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The Grown-up in Infant's Clothing.  
The U.S. Protectionist Relapse in the  
Interwar period

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## I. The General Framework of U.S. Trade Policies in the 1920s

The Tariff Acts of 1922 and 1930 were officially entitled "Acts to Provide Revenue, to Regulate Commerce with Foreign Countries, to Encourage the Industries of the United States, to Protect American Labor (only in the 1930 Act), and for Other Purposes." If we disregard the first two purposes (the traditional and more modern motives for collecting customs), the next two make clear that the legislation was intended as a "beggar-my-neighbor" policy of the U.S., the outcome of a narrow understanding of the U.S. national interest without regard for the effect of higher tariffs on world economic activity and its backlash on the American economy. In many fields of production, whether agricultural or industrial, the U.S. was the number-one producer in the world, and in some fields, mainly of industry, it held a share of more than 50% of total world production in the 1920s.<sup>1</sup> Nevertheless, it approached the tariff question as it did in most of the second half of the 19th century and as might be proper for a developing country today seeking to spur domestic economic growth and employment by means of protection of "infant industries". While a developing country is probably justified in assuming that the repercussions of its measures on world economic activity are minor, if not insignificant, and therefore the dangers of retaliatory trade measures by other countries only slight or practically non-existent, this is not so for a country that holds the major share of world economic activity and trade.

An example from banking further illustrates this point. A small bank might be able successfully to restrict its credit in order to improve its liquidity situation without harming the overall credit and

economic situation of its country, if the other banks do not do the same thing at the same time. The dominant bank of a country with a large share in total credit creation cannot do that, for even if other institutions do not intend to change their policies, they are likely to be forced into it, because credit restrictions by the dominant bank diminish the available funds in all banks (by more than a marginal amount), and this will cause a backlash. A deflationary spiral is likely to start spinning. Wolfgang Stuetzel, some 30 years ago, brilliantly discussed the weaknesses of economic actions taken from a "partial" perspective as opposed to actions based on a "global" perception of its effects.<sup>2</sup>

U.S. trade policies in the 1920s were clearly shaped by such a partial perspective, while the weight of the U.S. economy now called for actions based on a global perspective. William B. Kelly summed it up: "As is frequently the case in government policies, there was a long interval between the need for a different policy and the recognition of this need and change in policy."<sup>3</sup>

The arguments on which the claims for protective tariffs were based, were essentially of two kinds: (1) those that emanated from the general principle which was established officially as the basis for decisions on the scale of a tariff, namely that the tariff should cover the production cost differential between foreign and domestic producers; and (2) those that reflected the expectations of private producers who saw themselves as being "entitled" to protection; as having a private "right to protection."<sup>4</sup>

With reference to the first point, the wage cost differential between domestic and foreign producers was the main argument in favor of higher tariffs. Tariffs equivalent to the production cost differ-

ences were regarded as necessary to defend the high level of wages and of the American living standard. The result of this cost formula approach was that tariffs were introduced and raised even on products whose imports into the U.S. were negligible, while U.S. exports of these goods were considerable. Thus, protection was granted to producers, many of whom did not need it and would even have more to lose from it, as foreign customer nations could easily retaliate against the U.S. measures. Examples of this include barley, lard, oats, rye and wheat.<sup>5</sup>

The widespread acceptance of this cost formula as a criterion for setting tariff rates in the U.S. is the best illustration of the misperception that existed regarding the functions of trade policy. In the year of the Declaration of Independence, Adam Smith published his Wealth of Nations, which pleaded for the abolition of trade barriers precisely because nations were producing the same products at different costs (including wages) in absolute terms. If national economies had free access to other nations' markets, each nation could specialize in the production of those goods which it could produce at lower costs than other national economies. This specialization would lead to price reductions as the advantages of "economies of scale" could be reaped.<sup>6</sup>

Early in the 19th century David Ricardo refined this theory even further with his concept of "comparative cost advantages."<sup>7</sup> This theory states that the international division of labor through the free exchange of goods would be advantageous to participating nations even when one country produced at higher absolute costs of production in all fields than others. If nations specialized in the production of

those goods they could deliver at a relatively lower cost, then the general welfare of all countries would increase. This rationalization became the theoretical foundation of Great Britain's liberal attitude towards international trade from the mid-19th century on. The free trade attitude prevailed in Britain until WW I and even beyond, in spite of the fact that the British production costs, especially wage costs, were for most of the period the highest in the world.<sup>8</sup>

The U.S. by the end of WW I had grown into the shoes which didn't fit Great Britain anymore, in other words, had replaced Great Britain as the dominant economy in the world.<sup>9</sup> But the U.S. followed a different path than Great Britain had regarding trade policies. The Republicans chose not to embrace the British Smith-Ricardo tradition and rejected the relatively liberal tariff terms of the Underwood-Simmons Act, an outgrowth of President Wilson's "New Freedom" program, and opted instead for the return to a protectionist tariff system, which had been the foster-child of the Republicans since they became politically influential from the Civil War on.<sup>10</sup> Despite the fact that the U.S. pressured for "open door" treatment of its exports abroad, it erected a "Chinese wall"<sup>11</sup> around its domestic market in the 1920s. This was at a time when the new dual role of the U.S. as the world's foremost creditor nation and largest producer not only of agricultural commodities, but now also of manufactured products, required the opposite. The famous economist and international trade theorist Gottfried Haberler characterized U.S. trade protectionism coupled with U.S. insistence on collecting war debts in the 1920s as "sadistic".<sup>12</sup> B.M. Anderson, an American economist and banker, poignantly remarked:

"The debts of the outside world to us are ropes about the necks of our debtors, by means of which we pull them towards us. Our trade restrictions are pitchforks pressed against

their bodies, by means of which we hold them off. This situation can obviously involve a very painful strain for the foreign debtor."<sup>13</sup>

The protectionist Republicans did not recognize that Europe's capacity to pay its debts to the U.S., as well as the world market's capacity to absorb increasing American exports of manufactured goods, required that foreign countries should have access to the American market in order to earn the dollars with which to pay for U.S. exports and to service their debts.

Furthermore, the production cost formula approach to tariffs ran counter to the very logic on which international trade is based. Except in those items where prestige value, special design or some other feature dominates consumer behavior irrespective of cost considerations, international trade would stop if all the tariffs conformed to the production cost formula.<sup>14</sup> Its introduction by the Republicans as a principle,<sup>15</sup> therefore, amounted to an all-out attack on international trade itself.

Critics of the high U.S. duties were often referred to the so-called flexible provision of the Tariff Acts of 1922 and 1930 which authorized the President to change tariffs within certain limits (50 percent up or down). A need to reform the 1913 Act in this respect had been acknowledged well before the Republicans regained power in 1921 by members of the Democratic as well as the Republican Parties and by Wilson himself. The President, in a letter of July 25, 1916 to the Illinois Manufacturers Association, had recommitted himself to the idea of a "flexible" or bargaining tariff, a position he had already endorsed in his 1912 election campaign.<sup>16</sup> What this meant was that the executive would have the power to alter tariff rates either upwards or downwards without the consent of Congress. This proposal was based on

the experience that Congress had very often set tariff rates in view of government revenue problems and interest group pressures for protection. The traditional procedure had not been favorable to the speedy tariff revisions that were necessary for "employing to the utmost the resources of the country in a vast development of our business enterprise."<sup>17</sup> Changes in tariffs under the flexible rule would be based on the findings and recommendations of the U.S. Tariff Commission. This nonpartisan commission existed from 1916 as an advisory body to the Government. A "flexible" tariff was considered to be a scientific tariff instead of an interest-group or partisan tariff.

In the preparation of the 1922 Trade Act, Wilson's idea of a "flexible tariff", remained "alive and kicking" throughout the Republican Party's roll-back on the relatively liberal 1913 Trade Act of the Democrats. But the idea was crippled. Section 315 of the Act of 1922 empowered the U.S. Tariff Commission with the right to recommend rate changes (a maximum of 50 percent up or down). They were subject to final approval by the President, and not Congress. It also allowed the Commission to propose, again with the President deciding, that the American selling price should be substituted for the "foreign value" or for the "export value", (whichever was higher) as the base in determining the ad-valorem rate. This was to be done whenever the cost differential between domestic and foreign producers could not otherwise be equalized. This "flexible provision" was introduced in the 1922 Tariff Act mainly in view of the unstable currency conditions in Europe, which affected the production cost differential a great deal. Because of its link to the production cost formula it was quite deliberately not an instrument on which hopes for a reduction of the tariff

rates could be pinned.<sup>18</sup> In the 37 cases between September 1922 and June 1929 in which the President did order a change of tariff rates he raised duties in 32 and reduced them in only 5 cases, the latter concerning only unimportant import items.<sup>19</sup>

Though this broadening of the executive's power can be regarded as a step in the right direction towards future trade liberalization,<sup>20</sup> the President's voice in the decision process was still too narrowly limited to enable him to steer policy towards truly serving the national interest. For not only were rate changes not allowed to exceed 50% (up or down); ad-valorem rate changes were not allowed at all when the American selling price was substituted for the foreign valuation; changes in the form of duties between ad-valorem and specific rates were prohibited. Transfers between the dutiable and the free list were also not allowed. Their most important limitation on the President and the Tariff Commission was that they were to act only within an established range of production cost differentials.

This approach had already begun to receive criticism by 1923. A. Berglund objected to it, arguing that, apart from the fact that cost differentials were difficult to determine, the flexible provision "virtually commits the Tariff Commission to a protective tariff policy," since it was based on the assumption that:

"... an industry whose costs in the United States are higher than those of a similar industry abroad is entitled to a tariff safeguard equivalent to the difference between its own costs and those of its foreign competitor. Differences due to better location or other natural advantages, in so far as they increase the competitive strength of the foreign producer, must be neutralized by a sufficiently high tariff barrier."<sup>21</sup>

Berglund pointed out the fact that the Tariff Commission was not empowered to take into consideration the effects of import duties on

U.S. export trade, as had been proposed by Senator Jones of New Mexico. He denounced the trade policy makers for their failure to take into consideration the influence that trade barriers would have on the future development of U.S. export trade and on the possibilities for the collection of U.S. foreign credits, and he described their approach as the "narrowest provincialism." He concluded that the Act of 1922 "is indeed in line with the intense nationalism which has become so pronounced in recent years" and was translated "into a certain amount of commercial isolationism." Exhibiting an amazing prognostic insight, he finally asked the question: "Is this isolation in accord with either our own aspirations or the world's needs?"<sup>22</sup>

That U.S. imports of dutiable goods did not cease after 1922 is partly due to the difficulties in implementing the principle. In most cases producers at home and abroad were naturally reluctant to disclose information on their production cost to the U.S. authorities, i.e. to the U.S. Tariff Commission that was charged with such investigations.<sup>23</sup>

In considering the second point, the so-called "moral right to protection", U.S. producers argued that the government had encouraged industries to expand production during the war years under an "implied contract that they would be protected against foreign competition after the war was over."<sup>24</sup> The Constitution was even used to back up this position that private business had a "right to protection" by the U.S. government. Senator Pine in a statement made in the Senate Finance Committee over a tariff on petroleum invoked the Constitution's equal rights protection: "The Government can not deny the equal protection of the law to any of its citizens."<sup>25</sup> The net result of this private-right approach to tariff rates was that decisions were

based more on private needs than on consideration of the public interest.

