of the macro argument that a tariff is contractionary when an economy is constrained (it redistributes income, possibly away from high-spending groups like farmers, and doesn't necessarily boost aggregate demand since the government was running surplus rather than spending the revenue). Modern open economy macro models could theoretically incorporate the tariff as a shock and trace its general equilibrium effect on income, spending, and prices.

To keep our analysis focused, we note simply that the broader macro context (the gold standard and deflationary pressures) likely amplified the pain felt by some groups. Farmers in the 1890s faced falling crop prices globally; the tariff did little to help them because it primarily protected manufactures. In fact, as Irwin (2007) notes, the tariff effectively acted as a tax on exporters (farmers) by contributing to an appreciation of non-traded goods prices relative to exportables. This might help explain why agrarian interests vehemently opposed the tariff.

In summary, modern trade theory complements historical evidence by offering a more structured interpretation: The McKinley Tariff, as a large-country tariff, likely improved U.S. terms of trade but at the cost of reduced efficiency and consumer welfare. It benefited certain producers and induced resource shifts consistent with comparative advantage—accelerating U.S. manufacturing at a time when the country was on the verge of industrial dominance. But it also had distributional consequences, enriching industrial firms and workers while harming consumers and exporters. These insights align well with the historical record when viewed through an objective lens. We now delve into specific aspects of the tariff's impact with a reanalysis in Section 5, using some data and case studies to illustrate these mechanisms.

4 Reanalysis of the McKinley Tariff's Effects with New Models and Data

In this section, we attempt to bring together the historical data and narratives with the conceptual frameworks discussed, to reevaluate key outcomes of the McKinley Tariff. We focus on three interrelated areas: (1) industry-level outcomes, especially the often-cited *infant industry* case of tinplate, (2) tariff incidence and welfare implications using a modern quantitative approach, and (3) the tariff's role in the broader shift of U.S. comparative advantage and trade patterns around the turn of the century.

4.1 Infant Industry Protection: The Tinplate Case

The tinplate industry provides a natural experiment of protection. Table 2 summarizes the rapid changes in this industry around the time of the McKinley Tariff.

Table 2: U.S. Tinplate Production and Imports

Year	U.S. Domestic Production (tons)	Imports (tons)	Tariff Rate on Tinplate
1885	0 (no domestic industry)	$\approx$ 300,000	30% ad valorem
1890	$<$ 1,000 (experimental)	343,000	30% (pre-McKinley)
1892	20,000	249,000	70% ad valorem (McKinley)
1895	159,000	100,000	70%
1900	341,000	35,000	70% (Dingley kept high)

Sources: U.S. Treasury trade reports (annual); Irwin (2000). Figures are approximate.

Prior to 1890, the U.S. imported virtually all its tinplate, primarily from Britain (South Wales). The McKinley Tariff created a profit opportunity for domestic production by imposing a 70% duty, which roughly raised the cost of imported tinplate by 2.2 cents per pound (tinplate was about 2.5-3 cents/lb in world price at the time) (Irwin, 2000). American entrepreneurs quickly seized this opportunity: new tinplate mills were built in Pennsylvania and Indiana. By 1892, domestic output, though still modest, had begun. By 1895, U.S. tinplate production had expanded dramatically, capturing over 60% of the domestic market (159k vs 100k tons). Imports fell accordingly. By 1898-1900, the U.S. became essentially self-sufficient in tinplate, producing as much as it formerly imported. This growth would seem to vindicate the infant industry argument—the tariff allowed a new industry to grow where none existed.

However, as noted earlier, the welfare calculus is not so favorable. U.S. consumers of tinplate (which includes canneries, food companies, and ultimately consumers of canned goods) paid higher prices during those years. Irwin (2000) calculates that the tariff raised domestic tinplate prices by nearly the full amount of the duty initially (British producers did lower their prices some, but given the emergence of U.S. output, one can infer that domestic producers set prices just below the tariff-inclusive import price). This meant that for much of the 1890s, Americans paid substantially more for canned food containers. The tariff revenue

collected on tinplate was effectively transferred to domestic manufacturers (and some of it was deadweight loss from reduced consumption).

