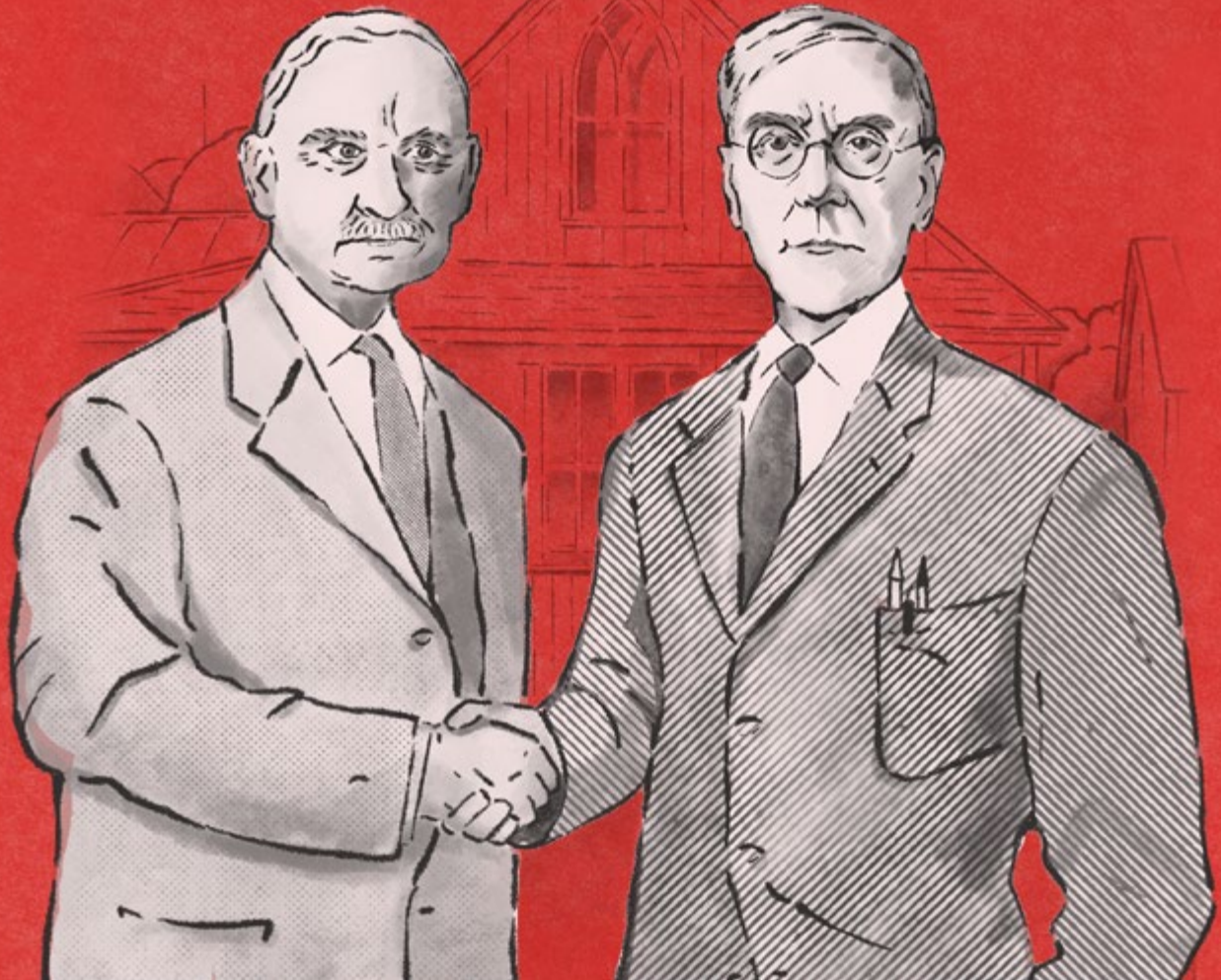


THE
Spectres OF
PROTECTIONISM



AFTER MORE THAN 70 YEARS OF INCREASING GLOBALISATION, FREE TRADE CAN NO LONGER BE TAKEN FOR GRANTED.

The first Trump presidency put protectionism squarely back on the political agenda, causing much soul searching about America's stewardship of the global economy. The Democrats have left Trump's tariffs largely intact, and more appear on the cards after Trump's re-election. But does protectionism work? Has the entire US political class forgotten the lessons of the Smoot-Hawley Tariff Act of 1930? If Trump is the ghost of protectionism present, Smoot and Hawley are the twin ghosts of protectionism past.



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YOU MAY KNOW OF SMOOT-HAWLEY FROM THE SCENE IN 'FERRIS BUELLER'S DAY OFF' WHEN AN EXASPERATED HIGH SCHOOL TEACHER TRIES TO ELICIT ANSWERS ABOUT THE ACT FROM A CLASSROOM OF GAWKING TEENAGERS ("...PASSED THE...ANYONE? ANYONE?").