The shaping of trade policies is, however, a matter of public interest, and in its purest form should be guided solely by the public interest, not by private needs, when it comes to deciding which industries should be protected and which should not, even in cases when permitting the free entry of imports means the displacement of domestic production. Defined in this way, it must be discriminatory. U.S. legislators simply lost sight of the proper framework within which trade policies should have been constructed, a framework shaped by the national interest rather than by particular interests. In the case of the 1922 Act there was little discussion of the principles of international economic policy in general and the functions of tariff policy in particular; in the case of the 1930 Act the views of policy makers, such as Senator Cordell Hull, who possessed an adequate frame of reference, did not prevail.<sup>26</sup>

## II. The Fordney-McCumber Tariff Act of 1922

Until the Second World War the Republican and the Democratic Parties traditionally pursued sharply different policies in foreign trade matters. The Democrats advocated a "competitive", i.e. low tariff, a "tariff for revenue only," while the Republicans advocated protectionism.<sup>1</sup> The Democrats were more concerned about the effect of tariffs on the cost of living and therefore more inclined to favor free trade. The Republicans, in contrast, were more concerned about the effect of tariffs on the business conditions of big industry in the U.S. and therefore favored protective shields to foreign competition. Since the Republicans were in control of Congress and the

White House most of the time from 1861 to 1913, they had established a tradition of trade protectionism in the U.S.

Each of the two parties' attitudes towards tariffs can also be understood in terms of financial policies. The Republicans predominantly represented the interests of the higher-income classes and the Democrats those of the lower-income classes. Import tariffs are indirect taxes which burden the lower-income recipient relatively more than the high-income earner, whereas direct taxation tends to do the opposite. The U.S. Federal Government's budget had traditionally been entirely financed by indirect taxes, mainly from customs revenue.

At the time, party lines also strongly reflected sectional divisions of the country. The Democrats stood up mainly for the agrarian interests of the Southern states and of the Western farmers, while the Republicans represented Northern industrial interests. The agrarian sections of the country were buyers of industrial goods (either imported or domestically produced) and the main suppliers of U.S. exports. They regarded the financing of the federal government mainly through high tariffs on industrial imports as unfair, as they improved the terms of trade between agriculture and industry in favor of industry, and agriculture was disproportionately burdened with federal taxes. A federal income was regarded as more equitable and more oriented towards taxation according to capacity to pay.

It is, therefore, no coincidence that the Democrats instituted for the first time in American history (except during the Civil War) a federal income tax in connection with the Wilson-Gorman Tariff Act of 1894, which revised tariff protection downward, although by not as much as the original Wilson bill of the House had provided for. The

federal income tax, however, was judged unconstitutional in 1895 by a conservative judiciary in the Supreme Court mainly on the grounds that the constitution required all federal direct taxes to be apportioned among the states according to their respective population.<sup>2</sup> But after the Democrats had won a decisive victory in the House elections of 1910, they again pursued a combination of institutionalizing a federal income tax, which was successful in 1911, and a reduction of tariffs, which was unsuccessful as long as President Taft kept vetoing such trade bills.<sup>3</sup> But after the election of Woodrow Wilson in 1912, along with a majority of Democrats in the Senate, the Underwood-Simmons bill was enacted in 1913, which considerably reduced tariff protection to its lowest level since 1861. (Table 1)<sup>4</sup>

This "new freedom" in foreign trade program of the Wilson era never had a real chance to make its effects felt, as in the summer of 1914 WW I broke out, thus disrupting normal trade relations.

During the war years, European competition with American goods was virtually eliminated, as Europe diverted its productive energies towards manufacturing for war purposes. Europe, instead of a "hunger" for new markets to sell its goods, "hungered" for the goods themselves.

During the second half of WW I, the U.S. business community began to recognize that there was a need for tariff revisions after the War to avoid increased competition from the European countries.<sup>5</sup> The war changed the U.S. status of a debtor nation to that of the world's largest creditor.<sup>6</sup> After the war, it was deemed likely that the debtor nations in Europe would want to dump their exports onto U.S. markets in an attempt to pay back their debts and to regain some of the gold lost as a result of the purchase of war materials from the U.S. While

the U.S. government had during the war encouraged domestic production of those products which had been imported before the war-related disruption of world trade, e.g. dyestuffs, it had done so with the understanding that it would protect these "infant industries" from foreign competition that was expected to resume after the war. The need for revision was also based on the expectation that the pre-war unconditional most-favored-nation structure of international trade might be lost forever and would be more and more replaced by a system of trade preferences.<sup>7</sup>

Already at the start of the war, Britain had granted special tariff concessions to her colonial empire. These were expected to become a permanent feature after the war. There were also indications that Great Britain and her allies in Europe for one as well as the Central European Powers for another would form some sort of tariff union in peacetime. Great Britain and her allies in 1916 had already planned this out in the Paris Economic Conference. They targeted their program of preferential treatment at the Central Powers. They invited the U.S. to share the privileges. The U.S. rejected this, seeing it as a threat to its international trade prospects which were based on an "open door" policy.<sup>8</sup> It seemed almost certain that in the future the Europeans would openly discriminate against the U.S., at a time when the U.S. producers particularly needed open world markets as the war-generated export demand would dwindle with an armistice.

With this in mind, it seemed necessary that the U.S. should have high tariffs in order to give the President the bargaining power necessary to win concessions from, or enforce retaliation on, its European competitors. The Underwood-Simmons Tariffs were regarded as a

weak negotiating position for the U.S. to start from, as rates were relatively low. At the time the Executive possessed no power to raise them in order to retaliate against threatening trade discrimination from abroad.

Under the Payne-Aldrich Tariff Act of 1909 this had all been possible. This tariff was actually a double-column tariff which had regular rates and penalty rates that were 25% higher than the regular rates. The idea behind this was that the higher rates would apply to imports from those countries that were "unduly" discriminating against the exports of the U.S., while the regular rates would apply to the imports from non-discriminating countries. This was a very harsh measure, as the penalty duties would be applied across the board to all imports from an offending country. There was no room in it for graduating the penalties according to the degree of the discrimination. As a result, in practice, the penalty duties were rarely enforced. Nevertheless, these penalties had to be regarded as a protectionist sword of Damocles that constantly threatened foreign exports to the U.S.<sup>9</sup>

In 1919 and 1920 U.S. fears of increased European competition were borne out by facts. After the wartime exchange controls were phased out, European currencies depreciated sharply on the foreign exchange markets. Some, like the German mark, dropped more than others, such as the British pound, but all currencies for a while changed their value in the same direction.<sup>10</sup> These depreciations gave the Europeans a competitive advantage over American producers.<sup>11</sup>

This situation was aggravated by the fact that U.S. prices and wages went up in an inflationary post-war boom in 1919. Also, in 1919, it became evident that the economic clauses of the Versailles Treaty

would create a situation in which postwar international trade would be on a discriminatory basis. The best example of this was that Germany was denied most-favored-nation status for five years by the Allies, yet at the same time it had to grant this status to the Allies. The special tariff treatment of both Germany's and Turkey's former colonies, as well as England's, France's and the other Allies' tendency to monopolize the world's oil resources, all violated the "open door" policy of non-discrimination, a principle which the U.S. government and business community relied on.<sup>12</sup>

The Republicans returned to power with an unprecedented majority in 1921, right in the midst of the early post-WW-I depression. Also in view of the depreciation of European currencies, enormous pressure was exerted on Congress by both agricultural and industrial sectors to reinstall high tariffs, in other words to return to the traditional Republican policy of protectionism. Congress acted quickly. The House Ways and Means Committee started hearings right away, in January 1921, on the tariff question. The Congress quickly passed an Emergency Tariff Bill that provided for high tariff increases for agricultural products. President Wilson, still in office, vetoed this bill on March 3, 1921. But after President Harding was inaugurated, Congress met in a special session and passed a revised Emergency Bill and by May 27, 1921, the Emergency Tariff Act became effective.<sup>13</sup>

This Act placed heavy, in many cases prohibitive, duties on agricultural products. Thus the act appeased the demands of agricultural interests. Agriculture had been particularly hard hit by the price declines characteristic of the depression, and producers felt that they faced the danger "that the American market would be inun-

dated with low-priced commodities already in surplus in the United States, such as hard wheat, and wool."<sup>14</sup>

On the same day that the Emergency Tariff Act became effective, the Dye and Chemical Control Act also became law. This act placed an embargo on the importation of coal-tar dye products with a provision that allowed for imports only when a specific dye could not be found in the U.S.<sup>15</sup> Germany had had before WW I virtually a monopoly in the production of such dyes. During the war the U.S. dye industry had developed rapidly, with capital investment increasing from a pre-war figure of \$3 million to \$174 million. This was due to the absence of German supplies during the war. When Germany reentered the world market in 1919, the new U.S. industry naturally felt threatened.<sup>16</sup>

Parallel to the work on these two acts, the efforts at a general reform of the 1913 Tariff Act continued. After the hearings by the House Ways and Means Committee, which had started in January 1921, the trade bill (H.R. 7465) was finally drafted and the committee chairman Fordney reported it to the House on June 29, where it was passed on July 21 with a vote of 289 to 127. The bill was referred to the Senate, where it was discussed in the Senate Finance Committee chaired by Senator McCumber for a long time. Hearings were again held and it took until August 19, 1922, before the Senate passed a substantially modified draft of the bill (2000 changes)<sup>17</sup>, with 35 Republicans and 3 Democrats voting for it, and 24 Democrats and 1 Republican voting against it.<sup>18</sup> In general, the revisions by the Senate were in favor of more protectionism. The Senate gave in to the wishes of agriculture and industry to such a degree that even Fordney declared the revised tariffs to be too high. On the other hand, the Senate dropped the protectionist idea of import valuation according to the American

selling price instead of the foreign export price (with the exception of chemical imports) and also the prohibition of imports of dyestuffs. Both measures had been part of the original House bill.<sup>19</sup>

The Conference Committee of both Houses - consisting of 6 Republicans and 4 Democrats - quickly compromised on the differences between the Senate and the House bill and the final bill was passed in the House with a vote of 210 to 91, and in the Senate with 43 to 28. 17 Republicans in the House and 5 in the Senate, specifically from the states of Wisconsin and New York, opposed the bill. President Harding signed and enacted the bill on September 21, 1922.<sup>20</sup> This came after 20 long months of log-rolling, discussion, and debate. The act went against the principles of the 1913 Act, and in terms of tariff increases it was the most protectionist step ever taken in U.S. history thus far. The Smoot-Hawley Act of eight years later would raise the tariff walls even higher, but the relative increase in tariffs was much less in the 1930 Act than in the Fordney-McCumber Act.

