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# "And we would have the field": U.S. Steel and American trade policy, 1908–1912†

**Abstract:** Recent surveys revealed few producers in an export sector participate in trade. Economists explained this result by relaxing their assumption about firms' operations, to produce a novel observation: Trade liberalization disproportionately benefits the most efficient producers in the sector, while potentially harming the least efficient. Political scientists have begun exploring the consequences of this variation, especially in lobbying. This article explores whether the impact of this finer-grained description of interests can be observed in the later stages of our demand-driven models of the politics of trade. I focus on one case with characteristics favorable to observing intra-industry differences: the American steel industry in Taft's presidency. A trade-based cleavage inside the sector determined firms' interests. Demands shaped policy, as observed in three pieces of legislation: the Payne-Aldrich Act, reciprocity with Canada, and the 1912 tariff. The first liberalized trade in steel, intensifying competition in the industry. The second promised to do the same, with a similar impact. The third had no effect, however, because Taft vetoed the bill. This case illustrates intra-industry firm heterogeneity can provide additional accuracy, revealing a previously undiscovered cleavage. Nonetheless, preferences alone did not determine policy.

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Surveys conducted in the 1990s revealed that in exporting industries, few companies participated in international trade.[1] To explain this pattern, economists relaxed a key assumption in the sector-specific model. Rather than presume all companies in an industry operate similarly (and thus share equally in the gains or losses associated with trade), they began to model trade's impact on sectors composed of heterogeneous firms.[2] This explained why often a small portion of firms in a sector dominated exports but also generated an unexpected result.

1 Bernard Jensen (1999); Clerides, Lach, and Tybout (1998); Bernard, Jensen, Redding, and Schott (2011).

2 Melitz (2003); Bernard, Jensen, Eaton, and Kortum (2003).

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Because trade liberalization heightens domestic competition, it can harm some firms— even within an export sector. Trade affects each firm differently, depending on its relative efficiency. Since international trade often involves costs above those associated with domestic sales (such as higher shipping charges), the most efficient producers in a sector can absorb these expenses more readily than their rivals. When these very efficient companies expand production to export, some of their output reaches the local market, driving the domestic price for the good down. Imports (which may enter after trade liberalization) exert a similar pressure. Simultaneously, the expanded production of the most efficient producers can also bid the cost of inputs higher. The combined effect squeezes the margins of all participants in the industry. Trade liberalization can therefore reward the most efficient firms, while driving the least efficient producers in the same sector out of business.[3] These results imply consequences for the politics of trade.[4]

The most popular framework for analyzing the politics of trade begins with an economic model defining domestic interests.[5] Intra-industry firm heterogeneity promises to improve the accuracy of this first step. These preferences feed into the second stage, where constituents make demands upon the state. In the third, the state responds to those demands via policy. The fourth stage gauges the feedback, as the implemented policy rewards some constituents relative to others. In many applications, the initial economic model does most of the "heavy-lifting," because the political institutions that govern how demands are channeled to the state remain relatively stable, and the state is assumed to reflect the dominant interest in a straightforward manner. By giving a more accurate portrayal of economic interests, intra-industry firm heterogeneity should yield more accurate explanations of policy outcomes.

Recent research has established intra-industry firm heterogeneity can shape policy, but much of this work concentrates on the first stages of the larger framework. Osgood has developed the theoretical implications of intra-industry firm heterogeneity on politics.[6] Osgood links firm-level variations to preferences, showing how heterogeneous firms challenge the efforts of industry-level groups when they lobby on trade policy. Similarly, Madeira provides evidence of firm-heterogeneity limiting sector-based organizations in practice.[7] Osgood, along with Tingley, Bernauer, Kim, Milner, and Spilker, have shown intra-industry cleavages

3 Melitz (2008), 4.

4 Bombardini (2008); Plouffe (2011).

5 Alt and Gilligan (1994); for a more recent description of this framework, see Aklin, Arias, Deniz, and Rosendorff (2015).

6 Osgood (2016, 2017).

7 Madeira (2016).

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in lobbying in Costa Rica.[8] Taking the arguments to the next step after lobbying, In Song Kim connects firm-heterogeneity to lobbying patterns and then on to variation in modern American tariff rates.[9] Baccini, Pinto, and Weymouth have tested whether trade liberalization has the effect intra-industry firm heterogeneity expects, by demonstrating that international economic agreements liberalizing trade have rewarded the larger firms in sectors (assuming these to be the most efficient participants).[10] Note that these applications of intra-industry firm heterogeneity focus predominantly on a single part of the overall framework; those that seek to address more than one stage rarely provide evidence of the processes involved.

Below, I apply intra-industry firm heterogeneity to trace its impact through all four stages of the demand-driven model of the politics of trade. To strike a balance between parsimony and accuracy, I focus on one sector in one country: the American steel industry during the presidency of William H. Taft. This case contains favorable characteristics for observing the impact of intra-industry firm heterogeneity. First, the industry in question consisted of heterogeneous firms. Second, the sector's size (by employment and by capital invested) gave it political salience. Third, the industry was economically significant, since it accounted for a substantial volume of the country's trade. Fourth, politicians made trade policy a major issue nationally. I begin developing these points by describing the composition of the sector, and establishing the economic consequences of heterogeneity. I then link differences between firms to variation in their preferences on trade. Focusing on the firms in one sector allows for a detailed examination not only of the positions adopted, but also of the explanations corporate executives gave for their conflicting positions on policy. This allows us to gauge whether executives' calculations followed the mechanisms at work in intra-industry firm heterogeneity. These preferences influenced policymaking, and changes in policy then impacted firms differently.

Though I limit discussion to Taft's presidency, there were three episodes of policymaking in this period.[11] Each includes firms' expression of interests and policymakers' response. Congressional hearings in 1908–9 reveal differences between firms. Congress reduced rates on steel goods in the Payne-Aldrich Act, intensifying domestic competition in the industry. Despite these particular cuts, the public found the overall legislation disappointing. With his party punished in the midterm elections as a result, Taft made a second effort to liberalize trade via reciprocity with Canada. The Administration requested and received Canadian

8 Osgood et al. (2017).

9 Kim (2017).

10 Baccini, Pinto, and Weymouth (2017).

11 These are not three independent observations, since they are sequentially related.

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concessions on a range of steel products. The likelihood of trade liberalization again intensified domestic competition. After Canada rejected reciprocity, Taft ended his efforts on trade, but Democrats continued to press for reductions in the tariff covering steel. When Congress passed additional cuts in 1912, Taft exercised his veto. Having abandoned trade liberalization, Taft determined this third round of policymaking.

As this case will illustrate, intra-industry firm heterogeneity describes interests with greater precision than previous theories, thereby allowing us to observe a trade-based cleavage missed in prior analyses.[12] Existing research on the politics of trade in this era failed to describe events well, because they rested on assumptions that the trade-based cleavage was either factor- or sector-based. The evidence presented below will illuminate an intra-industry split over trade policy inside one very important sector. Intra-industry firm heterogeneity also describes how policy change fed back into the domestic environment. This application therefore adds to the growing literature concerning how this advance in economics can improve our broader understanding of the politics of trade.

## Heterogeneity in the steel industry entering the Taft presidency

The United States only began exporting significant amounts of steel in the first decade of the twentieth century. Steel became the country's most valuable manufactured export, and one of the most valuable overall. Firm-heterogeneity in the sector sprang from several sources. Due to the weight of key inputs (such as coal and iron ore) as well as the metal produced and shipped to customers, transportation costs affected profitability.[13] Plant location mattered. Initially such factors favored producers in Pennsylvania, where both raw materials (especially coal) and consumers were nearby. As the country grew, the market for steel expanded westward. New sources of ore and energy were discovered, and technological developments widened the variety of fuels consumed. By 1900, steelmakers in different regions faced quite different cost structures. Southern producers, for instance, relied on low-quality local ores; since they consumed a greater volume of ore to produce each ton of metal, they could not afford to place their furnaces far from their mines.[14] Pennsylvania firms found it increasingly difficult to sell to

12 For an example of the factor-based approach to U.S. politics in this era, see Hiscox (2002); Lake (1988) discusses domestic interests in this era, though he emphasizes state-led policymaking.

