

The Mercantilist Policy Origins of Federal Economic Statistics Agencies

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Synopsis

- In 18th and 19th centuries, Congress considered tariffs a critical resource to:
 - Fund federal government operations
 - Promote national economic development through industrial policy—tariffs aimed at protecting and promoting key manufacturing industries
- Congress wanted to make tariff decisions on the basis of:
 - Comprehensive, reliable trade and industry statistics
 - A method for calculating appropriate tariffs

Synopsis

- Congress regularly authorized expanded Executive Branch capacity to provide and analyze trade and industry data
 - 1810, 1820, 1844, 1866, 1888, 1903
- These actions created the legal and programmatic foundations for today's major economic statistics agencies:
 - Census Bureau Economics Directorate
 - Bureau of Economic Analysis
 - Bureau of Labor Statistics

American System

- Tariff Act of 1789 – James Madison:
 - “The deficiency in our Treasury has been too notorious to make it necessary for me to animadvert upon that subject.
 - Let us content ourselves with endeavoring to remedy the evil. To do this a national revenue must be obtained; but the system must be such a one, that, while it secures the object of revenue, it shall not be oppressive to our constituents.
 - Happy it is for us that such a system is within our powers; for I apprehend that both these objects may be obtained from an impost on articles imported to the United States.”

American System

- Tariff Act of 1789
 - Fitzsimons (PA) suggested duties “to encourage the productions our country, and protect our infant manufactures.”
 - Madison:
 - “I own myself the friend to a very free system of commerce”
 - “States that are most advanced in population, and ripe for manufactures, ought to have their particular interests attended to in some degree.”
 - “That each nation should have within itself the means of defence, independent of foreign supplies”

American System

- Tariff Act of 1789
 - Lawrence (NY): "I believe that the committee have not materials sufficient to form even the basis of the system, beside being wholly incompetent to determine the rate most advantageous to the article of revenue, and most agreeable to the interest and convenience of our constituents. Knowledge on these points can only be obtained by experience; but hitherto we have had none, at least of a general nature."
 - In general, members:
 - Thought setting tariffs for the twin purposes of revenue and industrial development was appropriate
 - Recognized they were setting tariffs without good information
 - Believed Congress could not delay

American System

- Hamilton, "Report on Manufactures" (1791)
 - George Washington:
 - "A free people . . . should promote such manufactories, as tend to render them independent of others for essential, particularly for military supplies."
 - House:
 - Ordered Treasury Secretary to prepare a plan to fulfill President's recommendation
 - Hamilton, "Report on Manufactures"
 - Means #1: "Protecting duties – or duties on those foreign articles which are the rivals of the domestic ones intended to be encouraged."

American System

- The American System – Henry Clay (1824)
 - Derived from Hamilton's economic theories
 - Clay coined the name to distinguish it from the "British System" of free trade and laissez-faire
 - The "System" consisted of three mutually reinforcing parts:
 - a tariff to protect and promote American industry;
 - a national bank to foster commerce;
 - federal subsidies for roads, canals, and other "internal improvements" to develop profitable markets for agriculture—funds for these subsidies would be obtained from tariffs and sales of public lands.

American System

- The American System – Henry Clay
 - Clay argued that system of sectional economic interdependence would eliminate the chance of subservience to the "British System"
 - Clay's plan became the leading tenet of the National Republican Party of John Quincy Adams and the Whig Party of himself and Daniel Webster
 - Congress enacted programs supporting each of the American System's major elements

American System

- Mathew Carey, *Essays on Political Economy* (1822)
- Frederich List
 - “Outlines of American Political Economy” (1827)
 - *The National System of Political Economy* (1841)
- Henry Carey, *The Harmony of Interests: Agricultural, Manufacturing, and Commercial* (1851)
 - “Two systems are before the world One is the English system; the other we may be proud to call the American system, for it is the only one ever devised the tendency of which was that of elevating while equalizing the condition of man throughout the world.”
- “Lincoln’s administration roared into office with the strongest support to date of Clay’s American System . . . deeply involving the government in growing, supporting, and regulating the nation’s economy. . . . At the heart of Lincoln’s policies was . . . Henry Carey. . . , a free-trader turned American System believer” (Mark Sumner)

American System

- President William McKinley
 - “Protection is but the law of nature, the law of self-preservation, of self-development, of securing the highest and best destiny of the race of man.” (1892)
 - “In the mind of every American workingman is the thought that this great American doctrine of protectionism is associated with wages and work, and linked with home, family, country, and prosperity. . . . [T]he people of this country want an industrial policy that is for America and Americans.” (1896)