Irwin's counterfactual simulation suggests that without the tariff, domestic tinplate production might have only become viable around 1902 or later, when converging iron and steel costs made U.S. production more competitive naturally. So the tariff potentially gave the U.S. a tinplate industry 10 years earlier than otherwise. Was it worth it? Irwin's cost-benefit analysis says no: the cumulative consumer cost exceeded the profits or learning benefits to producers. The industry did not display extraordinary learning effects beyond what would have happened a decade later with slightly better technology and scale.

One could ask: did having tinplate earlier confer any external advantages (like supporting the domestic canned food industry or military self-sufficiency)? The evidence is not strong on that. The canning industry likely would have had access to cheap imported tinplate in the 1890s; instead, they paid more for domestic tinplate, which might have slightly slowed the expansion of canned goods usage (though it's hard to measure). Strategically, some might have argued it was good for the U.S. to not depend on imports for such a crucial input, but during peacetime this argument was not predominant.

The tinplate story mirrors other industries where tariffs helped jump-start domestic production (woolens, sugar refining, etc.), often successfully, but at a cost. Modern trade models with dynamic considerations (e.g., learning-by-doing models or endogenous productivity growth models) can theoretically justify infant industry protection if future productivity gains are large enough and cannot be captured by private firms without protection. In the Melitz model, for instance, if initial productivity is low but can improve with cumulative output, a temporary tariff might allow domestic firms to scale up and become globally competitive later. This logic was essentially what McKinley and others believed—they often cited the early American textile industry's success after initial protection.

The case of tinplate suggests that while the industry did become competitive (indeed, by the 1910s the U.S. was producing tinplate at world-class efficiency), the necessity of the tariff is debatable. By the time the U.S. had a large steel industry (late 1890s), making tinplate was more about technique and moderate investment than fundamental incapacity. Thus, a modern interpretation is that the McKinley Tariff accelerated an industrial shift that was probably going to happen as America's comparative advantage evolved, but at a net efficiency cost. This resonates with the view in Irwin (2017) that high tariffs shaped *when* and *which* industries grew, more than *whether* the U.S. would industrialize (which it was doing anyway).

4.2 Tariff Incidence and Welfare: Quantitative Illustration

We now attempt a more quantitative reassessment of the tariff's overall welfare impact using a back-of-the-envelope approach from modern trade economics. As mentioned, one key formula is that in a class of trade models (Ricardian, Armington, monopolistic competition, etc.), the welfare effect of moving from free trade to a certain trade regime (or vice versa) can be approximated by:

$$\frac{W_{\text{after}}}{W_{\text{before}}} = \lambda_{ii}^{-1/\epsilon},$$

where λ_{ii} is the share of expenditure on domestic goods (i.e., one minus the import share) and ϵ is the trade elasticity (the elasticity of imports with respect to trade costs). For a small change like a tariff increase, the differential change in welfare $dW/W \approx -\frac{M}{Y}\frac{d\tau}{(1+\tau)}\epsilon^{-1}$ (this is heuristic).

For 1890, let's plug in rough numbers: The import/GDP ratio for the U.S. was likely around 4-8%. Official figures for 1890: U.S. merchandise imports were about $789 million, GDP was roughly $13 billion (estimating from historical GNP series) (**?**). That would put imports at 6% of GDP. The McKinley Tariff was a big increase in τ on a large portion of those imports (dutiable ones). If previously the average duty was 38%, and it became 49.5%, that's an increase in tariff of about 11.5 percentage points on dutiable imports (which were maybe 60-70% of total imports by value, since some were duty-free). Weighted across all imports, it's perhaps a 7 percentage point rise in the effective tariff rate (just a guess).

If elasticity of import demand is, say, 3 (a standard macro elasticity), then the proportional reduction in import volume would be significant (which matches imports dropping in 1891). For welfare, the cost to consumers can be thought of as the lost consumer surplus from more expensive imports. Using a Harberger triangle approximation: the deadweight loss (DWL) from a tariff is $\approx \frac{1}{2}\tau^2 \times$ import value $\times$ elasticity. For small τ this works, but τ is large here. Perhaps a better approach: the area under a demand curve lost. Alternatively, compute if the share of imports in consumption falls.

To avoid too technical a calculation, let us defer to known results: Irwin (2007) found that the cost to consumers was "only slightly negative" on average, partly because consumer expenditure was weighted towards non-traded (services, housing) and exportable goods (like food) whose prices actually fell relative to others. That is an interesting general equilibrium twist: the tariff raised some prices (import-competing goods) but via factor market/general equilibrium, some other prices fell (notably, prices of exportables like wheat in domestic terms, since farmers got lower world prices). So consumer price index might not rise as much as the tariff would suggest if their basket included a lot of those items.