13 Warren (1973), chapter 1.

14 Ibid., 182.

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western consumers, as producers employing newer technologies in the Midwest dominated those markets.

Even as start-ups applied new methods, older techniques survived. The Bessemer process, first developed in the 1850s, remained in use a half-century later. The open-hearth method, which produced steel of consistently high quality, became increasingly common by 1900. Firms employed varied inputs in this era as well. Sources of energy ranged from coal to coke to electricity; ore quality varied as well. The Mesabi Range, first tapped in the 1880s, yielded better ore than eastern or southern fields. Since the cheapest way to ship this material was by water, plants sprang up along the Great Lakes. U.S. Steel Corporation took advantage of these factors by constructing new facilities in Gary, Indiana. This firm not only reduced costs through efficient organization of production, it also built associated factories on-site, where subsidiaries converted steel into finished goods.[15] Being further west than most other major producers gave this company a competitive edge in midwestern markets, since proximity lowered transportation costs.

In addition, several steelmakers perfected vertical integration in the 1890s and early 1900s. Firms sometimes adopted vertical integration to secure sources of a key ingredient, such as ore. More often, however, they sought to stabilize costs. Dependable returns made it easier to attract investors. By purchasing (or signing long-term contracts for) fuel and ore, and then operating their own railroads or lakers to transport inputs, steel firms could more effectively manage costs. Carnegie Steel pioneered vertical integration in the industry.[16] This firm not only controlled sources of coke, but also Mesabi Range ore; it then created its own fleet on the Great Lakes, as well as rail lines linking other inputs to its plants.[17] Financiers created U.S. Steel in 1901, built around Carnegie's company. U.S. Steel combined over 200 separate operations, comprising suppliers of ore, coal and coke, furnaces, as well as rail and water transportation networks.[18] The men who created U.S. Steel believed they had put together the most efficient steelmaking company not only in the United States but perhaps in the world.[19]

The 1905 census describes the variation among iron and steel producers. Some 555 firms participated in the industry, employing more than 230,000 workers, spread across seventeen states.[20] More than half of these companies

**15** Ibid., 143.
**16** Ibid., 104-5, 117.
**17** Ibid., 103.
**18** Urofsky (1969), xxix; Hessen (1975), 123.
**19** Ibid., 3.
**20** This industry employed the largest workforce among manufacturing sectors.

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were in Pennsylvania. The data allows us to compare operations across states, demonstrating heterogeneity. In Tennessee, the average steel plant employed 104.46 workers, compared to more than 900 in Massachusetts. Consistent with the expectations of intra-industry firm heterogeneity, only the most efficient producers exported iron and steel. One particular firm stands out. U.S. Steel's annual foreign sales during Taft's presidency never fell below 85 percent of total American exports of iron and steel. Contemporaries understood the firm was one of the few able to compete internationally because of its relative efficiency.[21] These observations add to the body of evidence supporting the economic claims generated by intra-industry firm heterogeneity. To make links to policy, the next section lays out the contemporary political positions on trade. Then the section after that can describe how steelmakers' preferences fit into those debates.

## Taft pursues tariff reform, November 1908–December 1910

The patterns observed in the steel sector were not unique. Increased relative capital abundance in the American economy after 1900 translated into rising manufactured exports. The formation of U.S. Steel was also not unique, as the country experienced a wave of corporate mergers in this period. As the composition of trade changed, so too did demands voiced by manufacturers. The Republican Party, long the proponent of protective tariffs, began hearing complaints from its loyal supporters. By 1908, the National Association of Manufacturers (NAM) called for government assistance in expanding international trade, stressing the use of reciprocity treaties alongside tariff reductions—though NAM clarified it was specifically against "excessive or needless protection."[22]

There had, of course, always been a significant bloc of Republicans in favor of trade liberalization. Despite flirting with Populism in the 1890s, most midwesterners had rejoined the GOP by the early 1900s. Farmers in these states, often growing grain, still felt the party ignored their interests. Their frustrations continued to fuel challenges to party leadership, including several demands for reforming political processes (concerning the primaries, the selection of senators, and congressional practices). The battles between midwestern representatives in Congress and the GOP leadership became so heated, journalists nicknamed these reformers "Insurgents." The Insurgents were opposed by many of the party's leaders, who

21 Berglund (1907), 45.

22 Wills (1913), 18.

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preferred to "Stand-Pat"[23] on both policies and congressional practices, since these rewarded them in particular.[24]

In the campaign for the GOP presidential nomination in 1908, Taft advocated tariff liberalization. In doing so, he followed the rhetoric of his two Republican predecessors: William McKinley and Theodore Roosevelt. McKinley, who had authored one of the country's highest tariffs in 1890 and then won a sweeping victory on a platform stressing protection in 1896, had begun suggesting both tariff reductions and reciprocal trade agreements after his reelection in 1900. Cut down by an assassin's bullet, he never had the opportunity to act on these ideas. Roosevelt, who then took office, considered emphasizing trade policy, but was warned by confidants such as Henry Cabot Lodge and Nicholas Murray Butler this would split the GOP. Roosevelt therefore shied away from the subject, though he skillfully used the threat of tariff legislation to promote other issues. When Roosevelt stepped aside, it is not surprising that his political heir, Taft, would point to the country's rising volume of industrial activity and especially its increased exports of industrial goods, as proof trade policy needed to change. These trends suggested the country would soon require greater imports of raw materials. Expanding exports appeared essential for sustained industrial development.

Taft raised these issues in the primaries, winning Insurgents' support.[25] At the GOP convention in 1908, Insurgents such as Senators Joseph Bristow (Kansas), Albert Cummins (Iowa), Albert Beveridge (Indiana), and even the more radical senator for Wisconsin, Robert La Follette, backed Taft. Stand-Patters sought an alternative, but could not find a viable candidate. The two sides also squared off over the platform's plank on trade. The Insurgents desired an explicit call for tariff reductions, but the Stand-Patters forced a compromise, rewording the provision to ask for the more ambiguous "tariff revisions." In the subsequent campaign, Taft pledged to rewrite the tariff, clearly indicating he desired reductions.[26] Republicans remained divided on the issue, however.[27] Taft proposed gradual tariff reductions—echoing Roosevelt's stance for a "scientific tariff." (This concept referred to a technical process for formulating rates; foreign and domestic production costs would be compared to identify which sectors could sustain reductions, and which could not.) By adjusting rates incrementally, sector by

**23** Senator Marcus Hanna coined this expression in specific reference to maintaining a high tariff.

**24** These northeastern senators enjoyed seniority due to consistent protection for their constituents.

**25** Manners (1969), 81.

**26** Goodwin (2013), 586; Coletta (1973), 16; for a sample speech, see Burton (2001), 76.

**27** Mowry (1960), 35.

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sector, Taft hoped to wean the GOP from protection. A sector-based approach also fit well with reciprocity agreements; concessions could be won or granted over a limited range of goods.

Given their interests in expanding foreign sales, the owners and managers of U.S. Steel readily endorsed Taft's candidacy.[28] Financiers tied to the firm, including Henry C. Frick and George W. Perkins, contributed substantial sums to the party and to Taft's personal campaign. With Taft's victory in November 1908, the outgoing Congress began gathering information for its future deliberations on the tariff. Steel producers expressed their preferences to policymakers in these hearings, giving us an opportunity to observe difference among firms.