Or from the media, where experts and politicians have invoked Smoot-Hawley repeatedly to support the free trade agenda at critical moments, from the founding of the World Trade Organization and NAFTA to more recent protests against Trumpian tariffs.

Few pieces of legislation in US history have attracted such opprobrium.

But was Smoot-Hawley really so disastrous economically? Or has it attracted undue notoriety because of events that coincided with or followed its passage?

Digging into the details, we unearth a story of political sparring, personal ambition and often comic absurdity – but one which left a lasting mark on the global political order, far beyond the US agricultural heartlands it was intended to protect.

DOWN ON THE FARM

The US of the Roaring Twenties was a place of great prosperity, excess and ostentation. Think Jay Gatsby and Daisy Buchanan.

Yet not all American roads were paved with gold. Farmers, then a quarter of the labour force, suffered a debt-fuelled bust and painful agricultural depression.

During the First World War, farm prices had doubled as European supply plummeted. US farmers seized the opportunity, taking on debt to invest in land and machinery at a time when electrification and motorisation were driving productivity growth. This led to substantially higher output, particularly when European supply picked up. The result: as Europe recovered, commodity prices cratered.

After his election in 1920, President Warren Harding, the son of an Ohio farmer, responded with tariffs, tax cuts and infrastructure spending. The Fordney-McCumber Tariff Act of 1922 raised the average rate of import taxes by 29%.

Nonetheless, the farmers' plight persisted – not least because the tariffs directly increased the input price costs for the machinery and manufactured goods farmers needed.

As farmers' incomes sank by 38%, farm foreclosures skyrocketed from an average of 3.2 per thousand farms between 1913 and 1920 to 17.0 between 1926 and 1929.¹

By the 1928 election, even Democrats were in favour of more protectionism. The new president, the Republican Herbert Hoover, pronounced that “an adequate tariff is the foundation of farm relief.”

Economically, the argument for tariffs made little sense. Farmers were net exporters overall, and most of the small quantity of agricultural imports didn't directly compete with US produce. No surprise, then, that one Congressman called higher tariffs on farm goods “an attempt to fool the farmers.”

But the tariff train had been set in motion, and in early 1929 the House began a series of hearings on the matter.



PLOUGHING THROUGH THE HOUSE

Representative Willis Hawley, the House sponsor of the Bill, set himself a gargantuan task. His committee heard the testimony of 1,110 aggrieved individuals and small businesses over 43 days. Sub-committees were headed by members with special interests, giving advantage to ‘well-connected insiders’.²

As a result, the final Bill was a far cry from its original conception, increasing duties on manufactured goods as much as on agricultural products. But the main problem was its farcical complexity and specificity. For example: ‘Bottle caps of metal, collapsible tubes, and sprinkler tops, if not decorated, colored, waxed, lacquered, enameled, lithographed, electroplated, or embossed in color, 30 per centum ad valorem; if decorated, colored, waxed, lacquered, enameled, lithographed, electroplated, or embossed in color, 45 per centum ad valorem.’

“The final Bill was a far cry from its original conception, increasing duties on manufactured goods as much as on agricultural products.”

Hawley presented the Bill as a fait accompli for fast tracking through to the Senate. Unsurprisingly, both Democrats and Midwest Republicans were outraged. Representative Eslick, a Democrat, complained that “only amendments coming from the Republican side of that committee were considered by the House... For every dollar this measure increases the farmer’s income, it will take from him ten to twenty times that amount.”

Notwithstanding, the Bill passed, with voting predominantly along party lines.

THE SHEPHERD IN THE SENATE

The baton passed to Reed Smoot, a Republican from Utah, to guide the Bill through the Senate. This was a more hostile environment. But Smoot knew how to overcome opposition, as his original campaign for the Senate in 1902 had proved.

‘Few men have had greater ambition than Reed Smoot,’ noted his biographer.³ A local townsman recalled at the time of his campaign that “people used to count the number of I’s used in his talks... The number was terrific.” And he needed all this



² Irvin (2011), *Peddling Protectionism: Smoot-Hawley and the Great Depression*
³ Merrill (1951), *Reed Smoot, Apostle in Politics*

self-belief to prevail in the race, because he faced a thorny problem.

In 1900, Smoot had become a member of the Quorum of Twelve Apostles, one of the governing bodies of the Church of Jesus Christ of Latter-Day Saints – aka the Mormon Church. Reed’s mother, Anna Kirstene Morrison, had converted as a young woman in Norway, leaving home aged 18 for the US. As was common in those early days of the Mormon Church, Smoot’s father was a polygamist, and Anna was his fifth wife.