He also noted a huge income redistribution (about 9% of GDP) between groups (from exporters to protected producers, etc.) (Irwin, 2007). That highlights that the tariff was a big deal in distributional terms, even if aggregate welfare (sum of everyone) was not drastically changed (maybe a few percent of GDP at most in deadweight loss). 9% of GDP being redistributed is enormous—this includes transfers via higher profits/wages in protected industries and lower incomes in export sectors. For perspective, 9% of GDP today would be a multi-trillion dollar redistribution.

So modern analysis would say: the McKinley Tariff had a large redistributive impact, a modest negative efficiency impact, and a slight terms-of-trade benefit offsetting some losses. If the U.S. had been a small economy with no impact on world prices, the welfare loss would be larger; as a large economy, it clawed back some gains by reducing foreign exporter surplus.

Who internationally bore the cost? Likely British manufacturers got slimmer profit margins, and possibly British workers indirectly if industries scaled down. Some evidence shows British export prices for goods like steel rails fell in the 1890s under competition and losing U.S. market (**?**). But the global context is complicated by many countries raising tariffs in the same period, so isolating the effect is tough.

In a current language, one might say the McKinley Tariff was an aggressive use of U.S.

market power—something that current trade agreements disallow to an extent. It's as if the U.S. imposed a near-optimal tariff on manufactures (if foreigners' supply elasticity was about 4 or 5, a 20-25% would be optimal; 50% is overshooting, which likely created more DWL than terms-of-trade gain).

The welfare of foreign countries would have been reduced by the U.S. tariff (terms-of-trade loss for them and lost sales). There was no global mechanism to address this until decades later.

In summary, using modern welfare analysis: The McKinley Tariff likely reduced U.S. real GDP by a small percentage (maybe on the order of a couple of percent or less), which in today's terms seems modest but in human terms at the time meant consumers paying more and farmers earning less. The big effect was who won and lost: protected industrialists and workers clearly gained. Farmers, especially cotton and wheat growers who faced unchanged low world prices but higher prices for manufactured goods, lost out. This tension between rural and industrial interests would persist in U.S. politics (and indeed can be seen in the Bryan vs. McKinley presidential race of 1896, which pitted a free-silver agrarian populist against a gold-standard protectionist industrial champion).

4.3 Shifts in Comparative Advantage and Trade Patterns

Finally, we place the McKinley Tariff in the context of America's changing place in the world economy around 1890-1910. As noted, by the early 20th century the U.S. had become a leading industrial exporter. Table 3 shows the composition of U.S. exports over time, illustrating the shift from agricultural to manufactured exports.

Table 3: Manufactured Goods as a Share of U.S. Exports, 1870-1913

Year	Total Exports (million $)	% Manufactured Exports	% Agricultural/Raw Exports
1870	392	15%	85%
1880	835	19%	81%
1890	857	20%	80%
1900	1,371	35%	65%
1913	2,466	47%	53%

Source: Irwin (2017), U.S. Commerce reports. Manufactured exports include processed foods, chemicals, machinery, metals, etc. Agricultural/Raw includes crops, cotton, coal, unprocessed minerals.

As Table 3 shows, manufactured exports were only about one-fifth of total U.S. exports in 1890, but by 1913 they approached one-half. This remarkable increase was due to several factors: the growth of U.S. industrial capacity, rising productivity and scale economies, and the U.S. moving up the value chain from just supplying raw materials to also exporting finished goods (like machinery, tools, etc.). Protectionists might claim that high tariffs (like McKinley's and later Dingley's) allowed those industries to develop to the point where they could export. Indeed, by shielding the home market, American firms achieved size and efficiency to then compete internationally. For instance, American steel became so efficient by the 1900s that the U.S. started exporting steel rails and machinery abroad (sometimes out-competing British firms in third markets).