American System

- Federal revenue reliance on customs duties
 - 1789-1860 – near total
 - 1789 – 99.5%
 - 1860 – 94.9%
 - 1866-1916 – half, more or less
 - 1871 – 53.8%
 - 1895 – 46.9%
 - 1913 – 44.6%
 - 1917-1939 – lower and falling
 - 1917 – 20.5%
 - 1923 – 14.6%
 - 1935 – 9.3%
 - 1939 – 6.4%

Agency Roots – Census

- June 1809 – House requests Treasury Secretary provide:
 - “a plan . . . for the purpose of protecting and fostering the manufactures of the United States”
- April 1810 – Secretary Gallatin:
 - “I have the honor to transmit a report in part, on the subject of American manufactures. Some important information has been obtained, but is, in general, partial and defective Permit me to observe, that the approaching census might afford an opportunity to obtain detailed and correct information on that subject”
- May 1810 – Congress amends Census Act of 1810
 - “[A]t the time for taking the census . . . take, under the direction of the Secretary of the Treasury, . . . an account of the several manufacturing establishments and manufactures”

Agency Roots – Census

- March 1812 – House:
 - “[T]he Secretary of the Treasury be directed to employ a person to digest and reduce to such form . . . a statement of the number, nature, extent, situation and value of the arts and manufactures of the United States”
- September 1814 – Tench Coxe:
 - “It has been the manifest object, of the president and Congress to obtain a foundation, in truth, for sound opinions upon the subject of our manufactures, in the form of authentic information from every state, territory, district, county, city, borough and township, by means of the examinations of the marshals, and territorial secretaries and their respective assistants. The numerous reports of those officers, unavoidably imperfect as they are, afford much important information as well local as general, in relation to many things not before known.”

Agency Roots – Census

- Congress mandated a:
 - Decennial census of manufactures in 1820 and 1840 through 1900
 - Permanent Census Bureau in 1902
 - Quinquennial census of manufactures from 1905 forward
 - Quinquennial economic census from 1954 forward
- Federal capacity to undertake and analyze the results of a census of manufactures grew enormously from 1850 forward
- At the same time, the Census of Manufactures did not provide a sufficient basis for setting tariffs
- The Economic Census was last expanded in 1992
- The Census of Manufactures was the seed of Census Bureau's Economics Directorate

Agency Roots – BEA

- December 1819 – President Monroe:
 - “It is deemed of great importance to give encouragement to our domestic manufacturers. In what manner the evils which have been adverted to may be remedied, and how far it may be practicable, in other respects, to afford to them further encouragement . . . is submitted to the wisdom of Congress.”
- December 1819 – Senate report:
 - “No general system for statistical accounts of our foreign commerce has ever been established by law. . . . If any proof were necessary to show either the importance of complete statistical accounts of our foreign commerce, or the poverty of our present information on this subject, that proof would be abundantly found in these unceasing calls for information concerning matters connected with our foreign commerce, which do not appear in the annual statements.”

Agency Roots – BEA

- February 1820 – Congress:
 - “[T]he register of the treasury shall, under the direction of the Secretary of the Treasury, annually prepare statistical accounts of the commerce of the United States with foreign countries, for each preceding year; which accounts shall be laid before Congress . . . on the first Monday in December in every year. . . .”
 - The law provided 13 paragraphs of instruction to the Treasury Department.

Agency Roots – BEA

- June 1844 – Congress:
 - [T]he Secretary of Treasury . . . is hereby authorized to transfer . . . three or more clerks to be employed . . . in collecting, arranging and classifying such statistical information as may be procured, showing or tending to show each year the condition of the agriculture, manufactures, domestic trade, currency and banks of the several States and Territories of the United States. [A] report . . . shall be annually made to Congress . . . on the first Monday of January.”

Agency Roots – BEA

- January 1845 – Treasury Secretary Bibb
 - “The resolution confines the information to be collected to the agriculture, manufactures, domestic trade, currency, and banks, of the United States. It is respectfully recommended that the information be enlarged to the foreign trade, foreign manufactures, foreign agriculture, foreign products, foreign currency, foreign regulations and restrictions of commerce.”
 - “The Secretary of the Treasury is led to the conclusion that a statistical bureau, properly organized and supported, will be able to respond promptly and correctly to all calls by the Congress for information on statistical subjects, save great waste of time and money, and furnish information highly interesting and useful to the great body of the people.”