The 1921 trade bill met with little opposition that argued for free trade. The slogan was rather: "moderate non-excessive tariffs."<sup>21</sup> The Democrats argued against excessive tariffs on food and textile imports by pointing out that the burden would fall on the consumer, and they argued generally that high protection served only the interests of big industry, specifically the trusts. Most of the experts sided with the opposition. But in the hearings the interest groups succeeded again and again in impressing the legislators by pointing towards growing U.S. imports, the increasing unemployment and the danger that the depressed currencies abroad would further flood the American market with cheap imports. Low tariffs -- they argued --

would be of particular benefit to the former enemy countries and would mean unemployment for those who had fought the battles for the U.S. or who had supported the war effort by buying the Liberty Bonds.<sup>22</sup>

Some interest groups sided with the Democrats in opposing the high protective nature of the tariff bill, namely those that had much to lose from a cutback in foreign trade, mainly the shipping industry, importers and industries with a large export share like the automobile and film industries, also part of the labor movement, consumer organizations, and of course the New York banks. These groups voiced their opposition mainly through the National Foreign Trade Council, the National Council of American Importers and Traders, and the Fair Tariff League. But with minor exceptions they did not succeed in making inroads into the protectionist front of the Republicans, who treated the tariff question as a party affair to such an extent that they paid no attention to the views of Democratic members of Congress.<sup>23</sup>

Opposition to the original 1921 House draft of the bill was also voiced within government circles but extended to other matters than the tariff rates. The State Department under Charles Evans Hughes led the drive towards using tariff reform as a tool to ensure the "open-door" principle of equality of treatment. Congress, which was used to dealing with tariffs in a concessions-negotiations (reciprocity) type format, i.e. special tariff arrangements with some countries on a reciprocity basis, provided for such reciprocity arrangements in the 1921 House bill and thereby violated the equality-of-treatment principle.<sup>24</sup> Section 301 called for special concessions. Section 302 authorized the president "to impose penalty duties on specific products of any country which imposes duties or similar exactions ...

upon like or similar products" of the U.S.<sup>25</sup> The State Department saw less danger in high foreign tariffs than in discriminatory treatment of U.S. exports by foreign countries. The State Department believed its equality-of-treatment principle to be endangered by such provisions. William S. Culbertson, the vice-chairman of the U.S. Tariff Commission and a key figure behind the new legislation, backed the State Department position. The Senate was receptive to this, and the subsequent Senate version of the bill dropped the concessions-negotiation (reciprocity) provision of Section 301. It ensured a one-column tariff (while the 1909 Trade Act had in fact imposed a double-column tariff) and as a weapon against foreign discrimination (not against high tariffs abroad which Section 302 of the House Bill had been directed at) adopted Section 317 as one of the flexible provisions of the 1922 Act (retained without significant change as Section 338 of the 1930 Trade Act). It authorized the President to levy penalty duties of up to 50 percent ad-valorem on any or all products of countries that discriminated against U.S. exports, whenever "the public interest will be served thereby." The provision was never applied. But its existence proves that the flexibility of the Trade Acts of 1922 and 1930 provided for much more freedom of action for tariff increases than for tariff reductions. Culbertson was pleased with the results. He and the State Department believed that the open-door principle had prevailed, though Culbertson did acknowledge that the proposed tariff rates were too high -- a fact that in his view could be remedied later.<sup>26</sup>

The Republicans in shaping the Tariff Act of 1922 worked on the basic assumption that they would restore the level of tariff rates

that were in effect before the Democratic Party came to power in 1913. The Payne-Aldrich Tariff Act of 1909 was an important point of reference, and it was not surprising that many of the rates imposed in 1922 were the same as those specified in the 1909 Act. The average ad-valorem tariff rate on dutiable goods was about 41% under the Payne-Aldrich Tariff Act of 1909, compared to 27% under the Underwood-Simmons Tariff Act of 1913. Under the Fordney-McCumber Act from 1922 to 1929 the average ad valorem rate was restored to around 39%.<sup>27</sup>

This is not the complete story, for the 1913 Act had also liberalized trade by admitting an increased number of imports duty-free. On the "free list" were such products as steel, raw wool, coal, shoes and boots, and agricultural implements. The 1922 Act cut down this list, removing such products as iron and steel from the free list, but it did not restore the 1909 conditions. Thus, while the average ad valorem rate of protection on dutiable and free goods had been almost 20% under the 1909 Act and 9% under the 1913 Act, it increased only to 14% under the 1922 Act.<sup>28</sup>

There are two reasons why the average ad-valorem level of protection in the 1920s did not reach the same level as those between 1910-12. First if all, most duties were specific rates, i.e. expressed in a fixed amount of dollars per unit of imports versus a percentage of the import value. The general price level was much higher in the postwar period than it had been before the war. So, even though a number of tariff rates were higher after 1922 than after 1909 in absolute terms, the average ad-valorem protection was lower. Secondly, the Fordney-McCumber Act in some cases, e.g. for coal-tar dyestuffs, raised duties so high that they were prohibitive and succeeded in closing the U.S. markets to foreign competitors. This caused the total

tariff revenue to decrease relative to the amount of imports.

Under the 1922 Act there were few cases of low tariff rates or of small increases in customs rates. They were usually granted to domestic producers who had already gained a substantial share in export markets and feared that foreign governments would retaliate against the higher U.S. protection. The classic examples are the iron and steel industries. Until 1913 these two U.S. industries traditionally had been nurtured under a shelter of high tariffs, but as they were now important exporters it seemed important to them to keep trade relations as "open" as possible. Another case, one growing in importance, was the automobile industry.<sup>29</sup>

The 1922 Act basically restored the tariff rates in the following product fields to their 1909 level: the bulk of textiles, a great part of the earthenware and glassware articles, as well as some agricultural products. But as these rates were expressed as specific rates, the net result was a reduction in the ad-valorem protection (from the 1909 level) due to the general rise in the price level during the war and postwar years.

There were instances where the new rates were well above the historical precedents. Such cases concerned mainly the various chemical industries, especially coal-tar products, certain manufactured articles such as cutlery, clocks and toys, several minerals and alloys used in metallurgical operations, and a wide range of agricultural products. These drastic increases concerned import products that either threatened domestic producers, since the war-related trade distortions had ended, or commodities for which the 1920/21 depression had brought about a sharp decline in prices, mainly agri-

cultural products. As far as these products were concerned, the U.S. was exporting considerably more than it was importing, in other words, they were products in which the country was very competitive. High agricultural tariffs were used or rather misused as price-support instruments in a time of depression, in complete disregard of the fact that tariffs were there to stay even after recovery from the depression. In other cases, the tariffs were designed to equalize production cost differentials between countries. This goes against the very principle upon which international trade and competition is based. It is true that there was a real competitive threat to U.S. producers from the rise in domestic wages and prices up to mid-1920 and from the external depreciation of the floating European currencies, which mostly outpaced their internal depreciation. But the last-mentioned phenomenon only reflected the fact that the European economies needed a production cost advantage in order to increase their exports so that they could earn the necessary foreign exchange needed to pay off their foreign debts.

A striking example that illustrates just how concerned tariff makers in Congress were over details of production cost differentials between countries, was the great "Cuckoo Clock" incident. During the debates on the tariff rates, to highlight a point, Senator McCumber himself held up a cuckoo clock pointing out the fact that this clock could be bought in Germany for 94 cents, but that in New York it had a retail price of 22 dollars. The point: that importers were making "unholy" profits and were "crowding out" domestic clock manufacturers from the market. This served to propel an excessively high tariff on clocks through Congress and to inspire one journal to publish a highly critical article entitled "A Cuckoo in the Tariff".<sup>30</sup>

One industry that did not succeed in getting all it wished in the 1922 Trade Act was the coal-tar dye industry. The embargo on coal-tar dye imports of the Dye and Chemical Control Act of 1921 was not retained, as the domestic producers had wished. But they were more than compensated for that omission by the granting of a very high ad-valorem tariff rate, and by this rate being based on the American selling price, not the foreign export value which was the usual procedure.<sup>31</sup> What it all amounted to was a prohibitively high protection, which had the same effect as an embargo would have had.<sup>32</sup>

I have cited these examples in order to illustrate this point: that the Fordney-McCumber Act effectively prevented the world's number-one debtor country, Germany, from having easy access to the markets of the largest creditor nation, the U.S., particularly in those articles that Germany produced most efficiently. This came at a time when international financial relations required the opposite. The U.S. government was neither prepared to forgo the huge war debts the Europeans owed to the U.S., de facto though not de jure linked to the German reparation payments, nor was it prepared to open its markets to European exports so that these countries could earn the dollars necessary to pay off these debts.

The 1922 Tariffs were, of course, supported by the forces of protectionism, which were particularly strong among small and medium-sized firms. They expressed their views mainly through the American Tariff League and its journal "The American Economist", as well as through the Home Market Club and its journal "The Protectionist".<sup>33</sup>

But the 1922 Tariffs also met with criticism from some economic sectors. Within the business community, opposition to the new pro-

tectionism arose from two camps: those who exported manufactured goods on a large scale, in other words, the export sector; and those who had an interest in exporting capital, namely the international bankers. The first group feared foreign retaliation to the American protectionism, the latter group recognized that foreign debtors would have a difficult time in earning the dollars they needed to service their debts, if they met with high trade barriers.

In the case of the exporters, their view was primarily voiced in newspaper articles, especially those appearing in papers like the "New York Tribune" and the "Chicago Tribune", as well as publications appearing in smaller cities on the East Coast and in the Midwest, and also in trade papers like the "American Metal Market".<sup>34</sup> These articles reflected the opinions of giant industries, like iron, steel, metal and automobiles, which tended to have a more liberal attitude towards international trade. On the political scene, such bodies as the National Foreign Trade Council (NFTC) represented their view.

The international banking community's view was well expressed by Thomas Lamont of Morgan & Co. He stated in 1922 that the new tariff protected " a lot of industries which do not need protection, and cuts off from our farmers and manufacturers a lot of foreign markets that are ready to buy our commodities." It would "surely wreck a big part of our foreign trade ." Paul Warburg, the president of the American Acceptance Council, voiced a similar opinion and further stated that the high tariffs would prevent Europe from paying its war debt to the U.S.<sup>35</sup>

Leaders of the Democratic Party, such as Norman Davis and Cordell Hull, remained critical throughout the 1920s. They attacked the Republican Party's policy of promoting high tariffs and at the same time

encouraging American bankers to sell foreign government bonds. Davis remarked in 1925 that although the outflow of American capital might temporarily promote American exports, in the long run, the high tariff policy would disable foreign countries to earn the revenue required to repay their loans, and the entire debt structure would collapse.<sup>36</sup> The Reparations Agent in Germany, Parker Gilbert, more familiar with the world's greatest debtor nation than anybody else in the U.S., was highly critical of the situation the U.S. had created. After it had closed its country to foreign immigration in 1924 (Immigration Restriction Act),<sup>37</sup> he expressed his view in a letter to a friend in 1925, when he was dealing with the State Department about the issue of German municipal loans floated in the U.S. He complained that the more basic problems, which the State Department refused to confront, were created by the American high tariff policy and the immigration restrictions whereby "we are making it increasingly difficult for other countries to pay us in goods and services ... And at the same time we are pressing our debtors abroad to pay us."<sup>38</sup> This view is also a reflection of Parker Gilbert's close affiliation with the Morgan Co., of which he became a partner after his return from Germany.

Some of the U.S. politicians who had framed the Fordney-McCumber Act hoped that the high tariffs could serve for more than merely satisfying the narrow interests of the pressure groups that sought and were granted the protection they wanted. They hoped to use this act, with its principle of equality of treatment, as an instrument to undermine the threatening system of trade discrimination that was emerging abroad, specifically, the British imperial preferences and the French two-column reciprocity tariffs. The U.S. government

throughout the 1920s tried to negotiate trade treaties on the basis of the unconditional most-favored nation-clause. But this policy -- with few exceptions, notably a treaty with Germany -- failed to eliminate preferential trade agreements, especially those of Britain and France. European governments argued that the high tariffs of the Fordney-McCumber Act were just as much an impediment to world trade as their discriminatory systems were.<sup>39</sup> In addition, the "flexible" provision was regarded to be useless in promoting trade liberalization, as it did not allow for tariff reductions other than those that equalized cost differentials.