## Hearings of the House Ways and Means Committee, 1908–1909

As the Ways and Means Committee began gathering information, steel products drew considerable attention, because this sector enjoyed a relatively steep tariff even though the country exported significant amounts of steel. Consumers and congressmen questioned why the industry deserved protection. Just as intra-industry firm heterogeneity would expect, executives' positions reflected each company's comparative efficiency—which in turn rested on the firm's technology, location, scale of operations, and degree of vertical integration. Executives cited these traits when explaining whether their firms preferred continued protection or not. Only a few firms were competitive enough to sell abroad; their representatives admitted they would benefit from reductions. Steel executives from other companies defended the tariff, while reluctantly accepting that Congress would reduce rates.

Consumers of iron and steel recommended tariff cuts. Jesse Orton, of the New York Reform Club, advocated the total removal of the tariff on iron and steel. Orton not only cited articles where Carnegie declared tariffs for the industry unnecessary, he also referred to U.S. Steel's production costs (based on figures Charles Schwab had released years earlier).[29] Orton repeated the Republicans' 1908 platform, which said protection should only cover goods if their production costs were higher than those found abroad. "That the making of iron and steel is now, and has for years, been carried on at less cost in this country is shown, first, by the statements of those qualified to speak for the business itself," Orton declared, and "second, by the undisputed fact that the iron and steel industries send their

28 Urofsky (1969), 16.

29 *Tariff Hearings…First Print #18* (1908), 2126, 2128.

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productions in large quantities into the open markets of the world and compete successfully with their strongest foreign rivals."[30] Agricultural implements producers, speaking as consumers of steel, made similar arguments. Herbert E. Miles testified, "I can not imagine that it can be thought by anyone that $46,000,000 [in steel] would be shipped out of this country into the open markets of the world by any producer who needed a protective tariff, and whose costs were excessive and above the costs in other countries."[31]

The first steel producer testifying before the Committee represented the Jones & Laughlin Steel Company (then the second largest firm in the sector); Willis King asked for increases on some rates, while admitting other producers might request reductions.[32] Committee Chairman Sereno Payne (Republican–NY) replied by quoting an article by Andrew Carnegie. Carnegie had written steelmakers no longer needed protection.[33] King replied that Carnegie's evaluation referred only to U.S. Steel—Jones & Laughlin could not produce metal as efficiently, therefore his firm needed the tariff.[34] When the congressmen mentioned Carnegie's article to E.C. Felton, president of the Pennsylvania Steel Company, Felton suggested Carnegie no longer understood the business, having sold out when U.S. Steel was formed in 1901.[35]

James Lloyd, speaking on behalf of the American Iron & Steel Association, proposed minor reductions on very few items.[36] He was followed by John L. Cox, representing the Midvale Steel Company, who defended the existing tariff.[37] John O. Pew, of the Youngstown Iron & Steel Roofing Company, submitted a brief to the Committee, explaining that his firm could weather minor tariff cuts, but "a radical reduction in the protection we have at present…would make it necessary for us to quit business or to reduce wages."[38] B. F. Fackenthal Jr., of the Thomas Iron Company, claimed "If the tariff duty on pig iron is removed or reduced, I feel confident that it will eventually compel all manufacturers of merchant pig iron in the East to go into liquidation."[39] Charles H. Zehnder, of Virginia, echoed that position.[40]

**30** *Tariff Hearings…First Print #18* (1908), 2126.
**31** *Tariff Hearings…First Print #27* (1908), 3786.
**32** *Tariff Hearings…First Print #16* (1908), 1805.
**33** *Tariff Hearings…1908–1909, Vol. II. Schedule B (continued) Schedule C* (1909), 1775.
**34** *Tariff Hearings…First Print #16* (1908), 1825.
**35** Ibid., 1875.
**36** *Tariff Hearings…First Print #17* (1908), 1938.
**37** Ibid., 1964.
**38** *Tariff Hearings…First Print #41* (1908), 6050.
**39** *Tariff Hearings…1908–1909, Vol. VIII. Appendix* (1909), 7901.
**40** Ibid., 7902.

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Producers' reasons for requesting protection point to firm-level differences. The intensity of their defense of the tariff depended on their relative efficiency, as well as their location. As Felton explained, any increase in imports would be felt foremost along the East Coast, given the difference between seaborne and land-based transportation costs. Producers serving inland markets had less to fear.[41] This argument was seconded in a brief submitted by Edgar S. Cook, of the Warwick Iron & Steel Company,[42] as well as by testimony from Leonard Peckitt, of Empire Steel & Iron,[43] and Henry G. McHarg, of Virginia Iron, Coal & Coke.[44] Felton's position was challenged by Rep. Oscar Underwood (Democrat–AL), who specifically referred to steel rails. Felton maintained foreign rails had already penetrated coastal markets, but Underwood quoted trade statistics showing imports were insignificant.[45] Other southern producers eagerly defended the tariff, as demonstrated by H. S. Chamberlain, representing a Tennessee firm.[46] Guy R. Johnson, vice president of the Alabama Consolidated Coal & Iron Company, claimed a reduction in the tariff on pig iron would make the East Coast a dumping ground for foreign producers.[47]

In line with intra-industry firm heterogeneity, small firms adamantly requested protection. As Charles E. Clark, a Kentucky producer, explained: "The larger plants are always equipped with the latest machinery, are most ably managed, and larger and better results accrue to both employer and employee in same than will accrue to the owner and employee of the smaller mill, or manufactory, because it is absolutely physically impossible for the smaller mill to produce the weight of metal in the same given hours as the larger mill." Clark zeroed in on comparative production costs tied to scale: "The larger producers, such as United States Steel Company, The Republic Iron & Steel Company, and the Sloss-Sheffield Company, with their immense plants, great coal and iron fields, could produce steel and iron under a modified tariff profitably, perhaps, when the smaller producer would under the same reduction be compelled to run at an inadequate profit, or driven to bankruptcy."[48] J.N.M. Shimer, of the Dunbar Furnace Company, argued vertical integration determined who would survive a tariff cut. Only firms owning their own ore would survive, he believed.[49]

**41** *Tariff Hearings...First Print #41* (1908), 6053.
**42** *Tariff Hearings...First Print #46* (1909), 6775.
**43** *Tariff Hearings...1908–1909, Vol. II. Schedule B (continued) Schedule C* (1909), 1358.
**44** Ibid., 1405.
**45** Ibid., 1593.
**46** Ibid., 1426.
**47** *Tariff Hearings...1908–1909, Vol. VIII. Appendix* (1909), 7,904.
**48** *Tariff Hearings...First Print #41* (1908), 5,996–7.
**49** *Tariff Hearings...1908–1909, Vol. II. Schedule B (continued) Schedule C* (1909), 1365.

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John B. Newton, of Virginia Iron, Coal & Coke, claimed a serious cut in the tariff on pig iron would harm not only his company but all southeastern metal producers.[50]

Powell Stackhouse, president of Cambria Steel, brought all these views together to explain why so many participants in the industry feared a tariff reduction. "While it may be possible for a few of the larger steel manufacturing concerns to stand a reduction in the rates in the Dingley tariff…concerns which buy all or nearly all of their raw materials will be driven out of business. Companies which control their own raw material, railroad lines, and lake transportation to their works have other advantages, due to their great aggregations of capital, and have works located at the various sales centres of business, all of which advantages enable them to manufacture and market their products at a considerably less cost per ton than any of their competitors, will survive."[51] Stackhouse then warned the congressmen "We feel sure that the committee does not wish to further consolidate the steel manufacture of the country in fewer hands than now and thus reduce competition, which will certainly be done by radical reduction in the steel schedule."[52] These executives' positions reflect the processes highlighted by intra-industry firm heterogeneity: tariff liberalization would increase domestic competition, reward the most efficient producers while raising production costs, and thus potentially drive the least efficient out of business.