Agency Roots – BEA

- July 1866 – Rep. Garfield:
 - “Now when a question comes up here and I am asked to say whether the tariff on a given article shall be ten percent or a hundred percent, I want to know all the circumstances and all the facts about the article; where it is produced, whether we can produce it or not, what price it bears in the market, what capital is invested in producing it, and all other circumstances connected with it. But now I am compelled to come here with empty hands, and I cannot from all the volumes of our Library find out what I desire to know.”

Agency Roots – BEA

- July 1866 – Congress:
 - “There shall be established in . . . the department of the treasury a bureau to be styled “the bureau of statistics” . . .to prepare the report on the statistics of commerce and navigation, exports and imports . . .”
 - “It shall be the further duty . . . to collect, digest, and arrange, for the use of Congress, the statistics of the manufactures of the United States, their localities, sources of raw material, markets, exchanges with the producing regions of the country, transportation of products, wages, and . . . other conditions”

Agency Roots – BEA

- 1869 – Treasury Statistics Bureau chief:
 - Told Congress efforts to survey manufactures had failed miserably (a 7% response rate) because response was voluntary
 - Recommended temporary cessation of the effort so to not overlap with the 1870 Census of manufactures and to allow the Bureau of Statistics to build its capacity to do this work
 - Never restarted the bureau's manufactures data collection
- 1877 – Commission reviewing bureau is concerned about lack of manufactures data, notes need for good data for decision-making

Agency Roots – BEA

- Congress required Secretary of State to:
 - “[L]ay before Congress . . . all . . . changes and modifications in the commercial systems of other nations, whether by treaties, duties on imports and exports, or other regulations” (1842)
 - Create a Statistical Office to report “changes and modifications in the commercial systems of other nations, to include in his annual report to Congress “all other commercial information communicated to the State Department” (1856)
- This office was renamed Bureau of Statistics in 1874 and Bureau of Foreign Commerce in 1897

Agency Roots – BEA

- February 1903 – Congress merged the Treasury Department Bureau of Statistics and the State Department Bureau of Foreign Commerce into a new Bureau of Statistics in the new Department of Commerce and Labor
- March 1912 – Renamed the Bureau of Foreign and Domestic Commerce in the new Department of Commerce
- 1930s – Simon Kuznets came to the BFDC to set up national accounts system
- 1945 – BFDC national accounts unit named Office of Business Economics
- 1953 – OBE became independent
- 1972 – OBE renamed Bureau of Economic Analysis

Agency Roots – BLS

- June 1884 – Congress:
 - Created Bureau of Labor in the Department of Interior to collect information about employment and labor
- June 1888 – Congress:
 - Transformed agency into an independent Department of Labor (without cabinet status) and directed Commissioner of Labor to:
 - periodically compare U.S. costs of making certain goods with other nations' costs
 - report biennially on "the general condition, so far as production is concerned, of the leading industries of the country"
 - identify which products are controlled by trusts and combinations and determine the impacts on production and prices

Agency Roots – BLS

- Commissioner of Labor Wright drafted 1888 law, which reflected belief that tariff rates could be determined scientifically and removed from politics
 - However, BLS international cost comparisons stopped after 1891
- Labor Department's mandate to produce biennial reports on key industries not implemented because of impending 1890 Census, then insufficient appropriations and likelihood of permanent Census Bureau
- February 1903 – Congress:
 - Moves Labor Department into new Department of Commerce and Labor as new Bureau of Labor
- March 1912 – Congress:
 - Creates separate Department of Labor
 - Renames Bureau of Labor as Bureau of Labor Statistics

Agency Roots – USITC

- 1916 – Congress:
 - Created the U.S. Tariff Commission to apply scientific principles to the study of tariffs and to recommend appropriate levels
- 1930 – Congress:
 - Directed U.S. Tariff Commission to apply scientific classification system
 - Irony – as the 140-year quest to provide Congress with capacity to appropriately set tariffs was accomplished . . .
- 1934 – Congress:
 - Delegated authority for negotiating bilateral trade agreements to the President, who delegated it to the State Department
- 1974 – Congress:
 - Expanded authority and responsibilities of commission
 - Renamed it U.S. International Trade Commission

Observations

- American System of Economics formed basis for national economic development and industrial policy 1789-1932
- Tariffs were a key component of fiscal and industrial policy
- Congress always thought it lacked the data and methods needed to appropriately set tariffs
- Congress regularly enhanced executive branch capacity to provide these data
- While Congress's aim to have statistical agencies help it set tariffs scientifically was not achieved, its efforts greatly enhanced U.S. economic statistical capacity and laid the foundation for today's agencies

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