The Fordney-McCumber Act completely disregarded the historical lesson that without tariff concessions as a quid-pro-quo tariff negotiations aimed at opening up world markets were doomed to failure. For example, a tariff was even introduced on wheat imports, a product which the U.S. was a huge net exporter of. On the one hand, it is understandable that domestic producers threatened by foreign competition would resist tariff concessions that favor export industries, when foreign countries might lower their tariffs in return. Yet it is beyond comprehension why the U.S. farm lobby failed to see that the prime victim of a tariff on wheat would be the domestic producer himself as soon as foreign countries followed suit. It shows a large degree of narrow-mindedness to draw conclusions from an equation from which the other side has been omitted. Therefore, it seems to me, Arthur D. Gayer and Carl T. Schmidt were correct in judging that the schedules of the Tariff Act of 1922 were "incapable of rational defense."<sup>40</sup>

In order to judge the effects of the 1922 Act, it seems useful to compare U.S. foreign trade performance after 1922 with that in the

prewar period. U.S. foreign trade had more or less grown steadily in the last 13 years before WW I. From 1900 to 1913 U.S. exports grew nominally at an average annual rate of 4.5 percent, total imports by 6.0 percent annually.<sup>41</sup> In real terms the growth rates were not quite as high, but still positive. U.S. real exports showed an annual average growth rate of about 3 percent, real imports a rate of about 5 percent. As far as the settlement of trade accounts with Europe was concerned, there was the characteristic triangular flow of trade. The U.S. ran an export surplus with Europe, raw materials and foodstuffs being its major export items. Europe ran an export surplus with Latin America and the Orient, selling primarily finished manufactures, and Latin America and the Orient had an export surplus with the U.S., supplying primarily raw materials.<sup>42</sup>

U.S. tariffs impeded the expansion of this triangular flow in two ways after WW I. At this time Europe needed an overall export surplus to service the war debts. But the Emergency Tariff Act of 1921 and the Fordney-McCumber Act of 1922 restricted the growth of U.S. imports of primary products, which came mainly from Latin America and the Orient. The foreign exchange earnings of these parts of the world were thus being restricted and thereby their purchasing capacity for European finished manufactures was narrowed. The Fordney-McCumber tariffs on finished products, on the other hand, restricted the growth of direct European exports to the U.S. precisely for those goods which constituted the bulk of export products of the indebted Europe. During the period in which the relatively low Underwood-Simmons Tariffs had been in effect, U.S. imports had grown dramatically, especially after the end of WW I. Total U.S. imports in 1920 were almost 200% higher than

in 1913 in nominal terms and about 32% higher in real terms. Due to the depression they fell sharply in 1921 to slightly less than half of the previous year's value and by 16% in real terms. In 1929 total U.S. imports in real terms were about 50% higher than in 1920, U.S. imports of finished manufactures in 1929 even 75% above their level of 1920 in real terms. The problem, however, was that the share of finished products in total U.S. imports remained relatively small. As a result of the disruption of U.S.-European trade during the War, it had dropped from 22.5% in 1913 to 16.6% in 1920. In 1929 it had recovered to the 1913 level, but not more.

At the same time, U.S. exports that had grown dramatically from 1913 to 1920 (by 40% in real terms), but not much thereafter (by 14% in real terms until 1929), underwent an important structural shift. The share of finished manufactures in total U.S. exports had reached only 32% in 1913; by 1920 it amounted to 40% and by 1929 to 49%. This indicates that the U.S. was making deep inroads into the traditional European export markets for finished products in third countries, while keeping its home market, which was growing rapidly during the prosperous 1920s, relatively closed to its European competitors.

The structural shift in the composition of U.S. exports, however, was of great importance also under a different perspective. As the outside world and especially the European countries realized, it made the U.S. vulnerable to tariff retaliation practically for the first time in its history.<sup>43</sup> Before WW I especially the European countries had often protested against U.S. protectionist legislation, but they could hardly retaliate. At the time when the McKinley Tariffs were enacted (1890), almost 80%, and at the time when the Dingley Tariffs went into effect (1897), almost 70% of total U.S. exports still

consisted of raw materials and foodstuffs which Europe needed. Retaliation was impossible against such export items. But in 1922 semi-finished and finished manufactures together amounted to already 51.5%, in 1930 even to 63.8% of total U.S. exports. Trade retaliation had become a sharp weapon against the U.S. and it was used extensively.

As J.M. Jones Jr. in his classic study on Tariff Retaliation pointed out:

"It is scarcely to be supposed that a foreign government would proclaim openly the retaliatory character of a piece of local legislation when there are at any given time in any country so many convenient local considerations which might serve as a pretext. Tariff retaliation, if it is to have any meaning at all, must cover the entire range of reciprocal tariff action from immediate, logical raising of import duties by a government upon the imports coming from a country which has injured its economy by its initial tariff action -- this action being admittedly retaliatory -- to those cases in which the psychological effect of one country's tariff action, when placed in the scales in a second country on the side of these interests which continually work for higher tariffs, causes that government to decide in favor of increased import duties." <sup>44</sup>

In the course of the 1920s almost all governments of the world did retaliate in the second sense. The list of tariff advances abroad from 1922 to 1929 is so long that it cannot be presented here. It has been well covered in studies of the U.S. Tariff Commission.<sup>45</sup> Nonetheless, of the foremost industrial countries in the world, namely England, Germany, France, and the U.S., the U.S. retained the lead in tariff protection of its domestic market.<sup>46</sup> The only country known to have had a slightly higher average rate of tariff protection in the 1920s than the U.S. was Spain.

### III. The Smoot-Hawley Tariff Act of 1930

In his early assessment of the Tariff Act of 1930, Abraham Berglund was explicit about the origins of this climax of U.S. protectionism in stating that it was "partly an outcome of the post-war agricultural depression."<sup>1</sup> American agriculture, which had experienced its most prosperous years during and immediately after WW I (Table 3), was badly hit by the early postwar depression 1920/21. Farm prices and incomes recovered somewhat until 1925, but their development in the second half of the 1920s showed all the symptoms of depression, while the rest of the economy was booming. The terms of trade between agriculture and industry, which had improved markedly in favor of agriculture from 1917 to 1919, deteriorated thereafter and remained far below their wartime level all through the 1920s.<sup>2</sup>

The platform for the presidential election adopted at the Republican Party's Kansas City Convention in 1928 did not only not consider the high tariffs since 1922 as a possible cause of the agricultural depression, but instead traced the roots of U.S. prosperity in the 1920s to the high existing tariffs. The platform made it clear that more protectionism was to be expected. It also repeated the Republicans' main argument for protection, namely lower wages abroad.

"We reaffirm our belief in the protective tariff as a fundamental and essential principle of the economic life of this nation. While certain provisions of the present law require revision in the light of changes in the world competitive situation since its enactment, the record of the United States since 1922 clearly shows that the fundamental protective principle of the law has been fully justified... Nor have these manifest benefits been restricted to any particular section of the country. They are enjoyed throughout the land either directly or indirectly. Their stimulus has been felt in industries, farming section, trade circles and communities in every quarter. However, we realize that there are certain industries which cannot now successfully compete with foreign producers because of lower

foreign wages and a lower cost of living abroad, and we pledge the next Republican Congress to an examination and where necessary a revision of these schedules to the end that American labor in these industries may again command the home market, may maintain its standard of living, and may count upon steady employment in its accustomed field... A protective tariff is as vital to American agriculture as it is to American manufacturing. The Republican party believes that the home market, built up under the protective policy, belongs to the American farmer, and it pledges its support of legislation which will give this market to him to the full extent of his ability to supply it. Agriculture derives large benefits not only directly from the protective duties levied on competitive farm products of foreign origin, but also, indirectly, from the increase in the purchasing power of American workmen employed in industries similarly protected."<sup>3</sup>

When accepting the presidential nomination, Hoover promised to stand by the "protective principle" and to revise the existing tariffs. He denounced the Democratic Party for working against the interests of workers and farmers in their traditional opposition to protectionism.

"We have pledged ourselves to make such revisions in the tariff laws as may be necessary to provide real protection against the shifting of economic tides in our various industries. I am sure the American people would rather entrust the perfection of the tariff to the consistent friend of the tariff than to our opponents, who voted against our present protection to the worker and the farmer, and whose whole economic theory over generations has been the destruction of the protective principle."<sup>4</sup>

In the presidential campaign of 1928, Hoover kept promising more protective tariffs as an aid to agriculture.<sup>5</sup> In this campaign, the Democratic Party -- traditionally taking a liberal stance in foreign trade matters -- and its presidential candidate Alfred E. Smith had more or less abandoned their former attitude and also adopted policies of trade protection.<sup>6</sup> That both parties endorsed protectionism at this time might well be an indicator of the political power that narrow-minded interest groups had won over electoral politics, which had become more and more a matter of financial funds. Myers observed that

by embracing protectionism "it is possible (for a party) to bring within its fold the business and industrial interests that are so necessary to supply not only the votes, but also the party funds and special campaign contributions that are an absolute condition of party success."<sup>7</sup> As we know, Hoover and the Republicans won the edge in the election by a wide margin, and now had to implement higher tariff protection "as a partial remedy for the existing agricultural depression".<sup>8</sup> There had been initiatives in Congress before to introduce price-support policies for agricultural products, most notably the famous McNary-Haugen bill, which was passed twice by Congress in 1927 and 1928 and vetoed by President Coolidge both times.<sup>9</sup> To this kind of market intervention most Republicans in Congress and their Presidents in the White House had always been opposed. Higher tariffs, however, seemed to offer a solution to the problem of low farm prices which was in line with the Republican tradition of favoring protectionism.

In his inaugural address to Congress on March 4, 1929, President Hoover underlined what he had pledged in his campaign:

"Action upon some of the proposals upon which the Republican Party was returned to power, particularly further agricultural relief and limited changes in the tariff, cannot in justice to our farmers, our labor and our manufacturers be postponed. I shall therefore request a special session of Congress for the consideration of these two questions. I shall deal with each of them upon the assembly of the Congress."<sup>10</sup>

Immediately after the election, the Congress, in which the Republicans had majorities in both Houses, had started to work on the new trade legislation. When Congress convened in December 1928, it had been agreed that the special session, which Hoover had promised to agriculture already during his campaign, would have a first discussion

of a revised tariff act in the spring of 1929. It was assumed that the matter had to be handled speedily not only with a view to the economic situation of agriculture, but also in order to finish the labor on the tariff bill before the new Congress would come into session in December 1929.<sup>11</sup> When the House Ways and Means Committee issued its public notice on the hearings concerning the tariff issue in December 1928, it was already clear that the revision would not be limited to the agricultural tariffs. This Committee held its hearings for 43 days in January and February 1929 and supplementary briefs were taken in as late as April 18. Thereafter, the Committee drafted the bill and finally its chairman Hawley introduced it into the House on May 7, 1929. The House immediately referred it back to the Committee which in turn reported it back to the House, where it was passed 264 to 147 on May 24, with only 12 Republicans voting against the bill as against 20 Democrats from industrial areas voting for it.<sup>12</sup> It was clear by then that the tariff changes would not be "limited", as Hoover had originally intended the revision to be. "In addition to widespread increases in farm duties, however futile and insignificant, there were increases on almost every other commodity that might possibly suffer from foreign competition."<sup>13</sup>

The haste with which the legislative procedure was handled is further evidenced by the fact that the Senate Finance Committee issued public notice of its hearings on the bill on June 7, 1929, and held those hearings from June 13 to June 18. An extensively revised form of the bill was reported to the Senate by the Committee chairman Smoot on September 4, well in time to meet the deadline for enactment of December 1929. But the bill met with opposition in the Senate and was

stuck for a while. A coalition of Democrats and some insurgent Republican senators from the West tried to pass a resolution sponsored by Senator Borah of Idaho to limit tariff revisions strictly to agricultural products. They almost succeeded. The conflict lingered on past the deadline for the legislation as originally planned (December 1929), until on March 24, 1930 the Senate passed the bill 53 to 31. Some tariff rates had been reduced as compared to the original House Bill. But more important than this, Senator Smoot, assisted by Senator Joseph R. Grundy, the president of the Pennsylvania Manufacturers Association and one of the organizers of the American Tariff League, had managed to trade eastern support of agricultural duties for western support of industrial duties and thereby broken the stalemate. The opposition had, however, forced the adoption of a provision for export debentures (a bounty paid out of customs revenue to American farmers) and had succeeded in passing the control of the flexible provision of the tariff from the President to Congress. The conference committee, with strong support from President Hoover, forced the Senate to drop these two important amendments. The final vote of the Senate on June 13, 1930, showed the discontent. The bill was passed by a majority of only two votes (44 to 42, 10 abstentions). Eleven Republicans, headed by Senators Borah and Norris, voted against it as against the five Democrats who voted for it. The next day the House approved the final bill 222 to 153.<sup>14</sup> It is noteworthy that Berglund observed that the principal influences deciding which way a Congressman or a Senator would vote were the industrial or sectional interests represented.<sup>15</sup> President Hoover signed and thereby enacted the bill on June 17, 1930.