Critics would argue that much of this would have happened even under lower tariffs, because the U.S. had inherent advantages (large domestic market, rich resources, skilled labor) and was bound to become a leading manufacturer. Chang (2002) famously argues that virtually all now-developed countries used protection during their development (the U.S. included), then "kicked away the ladder" by later preaching free trade. The U.S. story in 1890 is often a case in that narrative: high tariffs may have helped the U.S. industrialize. A modern economist might nuance that: yes, tariffs might have sped up certain developments, but it's unclear if they were necessary or efficient. Many economists highlight that by the early 20th century, U.S. productivity in manufacturing was world-leading in several sectors, and that had more to do with technology and innovation (e.g., the invention of continuous processes, high-throughput factories, etc.) than tariff protection per se.

It is telling, though, that as the U.S. became confident in its industrial prowess, voices for tariff reduction gained ground. President McKinley himself, before his assassination in 1901, began speaking of reciprocity and more open trade now that industries were strong. His successor, Theodore Roosevelt, also was open to tariff reform, though no major cuts happened until 1913 when Democrats (under Wilson) slashed rates. By then, the U.S. was a creditor nation and competitive globally, and could afford to be more open. This arc supports the view that optimal policy might involve high tariffs when infant industries need support and reduction once they can stand alone—albeit such timing is politically tricky and often protection persists longer than needed due to vested interests.

The McKinley Tariff also had some external impacts: one often-cited example is Hawaii. The tariff made sugar duty-free for all countries, which ironically hurt the Kingdom of Hawaii (then a major sugar exporter to the U.S. with a special treaty). Hawaiian sugar planters lost their preferential access (previously they had free entry while other countries paid duty) and also did not get the bounty that U.S. domestic producers got. This created economic distress in Hawaii, contributing to political turmoil and the eventual annexation of Hawaii by the U.S. in 1898 (after which Hawaiian sugar planters effectively became "domestic" and got favorable terms again). This episode shows how a tariff act can have foreign policy ramifications; it altered incentives in the Pacific and Latin America.

Another angle is that the McKinley Tariff's reciprocity idea led to a brief spurt of bilateral trade deals (e.g., with Latin American countries for mutual reductions on certain goods). This was an early attempt by the U.S. to leverage its market access for concessions abroad. Those deals were mostly canceled when the Wilson-Gorman Tariff repealed the reciprocity provisions in 1894, but the concept re-emerged decades later. In some sense, McKinley's approach presaged the modern trade agreements: "We'll keep tariffs high, but if you lower yours for our goods, we might lower ours for yours." It's akin to the bargaining that became formal in GATT (General Agreement on Tariffs and Trade) starting in 1947.

In conclusion of this analysis section, when we reinterpret the McKinley Tariff with new models and data, we see a story that is consistent with both the historical narrative and theoretical expectations: - A large tariff in a large economy causes complex adjustments: domestic production expands in protected sectors, imports fall, export sectors may contract, and there are clear winners and losers. - The U.S. in 1890 exploited its market power, gaining some terms-of-trade benefit but also incurring deadweight losses. - The policy did achieve some of its industrial objectives (some industries grew faster), but likely at an aggregate efficiency cost. - Over time, broader economic growth and technology were more important

to U.S. industrial dominance than the tariff, though the tariff shaped the path of that development. - The debates it engendered (efficiency vs. protection, consumer vs. producer interests) have echoes in modern debates.

Having dissected the historical and theoretical aspects, we now turn to drawing parallels between this classic episode and contemporary trade issues.

5 Conclusion: From McKinley's Tariffs to Modern Trade Wars

The McKinley Tariff of 1890 offers a rich case study in trade policy, one that resonates well beyond its Gilded Age setting. Several lessons emerge that are highly pertinent to today's trade environment:

First, the tension between protecting domestic industries and the costs imposed on consumers and other sectors is perennial. In 1890, it was industrialists vs. farmers; in recent years, it has often been manufacturing workers vs. tech or agriculture or consumers. The U.S.-China trade war of 2018–2019, for example, saw tariffs imposed on hundreds of billions of dollars of trade, ostensibly to protect American manufacturers and force China to change practices. Studies have shown that those tariffs raised domestic prices and hurt U.S. import-using firms and consumers (Fajgelbaum et al., 2020), much as the McKinley Tariff did in its time. Moreover, just as 19th-century farmers were collateral damage of industrial tariffs, 21st-century American farmers suffered when China retaliated with tariffs on U.S. soybeans and other exports. The distributional conflict in trade policy is thus a recurring theme: governments face pressure to shield certain sectors, but must contend with backlash from affected consumers or exporters.

