

## Joseph Wharton's Argument for Protection

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Joseph Wharton began life in 1826, the son of a Philadelphia Quaker family who had assembled a substantial fortune in overseas trading and Philadelphia real estate. Illness prevented Joseph from attending college, but his parents equipped him with an excellent education for maintaining the family name among the leaders of Philadelphia business and society. First-class tutors trained him in modern languages, classics, and science. An apprenticeship in the Waln and Leaming counting house then prepared him for business in the world of bills of exchange, agents in distant ports, book credit and double-entry bookkeeping, and commerce between agricultural staples and foreign manufacturers. Upon leaving Waln and Leaming and for more than 50 years thereafter, Wharton focused his business acumen on the revolutionary opportunities for mining, smelting, and refining metals in the Philadelphia hinterland. Using imported foreign technology and key discoveries of his own, Wharton drew lead, zinc, nickel, iron, and then steel out of the Piedmont. In so doing he kept the family name prominent in Philadelphia. But he also entered a world of business radically different from that of his merchant ancestors -- a new industrial world of wage-laborers, corporations, power machinery, and scientific equations.<sup>1</sup>

Wharton's business interests also conflicted with those of the more traditional merchants. They imported from foreign manufacturers the metals that he was producing outside Philadelphia. Like many 19th century manufacturers threatened by British competition, Wharton became a protectionist. He attacked those international channels of trade upon which his family had achieved wealth and distinction in the new world. But Wharton's commitment to this policy involved more than a businessman's particular claim on the pluralist "American System" of political economy. Protectionism was Joseph Wharton's great passion. He vigorously pursued the subject in the literature of political economy, both that of the British classical school and that of his Philadelphia mentor, Henry C. Carey. On Sunday afternoons he often attended Carey's salon -- the "Vespers" -- where he hobnobbed with Carey and his disciples, E. Peshine Smith, Stephen Colwell, and

Robert Ellis Thompson. Convinced that protectionism was "no debating club topic," Wharton gave large amounts of his time to organizing and leading the protectionist forces in this country [21 and 7].

Wharton's argument for protectionism began in agreement with the English classical school, with the observation that the wealth of nations grows from the division of labor. Wharton praised man's ability to divide his labor as

a human trait which separates man widely from all other animals. While a group of lower animals is but a *grex*, is but a numerical expansion of a single specimen,... men on the contrary, shortly parcel out among themselves the various functions needful to make not only a coherent but an organic whole--... like several parts of a machine to produce results utterly unattainable by any individual [20, p. 8].

But Wharton opposed the extensive international division of labor advocated by the English school. He argued that the whole *laissez-faire* doctrine is "mere sentimentalism, or the folly of crude and untrained thought" [4] or "the afterthought of crafty people, who having by prior development of force and skill acquired industrial and commercial supremacy, now desire to be let alone in their artificial advantages" [20, p. 24]. Sounding much like a contemporary "third world" critic of the modern market economy, Wharton argued that free international trade generated an ugly tributary system, not an ongoing exchange among equals. According to his reading of history, such trade divided that world economy into what we today call "core" and "periphery" areas, with all of the power, wealth, and skilled industry, all the extensive division of labor concentrated in the core. Wharton cited the reduction of Portugal, India, and Turkey: several once-flourishing nations that saw their industry, trade, and prosperity decimated by British competition. These shattered nations of the periphery, Wharton continued, could then only obtain the products of the core by exchanging huge amounts of toil and raw materials. (For a leading "third world" critic, see [17].)

What made national boundaries such critical economic phenomena? How could they negate the advantages of the division of labor that Wharton himself had praised so highly? Wharton offered a social and an economic answer. He asserted that the natural composition of human society combined with the special properties of industrial economies justified controls on the international marketplace. Both in his sociology and in his economics, Wharton emphasized factors minimized by the classical English economists.

I shall begin with sociology. Adam Smith (and English political economists after him) reasoned from a society composed

of independent actors. Smith derived the intricate web of divided labor from man's natural "propensity to truck, barter, and exchange one thing for another" [13]. Like Smith, Wharton began his sociology with a basic characteristic of human nature, "one of those ultimate facts which appeal directly to the sensual or moral perceptions." But rather than man's instinct for trade, Wharton began with the fact "that men everywhere and in all ages, invariably have formed and do form themselves into groups," be they families, clans, tribes, cities, or nations. He argued that by providing justice, security, and culture these groups, and not individuals directly, generated the balanced, symmetrical division of labor that underlies prosperity [20, p. 6].

Smith found the extent of the division of labor "limited by the extent of the market" [13, p. 16]. In Wharton's theory, the strength of attachment to the group, and not the extent of the market, provided the crucial limit to the division of labor, with the completeness of the surrender of personal independence to the well-ordered State, is the completeness of the advantages, the security and the enjoyments which the individual derives and has the right to demand from the State. [20, p. 6] Our best hopes for the future of the race are founded on the perfection of artificial society. [20, p. 7]

Prussia, with its semimilitary discipline and extensive division of labor, struck Wharton as the modern paradigm among nations [20, p. 7]. In a similar fashion, Wharton looked to the large industrial enterprise with a strong leader and loyal employees, as the ideal contemporary business firm [24].