The nature and the origins of the Act, this climax of U.S. protectionism, is best revealed when one studies the log-rolling

involved in its making. The hearings, of which Schattschneider has given us such a lucid and detailed account, turned out to be a tremendous Sysiphean labor for the Committees. 1,100 persons applied for a hearing before the House Ways and Means Committee and a hardly smaller number before the Senate Finance Committee. Not all were heard, but the severe work pressure is evident from the 11,000 pages of testimony and briefs which the Ways and Means Committee collected in 43 days and 5 nights and from the 9,000 pages the Senate Finance Committee accumulated in slightly more than a month.<sup>16</sup>

Schattschneider noted correctly that "the sentimental basis of the protective system is nationalism."<sup>17</sup> This sentiment had already been the basis on which the Tariff Act of 1922 had found such wide acceptance, a sentiment which President Reagan in a famous remark once called the "bunker mentality" of protectionism.<sup>18</sup> But while the Act of 1922 had been preceded by a change of the party ruling in the White House -- with the Republicans, traditionally protectionist, taking over -- the trade bill of 1929 was again the outcome of a presidential election, but this time without a change of parties at the head of the Executive. Schattschneider summarizes the character of the bill of 1929 as follows:

"The bill was a Republican measure written by partisans ... It was a revision of a protectionist law by protectionists for people whom they sought to make more and more protectionists."<sup>19</sup>

He substantiates this point by describing the role which the American Tariff League played in the shaping of U.S. trade policies. He notes that this organization had "the greatest repository of skill and experience in pressure politics of the tariff" and that it "may be appropriately described as an ancillary organization of the Republican

party."<sup>20</sup>

Schattschneider shows that the interest groups' influence on the shaping of the bill depended on how well they were organized and with whom in Congress they had their close informational ties. Those who had to lose most from protectionism, namely the importers and consumers, were not represented in those economic groups that were in possession of large sums of capital, therefore they lacked the lobbying organizations which big business usually disburses in political decision centers to defend its interests. They lacked both the financial means and information channels which would have allowed them to respond quickly in defense of their anti-protectionist interests. It was in consequence of this that they were hardly ever represented in the Committees' hearings.

Producers, both agricultural and industrial, and their organizations, almost exclusively ran the show in the Congress Committees and filed their demands for protection, which were based only on assessments from their narrow sectional viewpoints. Schattschneider points out that the Committee members were largely responsible for the dominance of sectional views in their inquiry. They seemed to have no "clear and adequate conception of the natures of the public values of industries which might justify the expenditure of a bounty upon them . . . . The hearings, therefore, were expedited at the cost of an enormous neglect of the proper functions of inquiry."<sup>21</sup>

He observed that "to an amazing degree the hearings were permitted to take whatever direction was given to them by the witnesses themselves."<sup>22</sup> The data submitted in the briefs were not checked, the statements were not audited, the witnesses were not required to pres-

ent the sources of their statistics. "In an investigation of this sort, it is probable that the most valuable information is that which must be extracted more or less forcibly from witnesses who are reluctant to give it."<sup>23</sup> Thus, the hearing turned out not to be "an inquiry by a governmental body into the merits of public policy."<sup>24</sup> With the exception of questions posed by Senator Cordell Hull, Member of the House Ways and Means Committee, it was like a negotiating table at which every major premise of the petitioners were conceded in advance.<sup>25</sup>

Although it was the depression in agriculture that was the prime motive behind the new customs legislation, the revision of the tariff rates was not limited to agricultural products. For industry demanded its share in the protectionist revision and asked for higher rates on finished goods, if only to compensate for the advances of duties for their raw material imports.<sup>26</sup> Though the increases of the tariffs on manufactured goods were less than on raw materials, many manufacturers took advantage of the occasion to lessen the pressure of foreign competition on the domestic market. For example, the textile industry especially pressured for, and received, higher protection.

Not only do individual tariff rates determine the degree of protection of the domestic market, but also the tariff structure is important. Therefore, there are usually not only conflicts between protectionist and free-traders, but also among those favoring protectionism. For the tariff structure determines the effective rate of protection of the different stages of production. Even low average tariff rates, i.e. a zero rate on raw material imports and a 25%-rate on manufactured goods, can be as beneficial and protective to manufacturers as a flat 50% rate on all imported goods. The overall

average tariff protection influences primarily the distribution of income between trading nations, whereas the tariff structure -- by affecting the relative prices of goods in the domestic market -- influences primarily the distribution of income among domestic producers.<sup>27</sup>

U.S. agricultural producers had based their claim for more protection on the relative decline of agricultural prices relative to the prices of industrial goods in the 1920s. One would have expected them to stand up against industry's claim for higher industrial tariffs as much as they pressured for more protection of their own products. But this conflict -- as mentioned before -- ended in the fatal compromise: protection for all. Schattschneider explains it in the following way:

"The situation has about it something of the air of a great conspiracy.. There has developed, as a result, a certain comity of interests expressed in a policy of reciprocal non-interference: a mutuality under which it is proper for each to seek duties for himself, but improper and unfair to oppose duties sought by others... The great farm organizations, which might have been expected to furnish the leadership in an assault on the industrial schedules, in fact subscribed strongly to the strategy of reciprocal non-interference in their drive to establish a parity of agriculture and industry."<sup>28</sup>

Berglund as early as 1920 observed that "the tariff act of 1930 will mark the apex or culminating point of protection in this country".<sup>29</sup> In general, one can say that the 1930 act was a continuation of the high tariffs for many products given in the act of 1922. In 1930, only a few tariffs were reduced, while many more were increased. This is reflected in the rise of the average ad-valorem protection in Tables 1 and 2. /3

The reductions were a result either of the transferring of products from the dutiable to the free list or of the lowering of rates

set by the Fordney-McCumber Act that were regarded as out of proportion. For instance, some excessively high tariff rates set in 1922 on certain chemicals, aluminium, and a few other products were lowered.<sup>30</sup>

One particularly outstanding example of a tariff reduction in 1930 is that of automobiles. The U.S. auto industry was so advanced in production techniques and in the scale of production that it had no fear of foreign competition on the domestic scene. In fact, it needed foreign outlets to sell its mass-produced autos. The industry feared the reprisals against American auto exports abroad that might result from an unnecessarily high U.S. tariff on car imports. Auto manufacturers had repeatedly asked for a transfer of automobile imports from the dutiable to the free list, with Congress finally agreeing to reduce auto tariffs from 25% (according to the Act of 1922) to 10% ad-valorem.

Tariffs remaining unchanged after 1930 include iron and steel. Until the Underwood-Simmons Act of 1913, the iron and steel industries had been a bastion of high protectionism. By 1913, due to its modern production techniques and large production scale, these industries feared the exclusion from foreign markets more than they feared foreign competition in the domestic market. The Fordney-McCumber Act of 1922 had raised the tariffs somewhat on iron and steel as against the liberal 1913 schedule, but the rates remained, for the most part, far below those that were in effect during the heydays of iron and steel protection in the half century before the First World War. In the Act of 1930, they were kept unchanged at the low or moderate level that they had been at before.

Also unchanged by the Act of 1930 was the treatment of those

items that remained on the free list, which even after 1930 was quite extensive. In 1931 and 1932, about two-thirds of all imports into America were admitted free (about the same share as was allowed in previous years).<sup>31</sup> This is no proof of a continuing liberal stance towards international trade, rather it is in line with the protectionist concept that the list consisted mainly of products which were not or could not profitably be produced in the U.S., such as raw silk, rubber, coffee, tin as well as many commodities that were not well suited for production in the U.S.

Though the share of imports allowed in duty-free did not change, their value did decrease enormously: from \$2.9 billion in 1929 to \$2.1 billion in 1930 to \$1.4 billion in 1931 to \$0.9 billion in 1932.<sup>32</sup> This reflected partly the price decline in these commodities during the depression years, but it also reflected the decline in the total volume of imports. That the percentage of free goods in total free and dutiable imports remained constant, despite the fact that some important commodities which had been previously admitted free under the 1922 Tariff Act (some sorts of lumber, long staple cotton, bricks, shoes and boots, sole leather, hides, hydraulic cements) were made dutiable by the 1930 Act, was due to the fact that the imports dutiable under the 1930 Act declined even more than those on the free list. This was because in many cases tariffs were set prohibitively high. Hence, any attempt at calculating the average rate of customs on all imports or on the dutiable imports, on the basis of the current volume of imports, like those done by the Bureau of Foreign and Domestic Commerce (see Table 1) are misleading in judging the effects of tariff changes. Obviously they do not take into account the rates

which are totally prohibitive. As Berglund observed, "if all the rates for dutiable commodities were so high as to be absolutely prohibitive, it could be argued that the average level of rates under the new law had been reduced to zero."<sup>33</sup>

This same reasoning must be applied when interpreting the data that President Hoover used to make the tariff increases of the 1930 Act look moderate. Hoover stated that the average level of tariff rates on all imports (free and dutiable) were raised only to an average of 16% ad valorem in 1930 as against the 13.8% under the Act of 1922 and the 25.8% under the highly protective Dingley Act of 1897.<sup>34</sup> The truth of the matter is that tariffs increases over the 1922 levels were substantial, especially in the case of agricultural products, some of which were used as raw materials in manufacturing industries.

Some rates, i.e. for products from mines and quarries, were raised, and others -- as previously mentioned -- were transferred from the free list to the dutiable list. It is important to note that the tariffs on primary commodities were usually specific duties, a fixed dollar levy per unit of imports. The effect of such a tariff is that when the price declines the ad-valorem protection increases. As prices of most primary products had declined since 1925, the ad-valorem protection of the U.S. market for these products had therefore increased, even before any new trade legislation was introduced in the second half of the 1920s, and would have risen even faster amidst the collapse of prices during the Great Depression beginning in 1929. In calculating the ad-valorem increases in tariff rates under the old and new trade legislation, it is difficult to separate the effects of the price decline, on the one hand, from those caused by the tariff

increases of the Act of 1930, on the other.

In a large proportion of cases, the increases in the specific tariffs per unit amounted in 1930 to 50% or more, for some items to as much as 100%. Sometimes the increases were "hidden", that is the duty remained unchanged under the Acts of 1922 and 1930, and the increase in protection was effected by other means. A good example is the case of manganese ore which was needed in steel production. The specific duty remained at one cent per pound of contained manganese. But under the Act of 1922, only the manganese in excess of 30% ore content was dutiable, whereas the Act of 1930 made the manganese in excess of a 10% ore content dutiable. As most of the manganese ore imported had a metallic content of about 50%, this amounted practically to a doubling of the tariff rate.<sup>35</sup>

On the whole, tariff increases on manufactured products were less than those on primary products. Tariff increases for manufactured goods were primarily of a compensatory nature, that is to make up for the increases in rates on primary products, so that the effective rate of protection for manufacturing industries would not fall. The textile industry is the only real example of an industry that received more than that in protection.