Under severe pressure from Washington, the Mormons eventually renounced plural marriage in 1890. But old prejudices persisted. Smoot’s critics attacked him for being a member of the Mormon hierarchy, which for years had encouraged polygamy – and, it was rumoured, still sanctioned it unofficially. Some even alleged Smoot was a polygamist himself.

Despite intense opposition, Smoot won the election. But his opponents canvassed legislators to stop Smoot taking his seat in 1903, and Congress launched a series of hearings. The Smoot case captured the nation’s attention, with Mormonism itself put on trial. Finally, in 1907, the Senate held a vote, which fell short of the majority needed to expel a member. Smoot was victorious. Now, he had something to prove.

HARROWING ACCOUNTS

Smoot’s passion for tariffs was rooted in his longstanding advocacy of protections for Utah’s sugar beet industry – a not entirely altruistic advocacy, given the Mormon Church’s substantial investment in the state’s sugar companies. He was determined to drive the Bill through.

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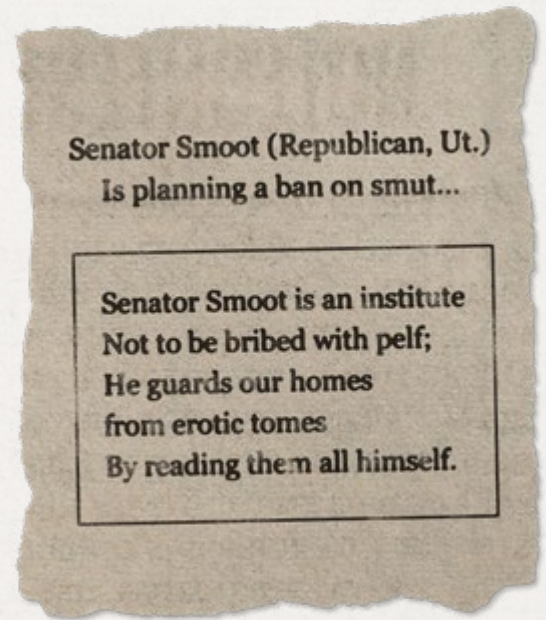
However, in the Senate, the Bill was open to amendments by all, and every individual item had to be voted on. Senators were treated to Senator Ashurst extolling the necessity of tariff protections on tomatoes for 15 pages of the Congressional Record and to a staggering 35 pages on lumber from Senator Nye. In all, the process took 527 hours and 2,638 pages of the Congressional Record.

As the days dragged on, individual interests were set against one another in a pattern of 'reciprocal noninterference' – or horse trading.⁴ Senators would agree to approve another item as a quid pro quo to get their own item through, with items often voted on repeatedly until approved.

As one Democrat senator commented, "Things have been happening here in recent weeks that have somewhat shaken my confidence in the judgement of the Senate... There have been some very suspicious circumstances connected with the shifting of votes on many of these items."

The proceedings descended into absurdity. Section 305 of the Act banned the importation of obscene matter. Smoot took aim at "filthy books" and threatened to read aloud some of the most offensive material from *Lady Chatterley's Lover* and Robert Burns' poetry, declaring that he would rather his own children took opium than read such tawdry trash.

The debacle did little for Americans' perception of their lawmakers. 'Smoot Smites Smut' declared one newspaper headline. The poet Ogden Nash poked fun at Smoot in *The New Yorker*.



TUMBLEWEED

It's not as if the public was clamouring for higher tariffs. In 1929, the *New York Times* noted 'scant evidence, until very recently at least, of general public interest.' Several senators agreed: they had received no demands from their constituents for these 'protections'.

Yet Smoot wanted his name on a seismic piece of legislation. As his biographer notes, 'he revelled in prestige as well as public and private recognition.'⁵ So much so that he switched the naming convention, which places the Representative's name first. Thus the Hawley-Smoot Act became the Smoot-Hawley Act.

Amid all the Senate shenanigans, President Hoover maintained a silence for which he was widely criticised. Once the Bill passed Congress, however, he was lobbied by all sides. A host of prominent businesspeople, newspaper editors and over 1,000 of the most esteemed economists of the day publicly beseeched Hoover not to sign the Bill.

4 Schattschneider (1935), *Politics, Pressures and the Tariff*

5 Merrill

To no avail. In July, as the developed world slid into the Great Depression, Hoover signed the Tariff Act of 1930 into law. In the end, Smoot-Hawley raised 845 rates and reduced 82, and the average tariff rate on imports rose from 34.6% to 43.1%, the highest in US history.