What did representatives of U.S. Steel have to say? The first hint of the firm's stance came from Ralph H. Stearns, an investor. Stearns testified that New York brokers expected U.S. Steel preferred stock to pay the same dividend, regardless of tariff legislation.[53] Eventually E. H. Gary appeared before the Committee. When asked about U.S. Steel's preferences, Gary answered ambiguously. The congressmen asked Gary to clarify the firm's position. "I think with reductions in the tariff, United States Steel Corporation would endeavor to take care of itself; but I think many, if not most, of our competitors would soon be out of business, and we would have the field." Representative Choice Randell (Democrat–TX) pushed him further: "Then, from a selfish standpoint, it would be to the interest of the United States Steel Corporation to take the tariff off?" Gary answered "You might think so, but I do not think so. I think it would be the worst thing that could happen to United States Steel, because the people would not stand it."[54] Gary was open about his expectations, should the tariff be removed; he was equally open about

**50** Ibid., 1,424.

**51** *Tariff Hearings…1908–1909, Vol. VIII. Appendix* (1909), 7,910.

**52** Ibid., 7911.

**53** *Tariff Hearings…First Print #44* (1908), 6,452.

**54** *Tariff Hearings…1908–1909, Vol. II. Schedule B (continued) Schedule C* (1909), 1,706.

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the repercussions, should trade liberalization increase his firm's share of the sector.

The congressmen understood this connection between trade liberalization and the composition of the industry. When Miles (an executive from an agricultural implements producer) requested cuts in the steel tariff, Payne told him "in your crusade on the tariff you might destroy half the people who manufacture that article [steel] and put the whole business in the hands of one."[55] U.S. Steel was not alone in claiming it could handle a tariff revision, however. Schwab, now managing Bethlehem Steel, told the Committee his company would remain competitive even if the tariff on steel rails and pig iron were slashed.[56] Wages would have to be cut to European levels however, Schwab threatened. The overall point remains: Executives and congressmen alike understood tariff reductions would influence the sector as intra-industry firm heterogeneity depicts. Trade liberalization would benefit a few very large, very efficient firms—and most especially U.S. Steel—while harming others in the sector.[57]

## Reacting to trade liberalization: intensified domestic competition in the industry

Gary's fears concerning antitrust had consistently determined U.S. Steel's policies.[58] Shortly after the firm's formation in 1901, the industry faced a downturn. The company's leaders disagreed over how to respond. Schwab, who at that time worked for U.S. Steel, dominated the Operations Committee. Schwab's expertise lay in identifying and exploiting efficiency. He knew, based on prior experience at Carnegie Steel, this company would survive intensified competition. Gary led the Finance Committee, which represented investors' interests. Keenly aware that U.S. Steel's size might attract antitrust charges, Gary not only insisted the company reject pooling (i.e., market sharing agreements), but also opposed Schwab's recommendations.[59] Instead, Gary proposed U.S. Steel act as the industry's price leader, to stabilize prices.

**55** *Tariff Hearings...1908–1909, Vol. VII. Schedule N (cont'd) Sundries, Freelist & Miscellaneous* (1909), 7,641.

**56** *Tariff Hearings...1908–1909, Vol. II. Schedule B (continued) Schedule C* (1909), 1,657.

**57** As some speculate, trade liberalization could lead to unpopular concentration of activity in a small set of firms in each sector. See Baccini, Pinto, and Weymouth (2017).

**58** In fact, Gary entered the industry as a lawyer providing advice on mergers.

**59** Urofsky (1969), 3.

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Gary wanted the firm to satisfy its investors. Steady prices for steel ensured a regular return to financiers. While economic booms might drive prices up and generate higher profits, extraordinary earnings always attracted new entrants into the industry. Extremely high profits meant even significant start-up costs failed to deter entry. Yet once demand slackened, as it inevitably did, prices collapsed, exposing overcapacity.[60] Profits subsequently shrank. In earlier times, producers in the industry dealt with such problems via pools or cartels to limit competition. The Sherman Antitrust Act made such commitments illegal, though this law was only applied with vigor in Roosevelt's presidency. If U.S. Steel followed Schwab's advice and charged too little—below what rivals could match—other firms would go under, giving U.S. Steel too much of the market. If U.S. Steel charged too much, every producer would profit, new firms would enter the sector, and the boom-bust cycle would be accentuated. Gary therefore sought stability. The Finance Committee backed Gary and overruled the Operations Committee. Unhappy with this decision, Schwab left the firm to manage a rival (Bethlehem).

When a later financial crisis triggered another drop in the demand, Gary set out to give U.S. Steel an active role as the price leader in the industry. On November 20, 1907, he invited the heads of other major steel firms to dine at New York City's Waldorf-Astoria. At this dinner, Gary explained it was in the interest of all participants in the sector to limit their reactions to the downturn. He then laid out U.S. Steel's future pricing. He did not demand other firms commit to similar pricing, he simply made the case for why they should. Gary considered his actions within the bounds of the law; since rival firms did not make any promises, there was no agreement restraining trade. He had merely described his firm's coming prices, which would eventually be made public anyway. Other firms followed U.S. Steel's lead. Gary convened similar dinners over the following months, and prices across the industry remained stable.

This situation changed once the 1908–9 hearings indicated Congress would cut the tariff on steel goods. Consumers expected prices to fall with this new tariff. Many delayed purchases. In early February 1909, several eastern railroads announced they would only buy rails at the lower prices they anticipated under the lower tariff. Since many smaller producers expected losses once the legislation kicked in, they began selling rails below the floor set by U.S. Steel.[61] On February 18, U.S. Steel slashed its prices as well.[62] Observers noted it alone could afford to do so, and it alone would likely benefit from the coming tariff reductions.[63]

**60** Berglund (1907), 20–22.

**61** *New York Tribune*, 23 February 1909, p. 12. "Demand Cut in Rails, Railroads of Pittsburg District Act—Chance for Independents."

**62** *New York Tribune*, 20 February 1909, p. 12. "Most Stocks Lower."

**63** *New York Tribune*, 21 February 1909, p. 10. "Steel Shares Down."

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With rivals no longer following U.S. Steel's price lead, Gary's famous dinners abruptly halted. Competition in the sector intensified throughout the spring and summer of 1909.[64] The lower steel tariff became law when Taft signed the Payne-Aldrich Act on August 6. The value of U.S. Steel stock serves as an indicator of this intensified domestic competition: These shares gained value between mid February and early August, with activity peaking in October. On February 21, 1910, Gary wrote Taft a letter expressing support for the president's policies on trade. Gary described the impact of the tariff reductions on the industry, emphasizing that the lower tariff had increased imports along the Pacific and Atlantic coasts (as U.S. Steel's rivals had feared). Gary attached a report compiled by U.S. Steel's chief executive responsible for foreign sales, James A. Farrell, recommending Taft use this material to demonstrate the Payne-Aldrich Act had been an effective compromise—lowering domestic prices and helping boost exports, but also exposing some producers to additional foreign competition.

Having ultimately suffered in the price wars and with the lower tariff in place, other firms decided to accept U.S. Steel's price leadership once again. This time, the heads of competing companies invited Gary to dine with them. To show their appreciation for the previous practice, they presented Gary with a silver "loving cup" on October 15, 1909. Prices in the industry stabilized, and the Gary dinners resumed. Thus in the first year of Taft's presidency, we can observe demands being expressed by domestic actors (exposing the cleavage inside the sector), the government's response (liberalizing trade), and the effect of that policy (more intense competition).