Tariffs on manufactured goods, in contrast to those on primary products, were mostly ad-valorem tariffs. Price changes for these products, therefore, did not affect the rate of protection. Though agriculture's ad-valorem protection automatically had increased as a result of the agricultural price declines after 1925, this had not been the case for most of manufacturing. This demonstrates the bias of protection towards agriculture. In this respect, the results of the

trade law of 1930 conformed to Hoover's initial intentions.

While the 1930 Trade Act was still in the making, over a thousand professors in 179 colleges and universities in the U.S. signed an appeal to Congress and President Hoover urging them to prevent the passage of any legislation that provided for an upward revision of tariff protection. President Hoover specifically was asked to veto the bill, if Congress passed it. It was argued that higher duties would raise prices and the cost of living, thereby encouraging production at excessively high costs, which meant inefficiency and waste. They claimed the tariff increases would also seriously affect U.S. investments abroad and would limit the exports of both farm and manufactured products, and would most likely encourage tariff wars.<sup>36</sup>

The academicians, in contrast to the majority of the policy-makers, were aware of the global or macrocosmic consequences of such legislation. In fact they exhibited a better understanding of the principles by which U.S. foreign trade policies should be conducted than Congress or the White House. Newspaper comments over the appeal and the Tariff Act itself showed that the economists were not the only ones in the country who were shocked by the "orgy" of protectionism in Washington. The American Bankers' Association, importers, and industries dependent on foreign markets also protested, not to mention the thirty-three foreign governments that were up in (trade war) arms.<sup>37</sup> Legislators tended to dismiss the criticism either by reacting harshly or by simply denying the impartiality or scientific spirit, as in the case of the economists. Senator Shortridge of California remarked that he was not "overawed or at all disturbed by the proclamation of the college professors who never earned a dollar by the sweat of their brow by honest labor -- theorists, dreamers."<sup>38</sup> As we know, the crit-

ics did not achieve their goal, but developments since then have shown the validity of their points.

The foreign nations' reaction to the 1930 U.S. Trade Act was much more bitter and quick than it was to the 1922 Act. J.M. Jones Jr. in his classic study of Tariff Retaliation noted that "never has the United States in peace time experienced such an extended and violent foreign reaction to any piece of local legislation as that attending the Tariff Act of 1930."<sup>39</sup> In 1930 the rate of increase of U.S. tariffs over their 1922 level was much less than in 1922 over the 1913 rates. Taussig, therefore, was probably right, when he played down the proposed tariff increases in an article in Foreign Affairs in October 1929 by pointing out that the tariff rates of the Fordney-McCumber Act were already in most cases far beyond the moderate level (30 percent ad-valorem) and were therefore troublesome to the foreign exporter anyway. And increase from, for example, 55 to 65 percent ad-valorem would not make much difference. But he cautioned:

"... it is the direction in which we move that chiefly counts. At the present juncture in international affairs, more depends on the spirit which we show than on the precise things which we do... Shall we continue to suspect, to fear, and to cultivate fear (of imports)? To treat the foreigner from whom we get goods as always an enemy and an intruder? To circumvent him, to bully him, rouse his resentment and his irritation? Or shall we treat him as we wish to be treated ourselves? Here too it is the spirit that signifies."<sup>40</sup>

So it seems that the 1930 rate increases, especially for agricultural products, whose prices had declined and whose ad-valorem protection had therefore automatically increased already since 1925, cannot alone explain the extensive round of retaliation to the U.S. measures. The different shape and direction of the world economy in 1922 and in 1930 must have played an important role in motivating the

bitter foreign reactions. In 1922 the world economy was growing, on the upswing after the depression of 1920/21, and U.S. credits were readily available. In 1930, the situation was the reverse. J.M. Jones Jr. regards the depression as "one of the chief causes for such widespread retaliation and discrimination against the United States following the Hawley-Smoot Tariff Act."<sup>41</sup> In his view the 1930 Trade Act had also contributed to the deteriorating performance of the world economy:"... the world depression and the Hawley-Smoot Tariff are inextricably bound up one with the other, the latter being not only the first manifestation of but a principal cause of the deepening and aggravating of the former."<sup>42</sup>

Some supply-side economists concerned with rational expectations formation in the setting of the Great Depression have since the 1970s also taken this view by pointing out that the stock market crash in October 1929, which marked the beginning of the world depression, was triggered by the investors' realization of the harmful effects that the proposed trade legislation would have on international trade and national prosperity.<sup>43</sup>

How the Smoot-Hawley tariffs aggravated the Great Depression was well described by a contemporary expert observer, the British economist Arthur Salter. During the First World War, he argues, the U.S. turned from a debtor to the world's greatest creditor nation, but it kept on exporting more than it imported, the difference being made up for by U.S. capital exports. Thus the foreign debts were not serviced out of commodity export earnings. But, as Salter says, "it was important that America should, to the utmost possible extent, receive what was due to her in the form of actual goods; and that her commercial policy should be designed to facilitate this. In other words, the

American tariff needed to be the lowest in the world. In fact, it was one of the highest."

Two cornerstones, on which U.S. trade policies in the post-WW-I period were based, were: 1.) the equality-of-treatment principle, i.e. non-discrimination, and 2.) the unconditional most-favored-nation clause, on which trade treaties were concluded. But at the same time tariff making in the U.S. was considered to be a purely national issue, in the making of which -- as Jones points out -- "foreign nations should have no influence and even American foreign interests no weight."<sup>45</sup>

When the U.S. Congress -- on the basis of such nationalistic viewpoint -- proceeded with the enactment of the Smoot-Hawley tariff, unimpressed by the formal and official protests of 33 foreign nations to the U.S. Government, it actually turned the equality-of-treatment principle into an "equality-of-negation" principle, as had been contended in an article on the trade issue in January 1929, when the legislative action began. Prohibitive tariffs, the author argued, rendered equality of treatment valueless. Countries that had a tradition in specializing on the production of certain articles of high and unrivaled quality -- because of their natural resources or particular national skills -- faced the "Chinese Wall" around the American market and, although it had the same height for everyone, it made everyone feel like being discriminated against.<sup>46</sup> In fact, the U.S. discriminated against the rest of the world by almost closing its markets to the products of all foreign countries. So Switzerland felt discriminated against by the increased duty on watches, France by the proposed tariff on a particular kind of lace, Spain by the duty on cork, Italy

by the tariff on olive oil, Canada by the increased protection against foodstuffs and raw material imports, etc.<sup>47</sup>

The closing of the important American market to highly specialized export products of other countries was perceived by foreign producers as direct discrimination against their products. Among the populations of foreign nations this created a psychological situation favorable to retaliation. A diverse series of reactions ensued:

"...cancellation of most-favored-nation treaties with the United States, actual measures of retaliation, new conceptions of international responsibility, new practices in commercial relations based upon strict reciprocity which guarantees reciprocal treatment, and growing disrepute of the unconditional most-favored nation clause."<sup>48</sup>

The Italian reaction demonstrates best how strong an impact the Smoot-Hawley tariffs were expected to have on production abroad. The 1930 Act aroused public resentment to such a degree that there was a widespread boycott of American automobiles, before the Italian government raised the tariffs on American auto and radio imports to practically prohibitive levels. Italy went on to further retaliate by successfully diverting large purchases of raw materials from the U.S. to other countries that were willing to reciprocate. In Switzerland a public campaign to boycott U.S. products was launched successfully. The Swiss government then proceeded to increase tariffs, to introduce import quotas, tariff controls and a compensation system to secure reciprocity in its crudest form as a close substitute for barter trade and bilateral treaties. Spain withdrew the most-favored-nation treatment from the U.S. and concluded most-favored-nation treaties with France and Italy. France reacted with successive tariff increases, commercial treaty denunciations, an import quota system, and the abandonment of the most-favored-nation treaty system in favor of

preferential treaties. Canada in 1930 radically increased tariff rates, enlarged preferential treatment of imports from Britain, and under the name of "countervailing duties" established reciprocal tariff increases on agricultural products, which went into effect "automatically" at the same time as the Smoot-Hawley tariffs. Great Britain turned fully away from its traditional free-trade attitude and in 1932 adopted a general system of high tariffs coupled with a broad extension of imperial preferences (the Ottawa Agreements).<sup>49</sup> The German government -- until the final end of reparations in the Lausanne agreement in July 1932 -- thought itself to be more in need of political support by the U.S. in the reparation question than in need of an open U.S. market. It did not retaliate directly. But, in fact, it turned to a policy of autarky and bilateral trade arrangements, after it had established foreign exchange controls in the summer of 1931 and an elaborate system of trade controls in 1932/33.<sup>50</sup>

What this world-wide refuge to protectionism did to economic development in general and international trade in particular has been studied many times and need not be repeated in detail here. The League of Nations economists in their World Economic Survey 1931-32<sup>51</sup> analyzed early on the important role which the Smoot-Hawley tariffs played in forcing down commodity prices throughout the world and in their Review of World Trade 1932 offered statistical details on the price decline of 25 commodities from 1929-32.<sup>52</sup> Sixteen had fallen by more than 50 percent. Since the price declines for manufactured goods were much less than for primary products, because manufacturers tended to react to the falling demand primarily by a reduction in production, the terms of trade for the primary producing countries deteriorated sharply. Their debts turned sour, and, due to the collapse of inter-

national capital exports during the depression, not only theirs, as we know from the case of Germany and other European countries. U.S. hopes for collecting the interallied debts finally had to be buried in 1932. As a result, U.S. private foreign credits were frozen, in many cases for a long time. The volume of world exports shrank by 61 percent in nominal terms and by 25 percent in real terms from 1929 to 1932 and for the rest of the 1930s never recovered to its 1929 level.<sup>53</sup>

U.S. exports, however, declined even more in the same period: 70 percent in nominal terms and 49 percent in real terms. The U.S. share in world trade consequently fell considerably in those years. The protective principle, on which the Republican Party had based its international trade policies, was thus fully discredited by the realities of developments during the Great Depression.