Second, the concept of *large country* tariffs and terms-of-trade manipulation remains relevant. The United States in 1890 and again in the late 2010s is/was a large enough player to move world prices. The logic that a big importer can extract some gain by taxing foreign exporters (who then lower prices) is essentially what **?** administration officials claimed ("China is paying the tariffs"). In truth, as in 1890, the incidence was split: foreign exporters did see reduced margins, but U.S. importers also paid more (**?**). Modern trade agreements (WTO rules) discourage sudden tariff hikes precisely to avoid a repeat of the beggar-thy-neighbor dynamics that characterized past eras. The McKinley Tariff, coming before any such international rules, shows what unfettered tariff policy looks like: each nation raising tariffs for its own advantage, often leading to collective suboptimal outcomes. Today's WTO, though under stress, is an institutional response to prevent the kind of tariff wars that were common in McKinley's era and later the 1930s. Our analysis of 1890 suggests that while the U.S. might have "won" in terms of terms-of-trade then, if every country behaved similarly, all would likely end up worse off. This is precisely the logic behind cooperative tariff reduction agreements noted by Bagwell and Staiger (1999).

Third, the infant industry argument and the debate over industrial policy have come full circle in recent years. The McKinley Tariff was a blunt instrument to foster industries. In the 20th century, the consensus in much of the economics profession turned against tariffs, favoring free trade and arguing that broad-based growth is best achieved through openness

(with targeted interventions if necessary). However, the 21st century has seen a revival of interest in using trade and industrial policy to secure supply chains, promote key industries (e.g., renewable energy, semiconductors), and protect against dependency on rivals. The rhetoric is not unlike 1890: arguments for economic independence, protecting wages, and national security. The historical outcomes caution that while such policies can indeed build domestic capacity, they come with costs and require careful management. The U.S. tinplate story might be compared to, say, attempts to establish domestic solar panel manufacturing via tariffs today—initial protection may help create capacity, but if the domestic product remains costlier, consumers and downstream industries bear the burden, and long-term success is not guaranteed unless competitiveness is achieved.

Fourth, linking historical trade debates to current ones, we see that politics are as influential as economics. McKinley's tariff was as much a political statement as an economic policy. It rallied his base of supporters and was implemented because the political configuration allowed it. Similarly, modern tariffs (such as those under the Trump administration) were often driven by political appeals to certain constituencies (manufacturing regions hurt by import competition, for example, as documented by Autor, Dorn, and Hanson, 2013 in the context of the China shock). In both eras, the debate was highly charged: one side invoking fairness and protection for the "forgotten" producers, the other side warning of higher prices and retaliation. The pendulum swings—1890 high tariffs, 1894 lower, 1897 high again—indicate that enduring resolution is difficult. In today's debates, we see a similar oscillation: the 1990s-2000s were a period of trade liberalization (NAFTA, China WTO entry), while the 2010s saw a backlash toward protectionism.

Finally, the McKinley Tariff underscores the importance of analyzing trade policy with a comprehensive perspective. By using modern trade models to look back at 1890, we were able to gain insights that a purely narrative history or a simplistic economic argument might miss. The heterogeneous firm perspective showed the micro-level churning of firms; the Ricardian perspective highlighted comparative advantage shifts; the gravity perspective put the U.S. in an international system context. This is a testament to how far trade theory has advanced, allowing us to reinterpret history in a richer way. Conversely, history provides a testing ground for theory: any theory of trade policy should be consistent with historical outcomes like those of the McKinley Tariff. If, for instance, someone claimed "tariffs always cause depressions," the 1890s example complicates that: the tariff preceded a depression, but largely unrelated; and the U.S. economy eventually thrived despite (or along with) high tariffs. The nuance is key—tariffs have complex effects, and context matters.

In conclusion, the McKinley Tariff was a product of its time, yet its legacy offers enduring lessons. It reminds us that while technology and globalization change the landscape, the fundamental economic forces and interests at play in trade policy are persistent. Then, as now, policymakers must balance the competing objectives of protecting domestic constituencies, maintaining economic efficiency, and navigating international repercussions. Modern trade models give us powerful tools to evaluate such policies, but they also confirm that there are no easy, cost-free wins in trade wars. As the saying goes, "History does not repeat, but it rhymes." The rhyme between 1890 and recent trade events is clear, and understanding one can illuminate the other.

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