## The broader reception of the Payne-Aldrich Tariff

Although many steel producers had argued they could not withstand cuts, U.S. Steel had admitted it could; the evidence of strong exports, combined with consumers' demands, shaped Congress's response. Given its micro-level focus, the distribution of interests defined by intra-industry firm heterogeneity can be difficult to link to political representation. In this instance, legislators represented geographically bounded areas. Two issues arise. First, firms may operate across constituencies (as U.S. Steel did). Second, firms with varying levels of efficiency may operate side by side, in the same constituency. As an example of the first, U.S. Steel may well have influenced senators from Indiana and Minnesota, where the firm had large facilities. Senators Albert Beveridge and Moses Clapp were leading Insurgents (though this was also consistent with their agricultural

**64** Kolko (1963), 36.

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constituents' interests). Pennsylvania, where many of the less efficient steelmakers were, had powerful Stand-Pat representation, including Senators Boise Penrose and George T. Oliver. As an illustration of the second issue, however, one of Pennsylvania's senators in 1908 was Philander C. Knox, who had been Frick's business partner. As an advocate of expanding American exports, Knox would resign his seat to become Taft's Secretary of State. The challenge concerns the distribution of firms and whether they align with electoral boundaries. The focus on one sector also limits the conclusions we can draw about the congressional vote. Nonetheless, there were now powerful forces inside the GOP ready to exchange protection for access to other markets, as U.S. Steel (and other exporting manufacturers) admitted.

The Payne-Aldrich Act of 1909 reduced rates on a range of iron and steel goods, in both basic and more finished forms. Prices had already begun falling, in anticipation of the tariff's impact, as described above. Once in place, steel imports increased, as Gary's correspondence with Taft attested. Yet overall, this tariff was not well received by the public. Congress had left many other rates untouched, and even raised a few. The mishmash of changes reflected the bitter struggle between the Insurgents and Stand-Patters in Congress. Taft's management of this infighting earned him few friends. The House version of the 1909 bill had begun with broad cuts, reflecting Insurgents' strength in the lower chamber. Stand-Pat Republicans, wielding power in the Senate, reversed many of these reductions.[65] Taft intervened when the bill reached the joint conference, but with little effect.[66] In the Senate, ten Insurgents voted against the bill.[67] Bristow gave an impassioned explanation for his opposition: "As a Republican senator, I will not be a party in placing Mr. Taft in the most embarrassing position in which it is possible for a president to be placed; that is to require him either to sign a bill that is not what was promised the people or to compel him to repudiate the action of a majority of his party in both branches of the congress by a veto."[68] When Taft signed the bill into law anyway, Insurgents felt betrayed.

Taft chose to stress trade policy because he believed he could rally Republicans around liberalization. Yet he envisioned change as a process unfolding slowly, involving compromise. The president now set out to reassure Insurgents he still supported tariff reductions. He toured the Midwest, arguing

**65** Coletta (1973), 62–3; Mowry (1960), 47, 51–2.

**66** Goodwin (2013), 592.

**67** These were the two each from Iowa, Minnesota, and Nebraska; and one from Wisconsin, Kansas, Indiana, and South Dakota. Holt (1967), 30; Goodwin (2013), 595.

**68** *The Topeka State Journal* (KS) 3 August 1909, p. 1. "Bristow Bolts."

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the Payne-Aldrich Act represented a positive step.[69] On September 17, 1909, he spoke in Winona, Minnesota. Knowing these people were disappointed, Taft acknowledged rate cuts were not as extensive as Insurgents desired, but he listed other concessions won. The 1909 legislation provided a solid foundation for future tariff reforms: Congress agreed to establish a commission to compare production costs internationally, and accepted the first federal corporate tax.[70] Taft therefore described the bill as an effective compromise between factions inside the GOP.[71]

To emphasize reductions achieved, Taft elaborated on the iron and steel schedules. He described these as balancing the interests of consumers and producers. "The severe critics of the bill pass this reduction in the metal schedule with a sneer, and say that the cut did not hurt the iron interests of the country," Taft pointed out. "Well," he continued, "of course it did not hurt them." The president stressed that he desired cuts for consumers, but only to the extent manufacturers could accept. Unfortunately, Taft chose his words poorly.[72] In the equivalent of a modern-day sound bite, Taft labeled the legislation "the best tariff bill the Republican Party ever passed." The public could not square this with his campaign pledges. Journalist Ida Tarbell wondered aloud whether Taft lacked a grasp of the issue or was simply dishonest.[73] One cartoonist lampooned the president for claiming to be "in TR's footsteps," by drawing Taft reversing direction, walking back over Roosevelt's path—including on tariff reform.[74]

With turmoil inside the GOP, the Democrats determined it was in their interest to keep trade policy atop the agenda. Democrats argued the Payne-Aldrich Act proved the Republicans incapable of enacting tariff reductions. Many Insurgents agreed—or at least suggested that their party required a change in leadership before they could succeed. In the November 1910 elections, some forty-five Stand-Pat Republicans lost their seats in the House, producing the Democrats' first majority there since 1894.[75] Taft, writing a year later, considered this a sign of the Insurgents' strength, rather than a swing to the Democrats.[76] In Taft's

**69** Solvick (1963), 431.

**70** Goodwin (2013), 598. Taft made similar points in private communication to his wife. See Gould (2011), 20.

**71** Goodwin (2013), 602.

**72** Gould (2009), 63.

**73** Mowry (1960), 69–70; Tarbell (1915), 329.

**74** Ibid., 125. For media reaction see Manners 1969, 103 (the Des Moines *Register & Leader* wrote "TR need merely ask and he can have the nomination in 1912."); also 165, cartoon in *La Follette's Weekly*, from March 19, 1910; Goodwin (2013), 602.

**75** Holt (1967), 41; Campbell (2005), 7.

**76** Letter to his brother Horace, 15 November 1911.

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annual message to Congress of December 1910, the president reiterated his commitment to trade liberalization.[77] An opportunity had already presented itself. Taft's representatives had proposed reciprocal tariff reductions to the Canadian government, which the Canadians found attractive.[78]

## Taft's second effort on trade: Reciprocity with Canada, January–September 1911

Negotiations with Canada proceeded swiftly. The two sides agreed to focus on a limited range of products, mostly agricultural goods. The Taft Administration also asked the Canadians to reduce rates on select manufactured items, including a number of iron and steel products such as barbed wire, nails, and so on. Despite objections from Canadian steel producers, the Canadian government acquiesced. The manufactured goods involved were the very ones that had come to dominate American exports. Canada's largely rural population comprised a significant market. U.S. Steel stood to benefit disproportionately.[79] When Taft announced the deal, he emphasized reciprocity with Canada as an opportunity to expand manufactured as well as agricultural exports, even though the arrangement concentrated on the latter.[80]

To circumnavigate potential opposition from Stand-Patters controlling the Senate, Taft had not proposed a treaty with Canada. Treaty ratification would expose the deal to manipulation by the same Republicans who had rewritten the 1909 tariff. Therefore Taft convinced the government of Sir Wilfrid Laurier to implement the agreement via concurrent legislation. The arrangement still required congressional approval, but the legislation only needed majorities in the House and Senate.[81] By announcing the agreement in January, Taft gave the outgoing Republican Congress an opportunity to act. He wanted the GOP to take credit for liberalizing trade before the Democratic majority entered the House. The President still sought a compromise on trade most Republicans would accept.

Reciprocity with Canada failed to serve Taft's purpose. Rather than appeal to midwestern farmers without threatening manufacturing interests, the deal

**77** Burton (2002), 17–8.
**78** Goodwin (2013), 658–9.
**79** Hansbrough (1913), 142.
**80** Burton (2002), 106.
**81** Letter from William H. Taft to Theodore Roosevelt. 10 January 1911. Theodore Roosevelt Papers, Manuscript division. The Library of Congress.