## Footnotes to Chapter I

- 1 For data see Folke Hilgerdt, Industrialization and Foreign Trade (= League of Nations Publication 1945. II. A. 10) 1945, p. 13. Hal B. Lary, The United States in the World Economy. The International Transactions of the United States During the Interwar Period (= U.S. Department of Commerce. Bureau of Foreign and Domestic Commerce. Economic Series No. 23), Washington D.C. (Government Printing Office) 1943, pp. 28-29.
- 2 Wolfgang Stützel, Volkswirtschaftliche Saldenmechanik. Ein Beitrag zur Geldtheorie, Tübingen (Mohr) 1958.
- 3 William B. Kelly, Jr., "Antecedents of Present Commercial Policy, 1922-1934", W.B. Kelly, Jr. (ed.), Studies in United States Commercial Policy, Chapel Hill (Univ. of North Carolina Press) 1963, p. 6.
- 4 Elmer E. Schattschneider, Politics, Pressures and the Tariff. A Study of Free Private Enterprise in Pressure Politics, as Shown in the 1929-1930 Revision of the Tariff, New York (Prentice-Hall) 1935, p. 88.
- 5 Cf. U.S. Tariff Commission, Comparison of Imports and Consumption, Washington D.C. (Government Printing Office) 1930 for detailed production, import and export statistics on different products.
- 6 Adam Smith, An Inquiry into the Nature and the Causes of the Wealth of Nations, 1st ed. 1776, Book Four, Chapter 2.
- 7 David Ricardo, On the Principles of Political Economy and Taxation, 1st ed. London 1817, Chapter 6 (= 2nd ed. 1819, Chapter 7).
- 8 In practice, Great Britain did not depart from the liberal trade dogma that had shaped its trade policies until the Ottawa system of generalized trade preferences for its Empire was established in August 1932, along with high tariff increases for imports from other countries. It is true that in 1917 Great Britain, in exchange for support in the war effort, gave in to the pressures of the Empire states (which they and the conservative party leader Joseph Chamberlain had exerted since about 1900) to grant trade preferences for certain Commonwealth products. After the war, imperial preferences were instituted by Section 8 of the Finance Act, 1919. But the reduced rates of customs were only applied to tea (from June 2, 1919 on) and to certain other articles (from September 1, 1919 on). 71st Congress, 1st Session, Senate Document No. 31, "Tariff Preference in Great Britain and British Possessions" (September 30, 1929, Serial 9125). The new high McKenna duties introduced during the war and the postwar Key Industries duties established under the safeguarding of Industries Act of 1921 applied to a limited list of industrial articles only, and some were

- temporarily removed by Philip Snowden, Chancellor of the Exchequer in the Labor government of Ramsey McDonald in 1924. But they were restored, when the Conservative Party returned to power in 1925. Henry Chalmers, "Tariff Making in Great Britain and the Dominions", Harry T. Collins (ed.), Tariff Problems of the United States (= The Annals of the American Academy of Political and Social Science, Vol. 141, No. 230, January 1929), Philadelphia (American Academy of Political and Social Science) 1928, pp. 68-72.
- 9 Charles P. Kindleberger, The World in Depression 1929-1939, Berkeley (University of California Press) 1973.
  - 10 Harry N. Scheiber, Harold G. Vatter and Harold U. Faulkner, American Economic History, New York (Harper & Row) 1976, p. 284.
  - 11 Andre Siegfried, "European Reactions to American Tariff Proposals", Foreign Affairs, vol.8 (1929/30), p. 13.
  - 12 Gottfried von Haberler, The Theory of International Trade with its Applications to Commercial Policy, London (W. Hodge & Co.) 1936, p. 80.
  - 13 Benjamin M. Anderson in the Chase Economic Bulletin, March 14, 1930, quoted in G. Haberler, Theory, p. 80.
  - 14 W.B. Kelly, Jr., "Antecedents", p. 17.
  - 15 It had first appeared in the Republican party platforms in 1904 and 1908. See W.B. Kelly, Jr., "Antecedents", p. 14.
  - 16 Carl P. Parrini, Heir to Empire. United States Economic Diplomacy, 1916-1923, Pittsburgh (Univ. of Pittsburgh Press) 1969, p. 214.
  - 17 C.P. Parrini, Heir, p. 214.
  - 18 I therefore disagree with Kelly's contention: "It was clearly the intent of the framers of Section 315 (the flexible provision in the Trade Act 1922) that it would operate to reduce rather than to raise duties .... In 1930, unlike in 1922, protectionists rather than moderates supported this flexible-tariff ideas." W.B. Kelly, Jr., "Antecedents", pp. 21-22.
  - 19 For details and criticism of this approach to tariff making see John Marshall Gersting, The Flexible Provisions in the United States Tariff, 1922-1930, Ph.D. Diss. University of Pennsylvania, Philadelphia 1932 (printed). Thomas Walker Page, Making the Tariff in the United States, Washington D.C., (Brookings Institution) 1930. John Day Larkin, The President's Control of the Tariff, Cambridge, Mass. (Harvard University Press) 1936. Percy W. Bidwell, The Invisible Tariff. A Study of the Control of Imports into the United States, New York (Council on Foreign Relations) 1939, pp. 117-123.
  - 20 For the development of power relations between the president and Congress see Louis Fisher, President and Congress. Power and Policy

New York (Free Press) 1972, esp. pp. 133-155 for the tariff making power. See also John D. Larkin, The President's Control of the Tariff, Cambridge, Mass. (Harvard University Press) 1936, esp. pp. 55-60.

- 21 Abraham Berglund, "The Tariff Act of 1922", American Economic Review, Vol. 13 (1923), p. 32.
- 22 A. Berglund, 1923, p. 33.
- 23 W.B. Kelly, Jr., "Antecedents", p.19.
- 24 E.E. Schattschneider, Politics, p. 90.
- 25 E.E. Schattschneider, Politics, p. 92.
- 26 For his basic position on the tariff question see Cordell Hull, The Memoirs of Cordell Hull, Vol. 1, New York (MacMillan) 1948, pp. 84-85, 106-107, 124-139. For his position on the Smoot-Hawley Bill see his minority report to the report of the House Ways and Means Committee on the Tariff Bill of 1929. After all his failures in fighting the policy of trade protectionism, he almost decided to retire from Congress in 1929. See C. Hull, Memoirs, p. 124.

## Chapter II

- 1 Harry N. Scheiber, Harold G. Vatter and Harold U. Faulkner, American Economic History, New York (Harper & Row) 1976, pp. 284-287. Thomas W. Page, Making the Tariff in the United States, Washington D.C. (Brookings Institution), 1930, pp. 68-72. Frank W. Taussig, The Tariff History of the United States, 5th ed., New York (G.P. Putnam's Sons) 1910, passim.
- 2 Paul Studenski and Herman E. Krooss, Financial History of the United States, New York (McGraw-Hill) 1952, p. 224. Erwin N. Griswold, Cases and Materials on Federal Taxation, 5th ed., Brooklyn N.Y. (Foundation Press) 1960, pp. 35-38.
- 3 Sidney Ratner, The Tariff in American History, New York (D. van Nostrand) 1972, pp. 44.
- 4 Historical Statistics of the United States. Colonial Times to 1970. Bicentennial Edition, Part 2, Washington D.C. (Government Printing Office) 1975, p. 888.
- 5 Carl P. Parrini, Heir to Empire. United States Economic Diplomacy, 1916-1923, Pittsburgh (University of Pittsburgh Press) 1969, pp. 212-218.
- 6 In 1914 the net U.S. foreign debt was about \$ 3 billion; at the end of World War I the U.S. net foreign credits stood at \$ 14 billion. In mid-1914 the international investment position of the U.S. in relation to the U.S. GNP stood at about minus six percent, at the

- end of 1919 it amounted to about plus eight percent and at the end of 1924 even to plus thirteen percent. See Carl-Ludwig Holtfrerich and Hans O. Schötz, Vom Weltgläubiger zum Weltschuldner: Erklärungsansätze zur historischen Entwicklung und Struktur der internationalen Vermögensposition der USA, Frankfurt/M. (Fritz Knapp) 1988, Table 1, p. 9. For further details see The International Financial Position of the United States, New York (National Industrial Conference Board) 1929. John T. Madden, Marcus Nadler and Harry C. Sauvain, America's Experience As a Creditor Nation, New York (Prentice Hall) 1937, esp. pp. 41-56.
- 7 C.P. Parrini, pp. 215.
  - 8 C.P. Parrini, pp. 15-39.
  - 9 William B. Kelly, Jr., "Antecedents of Present Commercial Policy, 1922-1934", W.B Kelly (ed.), Studies in United States Commercial Policy, Chapel Hill (Univ. of North Carolina Press) 1963, pp. 36-37.
  - 10 For a diagram of monthly fluctuations of European currencies 1919 through 1922 see Carl-Ludwig Holtfrerich, The German Inflation 1914-1923. Causes and Effects in International Perspective, Berlin/New York (de Gruyter) 1986, p. 21. For detailed statistics on exchange rate developments see H.N. Lawrie, Foreign Currency and Exchange Investigation. Foreign Exchange Quotations and Curves (= Commission of Gold and Silver Inquiry. United States Senate. Serial 8), Washington D.C. (Government Printing Office) 1924. John P. Young, European Currency and Finance Foreign Currency and Exchange Investigation (= Commission of Gold and Silver Inquiry. United States Senate, Serial 9) 2 vols., Washington D.C. (Government Printing Office) 1925.
  - 11 (Commerce Department Study on exchange depreciation)
  - 12 C.P. Parrini, pp. 138-171, 223.
  - 13 S. Ratner, p. 47.
  - 14 C.P. Parrini, pp. 225-226.
  - 15 From the U.S. entry into the War until the Emergency Tariff Act of 1921, the War Trade Board of the U.S. (which was abolished by the 1921 Trade Act) had controlled the imports of dye stuffs. The embargo of 1921 was originally restricted to a three-month period, but was extended several times and remained effective until the Fordney-McCumber Bill was enacted. S. Ratner, p. 47.
  - 16 Abraham Berglund, "The Tariff Act of 1922", American Economic Review, Vol. 13 (1923), pp. 14-33, esp. p. 23.
  - 17 S. Ratner, p. 48.
  - 18 Wilhelm Grotkopp, Amerikas Schutzzollpolitik und Europa, Berlin-Grunewald (W. Rothschild) 1929, pp. 8-9.

- 19 A. Berglund, 1923, p.... W. Grotkopp, pp. 8-9.
- 20 W. Grotkopp, p.9.
- 21 W. Grotkopp, p. 10.
- 22 W. Grotkopp, p. 15.
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- 24 C.P. Parrini, p. 227.
- 25 C.P. Parrini, p. 230.
- 26 C.P. Parrini, p. 233.
- 27 Annual data in Historical Statistics of the U.S., Part II, p. 888.
- 28 Historical Statistics of the U.S., Part II, p. 888.
- 29 A. Berglund, 1923, esp. pp. 19-20.
- 30 Chicago Tribune, July 2, 1922. Cited in A. Berglund, 1923, p. 23.
- 31 This American selling price system remained a perennial issue in international trade disputes and GATT negotiations until its abolition was agreed on as one of the results of the Tokyo round in 1979.
- 32 For further details about tariff rates see A. Berglund, 1923, p. 24-27.
- 33 C.P. Parrini, p. 234.
- 34 A. Berglund, 1923, p. 21.
- 35 These opinions were expressed in 1922. Cf. C.P. Parrini, p. 234.
- 36 Library of Congress, Washington D.C. Manuscript Division, Norman H. Davis Collection, Box 27, Letter Davis to Cordell Hull, January 8, 1925. Hull made the same accusations in a speech to the House of Representatives on December 19, 1925. See *ibid.* Cited in William C. McNeil, American Money and the Weimar Republic: Economics and Politics on the Eve of the Great Depression, New York (Columbia UP) 1986, p. 83.
- 37 "The Fordney-McCumber tariff of 1922 was the first heavy blow directed against any hope of effectively restoring a world trading system. It was followed in 1924 by a drastic Immigration Restriction Act, which cooped up the surplus population of southeastern Europe and led immediately to an intensification of both agricultural and industrial protection in those countries." John B. Condliffe, The Reconstruction of World Trade. A Survey of International Economic Relations, New York (Norton) 1940, p. 182.

- 38 Federal Reserve Bank of New York, Benjamin Strong Papers, 1012.1, Letter Parker Gilbert to Gerrard Winston, October 29, 1925. Quoted in W.C. McNeil, "American Money and the German Economy: Economics and Politics on the Eve of the Great Depression", Ph.D. Diss. Univ. of California at Berkeley (Dept. of History) 1981, p. 142.
- 39 C.P. Parrini, pp. 245-247.
- 40 Arthur D. Gayer and Carl T. Schmidt, American Economic Foreign Relations, New York (American Coordinating Committee for International Studies) 1939, p. 10.
- 41 These and the following figures are computed from the data in Historical Statistics of the U.S., passim.
- 42 Frank W. Taussig, "The Tariff Bill and Our Friends Abroad", Foreign Affairs, Vol. 8 (1929/30), p. 10.
- 43 Andre Siegfried, "European Reactions to American Tariff Proposals", Foreign Affairs, vol. 8 (1929/30), pp. 13-19, esp. 13.
- 44 Joseph M. Jones, Jr., Tariff Retaliation. Repercussions of the Hawley, Smoot Bill, Philadelphia (Univ. of Pennsylvania Press) 1934, p...
- 45 71st Congress, 1st Session, Senate Document No. 24, "Tariffs in Certain Foreign Countries", Serial 9125 (= Information provided by the Tariff Commission. September 1929).
- 46 71st Congress, 1st Session, Senate Document No. 32, "Ad Valorem Tariff Rates in Certain European Countries and the United States", Serial 9125.