Just as nations fostered their own development, Wharton saw them posing the greatest threats to each other's ambitions. To Wharton considerations of power ruled international relations, with each nation "standing ready to win from another wealth, population, or territory which the other may be unable to retain" [21, p. 4]. As nations once relied mainly on force of arms, Wharton argued that foreign trade was today's chief instrument of plunder. "It cannot be too strongly stated, or too clearly understood, that the end and aim of trading is booty, and that its principal weapons in our times -- its huge and formidable engines of war -- are the great establishments of industry and credit; the factories and the banks" [20, pp. 12-13]. Factories divided labor most extensively and productively and banks facilitated the entry of their goods into foreign markets. There the factories' goods traded for products embodying many times the labor and raw material that entered into their own manufacture.

Wharton saw Britain pursuing the natural policy of a modern hegemonic nation. He asserted that British business discriminated

in favor of its fellow nationals; used its position as the world's entrepot to keep the producers of one nation separated from the consumers of another; and deployed its advanced technology and great store of capital to undermine competition abroad. Wharton accused the Bank of England of eagerly seizing opportunities to export financial stringency to the United States, hoping in the process to undermine American manufacturing competition. Thus Wharton called on the American state to promote an extensive division of labor by protecting the nation's manufacturers against British looters who wished to maintain the American economy as a *grex* of drones offering up their labor and materials for a pittance [20, pp. 14-22; and 19].<sup>2</sup>

As Wharton pictured unrelenting struggle among national groups as the basic sociopolitical fact of economic life, he saw the rapid obsolescence of existing technology as the central industrial fact. Wharton held that any theory of international economics that assumed static technologies, such as contemporary classical economics with its theory of comparative advantage, could only mislead the modern statesman. Upon this premise of rapid technical change Wharton built his second argument for protection. This argument, deriving from Carey's work, is still heard in the positions of present-day economists who would restrict free trade to facilitate technical progress. These present-day positions include that of W. W. Rostow [11] who calls for creating "leading sectors" to generate economic growth and that of Joseph A. Schumpeter [12] who defends presumably dynamic big business in its encroachments on the small-scale, more classically competitive sectors of the economy [21, pp. 11-15].

Since modern technologies were dynamic, Wharton saw the key strategic issue was how to promote technical development in one's country. And from whence did such technical progress come? Wharton located its source in the industrial sector. Wharton not altogether incorrectly identified a greater diversity of goods produced by the industrial sector as a greater division of labor. Any expansion of industry would thus augment the economy's productive power. He also visualized industry rolling down what we would today call a learning curve without end. He asserted that industry provided the framework for creatively combining the diversity of human talents, "the ultimate capabilities of which, after all the noble achievements of the best organized communities, are yet to be discovered" [20, p. 8]. Moreover, by contrast, Wharton pictured agriculture as a monotonous, undynamic productive system. Citing the southern states of the union, Wharton claimed that "a purely agricultural nation can hardly exist at the present day" [21, p. 28]. Farmers needed "varied industry and varied opportunities" [21, p. 31] such as come to northern farmers from being "politically wedded to the

manufacturers of New England and the Middle States" [21, p. 29]. Thus protecting industry promoted technical progress, the national division of labor, and growth for all. (Also see [22].)

But an industrial economy, Wharton argued, was also a delicate creature. What industry a nation possessed could be quickly destroyed but only painstakingly rebuilt. A peripheral nation, open to the gales of international business cycles and the manipulations of foreign manufacturers, bankers, and governments, stood little chance of sustaining the stability needed by the process of modern industrial innovation. If statesmen failed to encourage industry, Wharton warned, free international competition could eliminate a nation's home industries and push the economy into agricultural listlessness in a mere generation or two. But given a secure home market, American manufacturers would steadily lower their costs and prices, and even expand their exports. Wharton cited the researches of a Berlin manufacturer, Adolph Lohren, that claimed to show precisely such a relationship in Germany between industries that were protected and the growth there of exports [20, p. 12; 21, pp. 15-20 and 27-28; and 18].

Standing on rapidly obsolescing industrial technique and surrounded by a jungle of threatening nations, Wharton insisted that Americans permit the state to interfere in their short-term, private interests. So-called "natural" rights to trade with the British, he continued, must yield before a national policy of protecting and fostering diversified industry. Wharton freely spent his time and money to see to it that the United States adopted such a policy [20, p. 12].<sup>3</sup>

Wharton gave most to the protectionist movement during the years following the Civil War. A healthy fisc, due to Civil War taxes without Civil War expenditures, made some tax reduction inevitable. As the tariff became a major political issue, businessmen relying on protection formed the Industrial League, an organization designed to develop a common position on the tariff and to lobby for it before Congress and the public. Wharton quickly became the "active force" of the Industrial League as chairman of its Executive Committee [14]. He called a representative conference of manufacturers and presented them with a proposed tariff bill. The conference in the main accepted his proposals and sent the draft to the House of Representatives. The Industrial League then spread its message; it published and distributed gratis a protectionist almanac and its organ, *The Industrial Bulletin*.