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generated distrust among both. Bristow's correspondence illustrates this outcome; the Insurgent senator described Stand-Pat opposition to reciprocity, even as his own constituents in Kansas overwhelmingly urged its refusal as well. Privately, Bristow labeled reciprocity a "gold brick," a false promise.[82] La Follette used similar language. The deal simply held little appeal to Insurgents, despite their general preference for trade liberalization, because it included free trade in wheat. Insurgents asked Taft, why allow wheat in free but maintain the tariff on flour (and manufacturers generally)? Meanwhile, though very few manufacturing sectors would have been exposed to increased Canadian competition, Stand-Patters feared the deal would set a precedent. Rather than a compromise each side could accept, the offer to Canada angered significant elements among Insurgents and Stand-Patters alike.[83] The outgoing Congress failed to approve the legislation, to Taft's chagrin.

U.S. Steel executives demonstrated support for Taft and his trade policy in these months. On February 13, 1911, Farrell, now head of the company, spoke alongside Taft at the opening ceremonies of that year's Pan American Conference. Farrell stressed the potential of reciprocal trade agreements for opening foreign markets.[84] Once reciprocity with Canada proved successful, he urged for subsequent deals with other countries. Taft pressed ahead with his agenda, summoning the new Congress into special session. He openly appealed to Democrats for support on the legislation.[85] The Democrats backed reciprocity, but they also sought ways to undermine Taft's efforts to rebuild the compromise position on trade within the GOP. Even as Democrats supported the American legislation regarding the reciprocity agreement, they worked with Insurgents to compose rival tariff schedules. These rival bills were designed to divide Republicans, exacerbating Taft's position.

Taft remained convinced midwesterners had little to fear; as he wrote to his brother Charles, "I am sure it will not hurt our farmers, but on the other hand I am very sure it will introduce a great business between Canada and the United States that will insure to the benefit of the people of both." Taft expressed his frustration with fellow Republicans: "When I recommended reciprocity, I expected the insurgents not only to support the bill but to claim that I was only trailing after them, and coming to their view."[86] The president increasingly fought with

**82** Joseph L. Bristow Private Papers. Letter from Joseph L. Bristow to Frank Bristow, 13 February 1911; letter from Joseph L. Bristow to Hon. F. S. Jackson, 14 February 1911.

**83** Gould (2009), 142–144, 150.

**84** *Daily Ardmoreite*, 15 February 1911, p. 6. "Clark on a Taft Plank."

**85** Coletta (1973), 145.

**86** Taft's Personal Papers, 22 July 1911.

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Insurgents. When Congress passed two Democrat-Insurgent tariff bills in August, these two bills would have exposed less competitive industrial sectors to foreign competition, upsetting the compromise the president intended. To insure continued support among Stand-Patters, Taft vetoed both.[87] As this special session ended, Insurgents openly proposed La Follette as the GOP's nominee in 1912. Taft believed reciprocity with Canada, once in force, would prove his policy correct, and enable him to reassert authority over the Insurgents. If Insurgents in Congress remained uncooperative, successful implementation would at least allow him to appeal directly to voters, he believed. Together, the vetoes and successful implementation of reciprocity with Canada would show Taft bridging the disparate views among Republicans.

Enjoying their first majority in the House since 1894, the Democrats created further trouble for the Republicans. They authorized an investigation of U.S. Steel's practices, questioning why the Taft Administration had failed to prosecute the firm under the Sherman Antitrust Act. Chaired by Rep. Augustus Stanley (Democrat–KY), the committee called a number of the same witnesses who had testified to the House Ways and Means Committee two years earlier. In his presentation, Gary took the opportunity to connect expanding exports of steel to lower domestic prices; by earning additional income on existing overhead, the company could drop the price per unit it charged.[88] Gary's logic resonates once again with the intra-industry firm heterogeneity argument. A report from Dow, Jones & Company, submitted as evidence to the Stanley Committee, does as well: "Export business keeps plants that might otherwise be idle in operation and tends to lower costs of production as a well as prices of steel sold to the domestic consumer."[89] With debates on reciprocity with Canada in the spotlight, Andrew Carnegie reaffirmed his belief the steel sector no longer required protection.[90]

Having signed the American legislation on reciprocity with Canada, Taft nervously awaited results north of the border. R. A. Ballinger had congratulated the president on getting the bill through. In his reply, Taft wrote "I look forward with the keenest anticipation to the time when the pact shall, by its operation, have demonstrated its great benefit to both countries." He made the same point publicly. In a press release, Taft declared "To those who opposed the bill, on the ground that it will do harm to the farmers, we can only say that we who have supported the passage of the bill, look forward to the test of the actual operation of the reciprocity agreement to disprove their prophecies and to allay

**87** Coletta (1973), 147–150.

**88** *United States Steel Corporation, Hearings…#3, Friday June 2, 1911* (1911), 96.

**89** *United States Steel Corporation, Hearings…#3, Wednesday February 28, 1912* (1912), 3529.

**90** *Washington Herald*, 13 January 1912, p. 3. "Andy No Gambler, But Likes Ponies."

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their fears."[91] Taft also received congratulations from Senator Clarence Clark of Wyoming, who specifically relayed George Perkins's continued support.

## Industry participants' response to reciprocity with Canada

Assuming both countries would approve the deal, with American steel exports set to increase, consumers reacted in the same way they had two years before. Note that Canadian steel exports to the United States were not affected by the agreement; changes in the American market would flow from the increase in U.S. Steel's exports. Once the legislation appeared likely to pass, consumers had delayed purchases, because they again expected prices to fall within months. Republic Steel therefore cut its price for steel bars on May 24, 1911; U.S. Steel followed suit, and announced it was considering reductions on a wider range of products.[92] As the *New York Sun* reported a year later, competition in the steel sector became "keen and aggressive, the big company and many of the little ones taking business at or below cost" in the summer of 1911.[93]

In another indication of the intensified competition in the steel industry at this moment, Gary's dinners again came to a halt. Recall that these had resumed in October 1909, at the invitation of the executives from rival firms. The dinners had continued throughout 1910. Once congressional approval of reciprocity with Canada appeared certain, competition in the industry escalated, and the basis for the dinners collapsed. Gary convened the last such gathering, a luncheon, on May 29, 1911. In the following months Gary continued to argue against price cuts through several industry publications,[94] but to no effect. Price stability ended with the increased probability of trade liberalization, so there was no reason for Gary's dinners to continue.

Taft's hopes to regain the initiative on trade policy were dashed on September 21, 1911, when Canadian voters rejected reciprocity.[95] "We were hit squarely between the eyes," Taft wrote to his brother Horace.[96] Taft had endured the disappointment of the 1909 tariff, the Insurgents' criticisms, and had seen his party

91 Taft's Personal Papers, 25 July 1911.

92 *Washington Times*, 28 May 1911, p. 15. "Lessening Volume of Business Brought about by Many Causes."

93 *The Sun*, 25 February 1912, Fifth Section, p.6. "Year of Strife in the Steel Industry."