### Chapter III

- 1 Abraham Berglund, "The Tariff Act of 1930", American Economic Review, vol. 20, (1930), p. 467. In addition to that he noted that there existed "dissatisfaction of certain industrial interests over the result of protection (by the Act of 1922)" and that "there was much criticism of the way in which certain administrative features of the Act of 1922 had been carried out. The so-called flexible provision of that law, for example, had operated to raise rates on certain commodities which were already regarded as too high, and in at least one conspicuous instance (that of sugar) had not resulted in any reduction in rates, although such reduction had been recommended by a majority of the Tariff Commissioners. This criticism, it is true, was not made in the interest of such a revision as that made by the law of 1930, but it contributed something to the influences which favored the enactment of another tariff bill" (pp. 468-9).
- 2 Historical Statistics of the United States. Colonial Times to 1970,

Part 1, Washington D.C., 1975, p. 200 for a comparison of the development of the wholesale price index for farm products in relation to all commodities other than farm products and food. Cf. also Statistical Abstract of the United States, Washington D.C., (Government Printing Office), 1929, p. 642, where data gathered by the Department of Agriculture and Labor show that even in 1927 and 1928, when the terms of trade relation computed from the source cited above showed some improvement the commodities bought by farmers were relatively higher in price than those sold by farmers in comparison to the prewar years. For the data see also Harry N. Scheiber, Harold G. Vatter and Harold U. Faulkner, American Economic History, New York (Harper & Row), 1976, p. 346.

- 3 William S. Myers, "The Republican Party and the Tariff", Harry T. Collings (ed.), Tariff Problems of the United States (= The Annals of the American Academy of Political and Social Science, Vol. 141, No. 230, January 1929) Philadelphia (American Academy of Political and Social Science) 1928, p. 246.
- 4 W.S. Myers, "The Republican Party", p. 247.
- 5 Cf. his famous statement on agricultural relief made on October 27, 1928 reported in the New York Times, October 28, 1928. See also the New York Times of August 12, 1928, and of November 3, 1928, for speeches by Hoover indicating that he favored more protectionism. Cf. also the Republican platform on which Hoover campaigned.
- 6 "The Democratic Party and the Tariff," H.T. Collings (ed.), Tariff Problems, p. 249-252. Cordell Hull, The Memoirs of Cordell Hull, Vol. 1, New York (Macmillans) 1948, pp. 130-1.
- 7 W.S. Myers, "The Republican Party," p. 243.
- 8 A. Berglund (1930), p. 469.
- 9 H.N. Scheiber et al., American Economic History, p. 347.
- 10 71st Congress, Special Session, "Inaugurated Address of Herbert Hoover. Delivered on March 4, 1929," Senate Document No. 1, Serial 9125.
- 11 Elmer E. Schattschneider, Politics, Pressures and the Tariff. A Study of Free Private Enterprise in Pressure Politics, as Shown in the 1929-1930 Revision of the Tariff, New York (Prentice Hall) 1935, repr. Hamden, Conn. (Archon) 1963, p. 32.
- 12 Sidney Ratner, The Tariff in American History. New York (van Nostrand) 1972, p. 51.
- 13 S. Ratner, Tariff, p. 51.
- 14 S. Ratner, Tariff, p. 51.
- 15 A. Berglund (1930), p. 477.

- 16 E.E. Schattschneider, Politics, p. 36.
- 17 E.E. Schattschneider, Politics, p. 87.
- 18 Lon Cannon, "Reagan Denounces 'Bunker Mentality' of Protectionism" Washington Post, March 5, 1983, p. A4.
- 19 E.E. Schattschneider, Politics, p. 95.
- 20 E.E. Schattschneider, Politics, p. 194.
- 21 E.E. Schattschneider, Politics, p. 39.
- 22 E.E. Schattschneider, Politics, p. 38.
- 23 E.E. Schattschneider, Politics, pp. 39-40.
- 24 E.E. Schattschneider, Politics, p. 43.
- 25 Senator Grundy of Pennsylvania, the strongest force in Congress behind protectionism, expressed the view "that the interests which put up the money for campaigns should be compensated in this way by high tariffs." C. Hull, Memoirs, Vol. 1, p. 132.
- 26 These demands for "compensating" advances of duties on finished goods - judged objectively - were not totally unfounded. The effective rate of protection of the manufacturing stage of production falls, when tariffs on the raw material imports are raised and those on finished goods are kept the same. On the other hand, the effective rate of protection of industrial activity is higher than the nominal ad valorem rates on finished goods, when the nominal rates of protection on raw material or semi-finished imports which are inputs in the production of finished goods are lower than the tariff rates on finished goods.
- 27 On the concept of the effective rate of protection see W. Max Corden, The Theory of Protection, Oxford 1971.
- 28 E.E. Schattschneider, Politics, pp. 135-7.
- 29 A. Berglund, (1930), p. 479.
- 30 See A. Berglund (1930), pp. 470-474 for this and the following.
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- 32 Historical Statistics of the United States, Part II, p. 888.
- 33 A. Berglund (1930), p. 473.
- 34 "Text of Hoover Statement on Tariff Bill", in New York Times, June 16, 1930, p. 2.
- 35 A. Berglund (1930), pp. 471, 474.

- 36 A. Berglund (1930), p. 478.
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- 38 A. Berglund (1930), p. 478.
- 39 Joseph M. Jones, Jr., Tariff Retaliation. Repercussions of the Hawley-Smoot Bill, Philadelphia (Univ. of Pennsylvania Press), 1934, p. 1.
- 40 Frank W. Taussig, "The Tariff Bill and Our Friends Abroad", Foreign Affairs, Vol. 8, No. 1 (October 1929), p. 12.
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Table 1

AVERAGE AD-VALOREM RATES OF DUTY ON ACTUAL IMPORTS FOR CONSUMPTION INTO THE UNITED STATES UNDER  
THE DIFFERENT TARIFF ACTS FROM 1890 TO 1933

<u>TARIFF ACTS</u>	<u>IMPORTS</u>		<u>COMPUTED AD VALOREM RATES ON</u>	
	DUTY-FREE (%)	DUTIABLE (%)	DUTIABLE GOODS (%)	FREE AND DUTIABLE GOODS (%)
McKinley (Effective Oct. 6, 1890) Average 1891-94	52.4	47.6	48.4	23.0
Wilson-Gorman (Effective Aug. 28, 1894.) Average 1895-7	49.4	50.6	41.3	20.9
Dingley (Effective July 24, 1897) Average 1898-1909	45.2	54.8	46.5	25.5
Payne-Aldrich (Effective Aug. 6, 1909) Average 1910-13	52.6	47.4	40.7	19.3
Underwood-Simmons (Effective Oct. 4, 1913) Average 1914-20	67.3	32.7	26.9	8.7
Emergency (Effective May 28, 1921) Average 1921-2	61.3	38.7	33.8	13.1
Fordney-McCumber (Effective Sept. 22, 1922) Average 1923-June 17, 1930	63.8	36.2	38.5	14.0
Smoot-Hawley (Effective June 18, 1930) Average June 18, 1930- Dec. 31, 1933*	66.5	33.5	52.7	17.7

\*After June 21, 1932, import taxes were levied on certain commodities that were previously on the free list, thus, since that date they have been reported under dutiable goods. The products that were primarily affected were: petroleum, copper, lumber and coal.

Source : U.S. Tariff Commission, The Tariff and its History, Washington D.C. 1934, p.108-9.

Table 2

ACTUAL OR COMPUTED AD-VALOREM RATES ON DUTIABLE MERCHANDISE  
IN THE TARIFF ACTS OF 1913, 1922 AND 1930

(based upon imports for consumption in 1928 by schedules of dutiable items)

SCHEDULE	IMPORTS	ACTUAL OR COMPUTED AD VALOREM RATE (in %)		
	in 1928 (in million U.S.\$) (1)	ACT OF 1913 (2)	ACT OF 1922 (3)	ACT OF 1930 (4)
1. Chemicals, Oils and Paints	94.4	16.2	29.3	36
2. Earths, Earthenware and Glassware	-56.9	31.8	45.4	54
3. Metals and Manu- factures of	118.3	14.4	33.8	35
4. Wood and Manufactures of	26.5	6.7	15.9	12
5. Sugar, Molasses, and Manufactures of	174.8	39.2	67.9	77
6. Tobacco and Manufact- ures of	62.3	60.7	63.1	65
7. Agricultural Products and Provisions	262.7	10.0	22.7	35
8. Spirits, Wines, and Other Beverages	1.3	27.2	35.9	47
9. Manufactures of Cotton	49.5	30.5	40.3	46
10. Flax, Hemp, Jute, and Manufactures of	132.0	10.0	18.2	19
11. Wood and Manufactures of	115.2	20.8	49.6	60
12. Manufactures of Silk	32.4	46.4	56.6	59
13. Manufactures of Rayon	11.4	34.4	52.7	54
14. Papers and Books	20.3	21.2	24.5	26
15. Sundries	312.3	16.0	20.5	28

Sources: (1)-(3): "Comparison of Rates of Duty in Pending Tariff Bill of 1929 with Tariff Act of 1913 and Tariff Act of 1922." 71st Congress, 1st Session, Senate Doc. No. 30. Serial 9124.

(4): U.S. Tariff Commission, "Comparison of Rates of Duty in the Tariff Act of 1930 and in the Tariff Act of 1922," Washington D.C. ,

Table 3

INDEX NUMBERS OF FARM PRICES, PRICES PAID BY FARMERS, FARM WAGES,  
TAXES, AND GROSS INCOME, (1910-14=100)

DATE	PRICES RECEIVED FOR FARM PRODUCTS	PRICES PAID BY FARMERS FOR COMMODITIES USED IN		FARM WAGES PAID TO HIRED LABOR	TAXES ON FARM PROPERTY (1914 = 100)	GROSS FARM INCOME
		LIVING	PRODUCTION			
1910	103	98	98	97	-	101
1911	95	100	103	97	-	38
1912	99	101	98	101	-	108
1913	100	100	102	104	-	97
1914	102	102	99	101	100	105
1915	100	107	104	102	102	108
1916	117	124	124	112	104	117
1917	176	147	151	140	106	188
1918	200	177	174	176	118	207
1919	209	210	192	206	130	213
1920	205	222	174	239	155	209
1921	136	161	141	150	217	120
1922	123	156	139	146	232	134
1923	134	160	141	166	246	148
1924	134	159	143	166	249	144
1925	147	164	147	168	250	174
1926	136	162	146	171	253	162
1927	131	159	145	170	258	157
1928	139	160	148	169	263	162
1929	138	158	147	170	267	168
1930	117	148	140	152	266	132
1931	80	126	122	116	-	106
1932	57	108	107	86	-	76
1933	63	109	108	30	-	79

Source: *Yearbook of Agriculture*, 1932, p. 900, and *ibid.*, 1934, p. 706. Farm gross income calculated from R. E. Lusev, *Price and Quantity Trends in the Foreign Trade of the United States* (Princeton, N.J., Princeton University Press, 1963), pp. 425-426, Appendix G, Table G-9

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