It purchased and used in the same way the speeches of protectionist members of Congress. It secured what was greatly needed, a text-book teaching the American science of political economy and placed it and other such works in college libraries. It

employed lecturers, co-operated with friendly newspapers [1; 15, pp. 230-31; 10; 9, pp. 44-45; and 2].

Such protectionist activities succeeded in directing tax reductions to internal excises and to revenue tariffs on such products of the tropics as coffee and tea. They preserved the protective structure and even strengthened it: the tariff of 1870 raised duties on various items (including the nickel and steel in which Wharton was chiefly interested) and replaced ad valorem duties with fixed-rate tariffs for many goods. The latter change offered countercyclic protection to American manufacturers, enhancing protection during periods of low prices. The policy thus substituted tariffs for the short-term capital that British competitors had in greater abundance and which they used to survive depressions [15, pp. 222-24 and 227].<sup>4</sup>

After the great tariff fights after the Civil War, Wharton continued active in the Industrial League and also became the vice-president of the American Iron and Steel Association in charge of tariff matters. In these and in other capacities, Wharton's fight to establish protectionism in America helped create some of the pioneering institutions of the new industrial business economy. In 1882 he helped win from Congress the creation of a tariff commission sensitive to the needs of the "captains" of American industry. This new commission took over the work of the Industrial League: it was charged with the responsibility of consulting with American manufacturers and then drawing up a tariff bill to be considered by Congress [26; 25; 20, pp. 26-31; and 15, pp. 231-32].

When in 1881 Wharton gave the University of Pennsylvania \$100,000 to establish the Wharton School of Finance and Economy and founded collegiate business education, one of his main motives was to promote protectionism. Academics were among the chief proponents of free trade in America and they deprived the tariff of full legitimacy. Wharton accused these professors of Assuming for their dogmas an infallibility as absolute as that claimed by the Pope for his dicta, though unsupported by any of that reverend age and past service to mankind which clothe the Church with dignity, and preaching everywhere the superior claims of their strange creed over the mere bonds of patriotism so that the revenues, development, and the existence of States are to perish in order that their fungus, Trade Philanthropy, may fatten for a while upon the decay, these verbose prophets of the new philosophy have become a nuisance and a source of infection which healthy political organisms can hardly afford to tolerate [21, pp. 7-8].

He insisted on vigorous instruction in protectionism in the new Wharton School. His deed of gift to the university specified instruction on

how by craft in commerce one nation may take the substance of a rival and maintain for itself virtual monopoly of the most profitable and civilizing industries; how by suitable tariff legislation a nation may thwart such designs, may keep its productive industry active, cheapen the cost of commodities, and oblige foreigners to sell to it at low prices while contributing largely toward defraying the expenses of its government.

Since much pretentious and misleading doctrine has been spread by those who seek to acquire through trade the substance of other countries, no apologetic or merely defensive style of instruction must be tolerated upon this point, but the right and duty of national self-protection must be firmly asserted and demonstrated. [24]

I should object to any important alteration of the general scheme, and would therefore ask your decision upon it in its present shape; especially should I object to such lowering of tone in regard to national self-protection by means of tariff laws, as some of your members seem inclined to favor. My conviction of the necessity of bold inculcation of this principle is so strong, that I at first drew up a special provision by which the endowment should revert in case of failure to uphold it. It suffices, however, to express, in whatever paper of conveyance may be executed, that forfeiture shall occur upon failure or unwillingness of the University to carry on the School upon the general terms now submitted, as would be adjudged by the U.S. District Court, for the time being, to be sufficient cause. [23]

Despite Wharton's activities, the protectionist ideology has largely disappeared, even at the Wharton School. Pieces of the argument appear, albeit in different contexts. Regarding Wharton's own chief business interests -- iron and steel manufacture -- his ideas proved incorrect on a crucial point of fact. During the late 19th century new entrants into the business had a decisive advantage over the outdated British. The "core" proved overcongested while the green fields of the "periphery" welcomed the great new economies of scale and electrical machinery. See [8, pp. 263-69]. Nevertheless, Wharton made his fortune and the tariff is still with us.

## NOTES

1. For information concerning Joseph Wharton's life and career, see [9]. For careful and sensitive studies on Wharton's business activities, see [28 and 29].

2. Wharton's bellicose nationalism nicely fits Frederickson's characterization of post-bellum northern leaders. In drawing his portrait, Fredrickson highlighted Wharton's friend, Provost Charles J. Stille of the University of Pennsylvania [6, pp. 101-04, and 141-45].

3. For a discussion of the decline of the "natural rights" philosophy in American, see [5].

4. Many considered the 1870 tariff the foundation of the American Steel Industry [3]. That tariff fixed the duty on steel rails at \$28/ton just as American Bessemer mills began entering the market, dramatically lowering the cost of steel rail. The result was a rapid increase in the level of protection from 40 percent to 100 percent. Peter Temin notes that between Bessemer and the tariff, the industry grew rapidly all through the depressed 1870s and yielded ironmasters an overall profit of 10-20 percent. With the revival of large-scale railroad construction in 1879, steel manufacturers made enormous returns [16, pp. 113, 171, and 213].

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