94 Page (2009), 609.

95 Hansbrough (1913), 135; Wright (1941), 40.

96 Goodwin (2013), 665.

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suffer in the midterm elections; reciprocity with Canada was meant to be his counterstroke. By August of 1911, Taft's efforts had driven away the Insurgents, while tying him more tightly to the Stand-Patters. Taft had counted on the Canadians' approval to achieve trade liberalization and to prove incremental compromises could work. This was supposed to reestablish the compromise position on trade within the GOP, recreating the coalition he had started with. Canada's refusal ended Taft's efforts. The Insurgents slid firmly into opposition. Taft's defense of the existing tariff (i.e., the Payne-Aldrich Act) grew more adamant, anchoring him to the Stand-Patters. In terms of the politics of trade, this episode illustrates the importance of each stage of the overall framework. Firm-level differences shaped preferences in the steel sector—reciprocity with Canada would have benefited U.S. Steel much more than any other steelmaker. U.S. Steel supported the president in his efforts, and in return Taft defended the firm against antitrust charges. The policy effort failed when Canadians rejected the offer. More importantly, Taft's basis of support shifted. With the Insurgents against him, Taft abandoned his efforts to change trade policy.

## Taft changes priorities, September 1911–November 1912

With no obvious move forward on trade liberalization, Taft juggled his agenda. Trade dropped in importance to be replaced by antitrust policy. As it became clear reciprocity with Canada had failed, rumors began to circulate in Washington that the Justice Department would charge U.S. Steel under the Sherman Act.[97] The value of the firm's stock dropped sharply in heavy trading. Other stocks remained unaffected by the Canadian vote, save for those of a few railroads expecting increased traffic from the deal.[98] As the *New York Evening World* described, "For more than two hours to-day the common stock of the United States Steel Corporation was the storm center of the most remarkable one-stock panic ever known on the floor of the New York Stock Exchange."[99] The *New York Sun*

**97** *The Evening Standard,* 23 September 1911, p. 1 "Disturbing Influences"; *The Times-Dispatch*, 24 September 1911, p. 21 "Disastrous Week in Stock Market." Note the rumors also pointed to a case against International Harvester.

**98** Shares of International Harvester also suffered a significant drop. That firm, developed by the same financiers who organized U.S. Steel, also dominated exports in its sector; Taft had gotten concessions from Canada for its products as well. Overall, its experience parallels that of U.S. Steel.

**99** *The Evening World (Final Edition)*, 22 September 1911, p. 1. "Bank Support Rescues U.S. Steel from Raiders After Five-Point Drop."

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called the activity in U.S. Steel shares "almost unprecedented."[100] Representatives from the firm sought reassurance from the White House. Although the firm had enjoyed close ties to the Taft Administration, Taft's team remained mum. Formal charges were filed October 26.

Taft confirmed the change in priorities in his annual message to Congress, delivered in writing in December 1911. Noting he wanted to address several matters, Taft sent the message in a series of letters. The first dealt solely with antitrust issues, stressing this would be Taft's focus for the coming year. It portrayed the U.S. Steel case as the continuation of administration policy, following the successful prosecutions of Standard Oil and American Tobacco.[101] Taft and Attorney General George Wickersham had chosen not to authorize new antitrust suits until these two cases were settled.[102] The Supreme Court ruled on those cases in May, 1911. Years later, Wickersham claimed the administration had no choice but to move against U.S. Steel after these decisions, though he used the same opportunity to distance himself from the lawsuit.[103]

Taft's motive for prosecuting U.S. Steel remains in question. Historians have stressed two rationales. Both are superficially appealing. Neither is particularly persuasive upon closer inspection. One builds off of the administration's claims concerning legal principles. While accurately reflecting the Taft Administrations's public statements after reciprocity with Canada failed, this narrative lacks convincing support. Taft and Wickersham both expressed pleasure with the Supreme Court's ruling on Standard Oil because the Court explicitly endorsed the "rule of reason."[104] (Both men said this clearly in speeches after May 1911; in addition Taft did so in a letter to his wife.[105]) Yet the charges against U.S. Steel did not apply the "rule of reason."[106] The case was so unlike the others, Kolko referred to Taft's antitrust policy as wildly inconsistent.[107] A report from Taft's Commissioner of Corporations, issued only weeks after the crucial Supreme Court decisions, seemingly exonerated U.S. Steel under this reading of the Sherman Act.[108] The public certainly understood Wickersham's speeches in 1911 in this fashion.[109] When the White House filed charges against U.S. Steel, it applied a novel interpretation

**100** *The Sun*, 22 September 1911, p.11. "Gossip of Wall Street."

**101** Taft (1912), 273–4; Kolarsky (2011), 103.

**102** German (1972), 601.

**103** Letter from George Wickersham to Ida Tarbell, 6 May 1925. Allegheny College.

**104** Wickersham (1914).

**105** Gould (2011), 140–1.

**106** Rostow (1949), 758.

**107** Kolko (1963), 167.

**108** Warren (1973), 132.

**109** *The Standard* (Montreal), October 28, 1911, p. 10. "The Big Fight Against U.S. Steel."

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of the Sherman Act.[110] In particular, the White House hoped to establish that a merger between two large corporations inherently restrained competition. Yet the Taft Administration never laid out this position prior to the lawsuit.

U.S. Steel successfully defended itself, relying on the rule of reason. The Gary dinners, though ultimately considered problematic, did not justify prosecution according to the courts, because they had ended before charges were brought; if anything, Gary's inability to stabilize prices in 1911 suggested U.S. Steel did not exercise a monopoly. More importantly, the report by the Commissioner of Corporations showed that other firms had entered the sector after U.S. Steel's formation and even earned higher profits. U.S. Steel's share of the market had not grown, and prices had dropped. The courts (at several levels) concluded the company had not abused consumers nor hurt competitors. The weakness of the case undercuts the credibility of the Taft Administration's claims about legal principles. If Taft and Wickersham had sought to expand the reading of the Sherman Act, prosecuting U.S. Steel first was an obvious mistake. A more effective strategy would have been to link mergers to behavior disallowed under the rule of reason. As Taft's critics were quick to point out, such firms existed; Albert H. Walker provided a list.[111] Louis Brandeis, advising Insurgents, made the same point.

Many historians have therefore embraced an alternative motive behind the prosecution, one that focuses on the lawsuit's most significant consequence: Theodore Roosevelt's return to politics. This interpretation infers that Roosevelt was Taft's intended target. The charges against U.S. Steel centered on the company's acquisition of Tennessee Coal and Iron (TC & I) during the financial crisis of 1907. J.P. Morgan and other financiers sought to stem the market's slide by purchasing TC & I stock, but they knew this might invite an antitrust prosecution. Therefore Gary and Frick sought prior approval from the White House. Lacking useful instruments for intervening in the market, Roosevelt acquiesced. U.S. Steel executives were not entirely open with Roosevelt about the consequences of the transaction, however.[112] Yet none of this was particularly new information. The transaction (and Roosevelt's role) had been mentioned in the 1908–1909 tariff hearings and in Roosevelt's own testimony before the Stanley Committee in August 1911.[113]

The charges drew Roosevelt back into the fray. They mentioned him specifically, implying he had been duped, or erred in judgment. Roosevelt took this

**110** Wickersham (1917), 256.

**111** Walker (1912), 22–23.

**112** They could have stabilized the market by purchasing a portion of TC & I, rather than a controlling share.

**113** O'Toole (2005), 130.

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personally, and the White House never made an effort to dispel his impression.[114] Privately Roosevelt stated "both he [Taft] and Wickersham are playing small, mean and foolish politics in this matter."[115] The charges ended the Roosevelt-Taft friendship.[116] If Taft had not acted on legal principles, then it is probable he approved this prosecution for political purposes. Since the White House also orchestrated the simultaneous release of Roosevelt's White House notes to the Stanley Committee, many have concluded Taft meant to damage Roosevelt's public image. The problem with this view, however, comes from the close ties Taft and his circle enjoyed with U.S. Steel and its executives. Wickersham recused himself, because he had worked for Gary on antitrust matters only a few years earlier. Taft and Frick were close friends; Knox, Taft's Secretary of State, had been one of Frick's partners. The firm's executives had stood beside Taft on his most important policy efforts up to that point: trade liberalization. Linking Roosevelt to U.S. Steel could hardly serve as a smear, if everyone considered both men equally close to the firm.