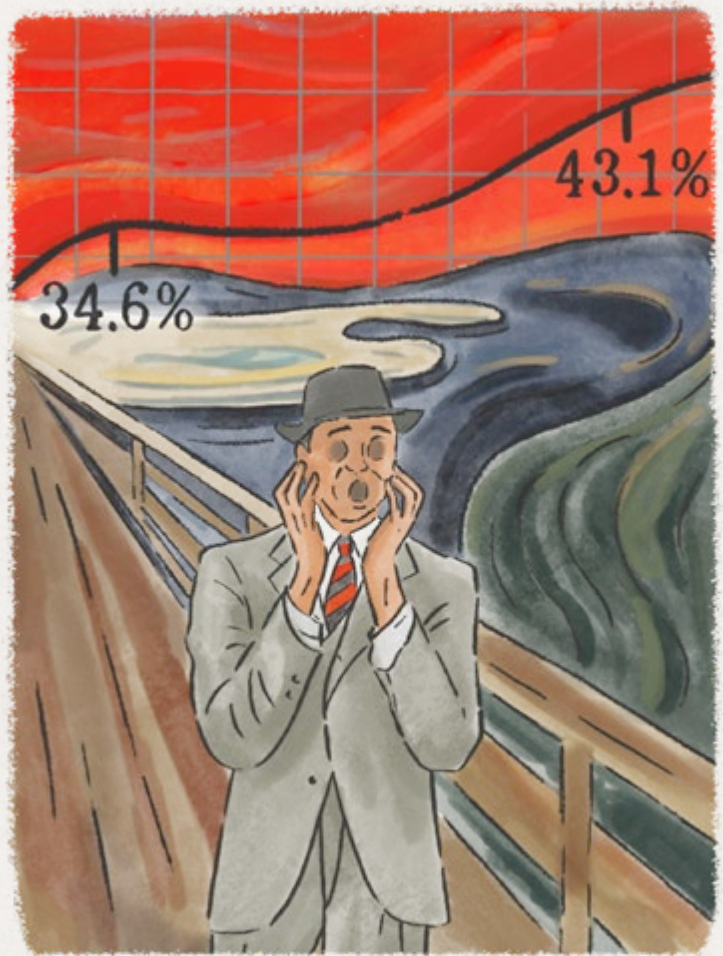
REAPING THE WHIRLWIND

The true impact of the Smoot-Hawley Act has been widely debated, and the idea that it meaningfully exacerbated the Great Depression has largely been debunked. Dutiable imports made up only 1.4% of US GDP in 1929. Credible estimates suggest the identifiable impact of the tariffs was a decline in total imports of 5%; hardly enough to drive a country into a severe depression.⁶

The real culprits were the stock market crash of 1929, successive banking panics, the implementation of foreign exchange controls and restrictive monetary policy leading to a decline of around one third in the money supply.

Hoover himself argued as much in his memoirs: ‘We pulled down the world, so they tell us, by increases on less than 1 per cent of the goods being imported by the world.’

Such claims did not prevent the Republicans losing the 1932 election, nor the Democrats from vociferously disparaging their predecessors’ legacy.



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“Brick for brick they built their walls against us... The villainy we taught them they practiced on us.”

GRAPES OF WRATH

In any case, the tariffs – predictably – backfired on the US. Canada, Great Britain and continental Europe were among those left with little political option but to retaliate. In the words of Franklin Roosevelt, Hoover’s successor: “Brick for brick they built their walls against us... The villainy we taught them they practiced on us.”

Canadian retaliation was particularly damaging for US farmers. American imports of eggs from Canada fell from around 13,000 dozen in 1929 to 8,000 dozen in 1932. But that was dwarfed by the fall in American exports to Canada, down from 919,000 dozen to 14,000 dozen over the same period.⁷

Sadly for the farmers, hard times were coming despite the tariffs. For example, cotton production fell by 6% in 1930, largely driven by a 16% decrease in domestic demand from textile mills as recession struck; exports actually increased in this period.⁸ And then came the Dust Bowl, years of severe dust storms caused by drought and the erosion of top soil by agricultural practices.

SEEDS OF DISCORD

But, if the economic impact of Smoot-Hawley may have been overstated, the geopolitical fallout was undeniably devastating.

Sister nations felt they had been abandoned by a key ally at a time of acute economic and social distress as the post-war boom turned to bust. In 1927, the League of Nations World Economic Conference had demanded an end to protectionism. Smoot-Hawley was a resounding slap in the face.

In Cuba, Smoot-Hawley tariffs on sugar sparked anger and contributed to the overthrow of the pro-American government in the revolution of 1933. In Europe, the tariffs made it harder to access US dollars, which were essential for Germany to service the loans which paid their Versailles reparations bills. This was one of many causes of the run on German and Austrian banks in 1931. The resulting economic hardship helped pave the Nazis’ path to power.

We are not blaming Smoot-Hawley for causing the Second World War (see page 112 for the ‘real’ culprit). But the tariffs proved far more effective at fomenting resentments among America’s trading partners – friends and foes alike – than it was at protecting US farmers from international competition. ●

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