Whatever Taft's motive for laying charges against U.S. Steel at this moment, many contemporaries linked the president's sudden action on antitrust to his frustrations on trade policy.[117] At the least antitrust could serve as a diversion. John Grant Dater, special financial correspondent for *The Washington Times*, described Canadians' rejection of reciprocity as a "humiliating outcome" for the administration. Dater went on to observe how trade now split the Republicans, a result that "must complicate matters seriously for President Taft," with Dater concluding "it looks now as though it might force the tariff revision issue into an even more prominent place at the regular session of Congress and in the forthcoming Presidential election than before."[118] When the first portion of Taft's annual message to Congress in December addressed antitrust issues, *The Washington Herald* reported Democrats "immediately jumped at the conclusion that he [Taft] was attempting to shunt the tariff to one side and obscure it with the anti-trust

**114** Gould (2009), 170.

**115** Lurie (2012), 149.

**116** Archie Butt, who had served both men in the White House, considered this the moment when the personal split occurred. See Urofsky (1969), 30.

**117** Intra-industry firm heterogeneity provides a clearer image of the trade cleavage. In manufacturing sectors such as steel, a single large firm favored trade liberalization. Once Taft lost the Insurgents' support, he gave up on trade reforms, and fell in with the protectionists. I speculate that, assuming trade determined the dominant cleavage, the president now viewed U.S. Steel as a potential foe. Proving trade issues can subsume Taft's antitrust policy would require however a deeper examination of the legal issues involved, as well as of other sectors and other firms.

**118** *The Washington Times*, 24 September 1911, p. 16. "Fear of Steel Trust Prosecution Cause of Flurry in Stock Market."

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issue."[119] Underwood, one of the House Democrats' leaders, told reporters the president should have focused on the tariff; he promised his party would keep the spotlight on trade policy.[120]

## Steel and the trade cleavage in 1912

Steel producers' preferences on trade did not change in the months after Canada rejected reciprocity. U.S. Steel continued to dominate exports; domestic competition remained stiff. Steelmakers remained divided over trade. In the new year, Democrats upheld Underwood's promise by concentrating their legislative efforts on the tariff. They again worked with Insurgents to authorize cuts in the tariff on iron and steel.[121] Taft, now siding with the Stand-Patters, exercised his veto.[122] The president justified his action by referring to the needs of the numerous, less efficient producers in the industry. "The big trust doesn't seem to care whether the present tariff rates stay or go," Taft told reporters. "The fellows who do care are the smaller men—the makers of machine tools and the like, whose factories dot the country here and there and on whose success depends the prosperity of a hundred little towns," the president explained.[123] Journalists noted Taft's arguments about steel now echoed those that Stand-Patters had made in previous years.[124]

When Taft summarized the year's legislative session for his wife, he expressed some satisfaction, though tinged with frustration.

> "Looking back over the whole session, I feel as if I had come out about as well as I had reason to expect. Those who are free traders and revenue of tariff men will continue to criticize me. Then there will be a lot of men who will think that I ought to have let some bills go through just to show I was not hidebound in my tariff views…I was responsible for the preservation of the industries of this country, and I have preserved them…"[125]

Throughout the final year of his term, the tariff continued to dominate political discussion.

**119** *The Washington Herald*, 15 January 1912, p. 9. "Incorporation Act Must Give Way to Tariff Board Issue."

**120** *Daily Ardmoreite*, 12 December 1911, p. 4. "Revise the Tariff First" Democratic Legislative Slogan."

**121** *The Washington Herald*, 30 January 1912, p. 3. "Democrats Pass Steel Schedule."

**122** Coletta (1973), 249; Urofsky (1969), 46.

**123** *Evening Star*, 1 March 1912, p. 11. "Taft's Tariff Plan."

**124** Mowry (1950), 93.

**125** Gould (2011), 291. Letter dated August 26, 1912.

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Taft's abandonment of trade policy reform earned him the full support of the Stand-Pat element in the party. As Insurgents pushed to oust Taft as the party's leader, many rallied to Roosevelt, though others (such as La Follette) threw their support behind the Democrat, Woodrow Wilson. Taft's antitrust policy, coupled with the change in his stance on trade policy, pushed U.S. Steel's owners to back Roosevelt as well. The cleavage inside the steel sector survived into 1912, but it failed to drive further policy change because the president no longer listened to the dominant firm in the industry.

## Conclusion: intra-industry firm heterogeneity and the politics of trade

Models of intra-industry firm heterogeneity have refined our understanding of trade's economic impact by illustrating how trade liberalization may redistribute benefits among firms in the same sector. This suggests trade-based cleavages sometimes emerge inside sectors, shaping policy outcomes. Economists have accumulated empirical evidence supporting this model, and political scientists are now demonstrating intra-industry cleavages in lobbying. The example developed here, the American steel sector during Taft's presidency, adds to this body of evidence. The approach is applicable because the sector exhibited heterogeneity, with one firm significantly larger and more efficient than others. This one large, efficient producer dominated the industry's exports.

When trade policy topped the agenda, these characteristics shaped three episodes for observing a cleavage (visible in lobbying), for linking that cleavage to policy efforts (apparent in legislation), and even for showing how policy implementation affected firms in the sector (as liberalization intensified competition). Regarding preferences and lobbying, Congressional hearings revealed U.S. Steel's unique stance on the tariff in 1909; U.S. Steel promoted reciprocal trade liberalization in 1911 (with Canada and more broadly); it accepted tariff reductions would help it disproportionately again in 1912. Regarding the link between this intra-industry cleavage and policy, the firm's admission that it no longer needed protection informed the debate on the Payne-Aldrich Tariff; its endorsement of trade liberalization shaped the content of the reciprocity offer to Canada; Democrats and Insurgents used the company's position to call for additional tariff adjustments in 1912, though Taft vetoed these. Finally, in the link between policy implementation and competition in the industry, in both 1909 and 1911, trade liberalization intensified competition, disrupting the Gary dinners.

Intra-industry firm heterogeneity improves our understanding of the preferences expressed on trade policy. This economic model disaggregates interests

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further than traditional approaches to trade. It drives us to look beyond sector-wide distinctions, to consider firm-specific distinctions. Applying this approach demands more detailed evidence; it offers improved accuracy, with reduced parsimony. Limiting the discussion to one sector made this problem manageable, and allowed for a closer examination of the theory's implications regarding lobbying, but also for an examination of policy's feedback on firms in the sector. In particular, the congressional hearings demonstrate that firms held positions consistent with the approach, and did so because they understood trades' impact in ways this model depicts. However, to gain a better picture of the overall political coalitions we would need to examine more than this one industry. Steel was not a unique sector; a wave of corporate mergers had created large efficient firms in a number of industries circa 1900. Single firms dominated other sector's exports, as well. Much more space would be required to trace similar cleavages through the processes in other sectors during this era, however.

The second lesson concerns the distance between modeling preferences and predicting outcomes. Identifying an intra-industry cleavage sheds new light on the political struggle over the tariff in this era, contributing to our understanding of why the tariff on steel was cut in the Payne-Aldrich Act, as well as telling us about the impact of trade liberalization had on the industry. Steelmakers continued to hold differing preferences after 1909. These preferences can tell us why Taft included steel products in the reciprocity agreement with Canada—but it cannot tell us why Canadians rejected this offer. The split within the industry helps explain why Congress passed further reductions in the tariff on steel in 1912, but this too did not come to pass, since Taft's stance had changed. Intra-industry firm heterogeneity improves the accuracy of our portrait of preferences, but policy outcomes depend on factors beyond preferences.

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