THE VICIOUS CIRCLE OF PROTECTIONISM.
CURRENT U.S. DEVELOPMENTS IN HISTORICAL PERSPECTIVE

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I. Introduction

Last year was a bad year for international trade and domestic prosperity. In the U.S., it was the year of "The Smoot-Hawley Trade Barriers Act of 1982", as one Congressman proposed to rename the "Domestic Content Bill". The historical experience of the results of protectionism in the interwar period looms like a dark shadow over current developments.

On the eve of his official visit to the US on January 18, 1983, Japan's Prime Minister Yasuhiro Nakasone remarked in an interview on ABC television:

> "I do realize that American politicians have their constituents just as we do in our country. When you have unemployment in your district, you are naturally concerned.... But resorting to protectionism is one thing we must avoid at all costs if we want to avoid the serious tragedy that we experienced in the '30s."[1]

What he was referring to with the term "serious tragedy" was surely the collapse of world trade and the worldwide unemployment problems that were produced or aggravated by the Great Depression after 1929 and by the spread of protectionism which was connected with it. Whether he was also referring to the military tragedy that followed at the end of the depression decade is not clear. That Japan's aggressive expansionism in South East Asia in the 1930s and in the Pacific in 1941 was not unrelated to the protectionist environment Japan faced at that time is well known today. But it is even more remarkable that it was almost predicted in an assessment which some far-sighted U.S. economists -- under the intellectual leadership of Alvin Hansen -- published in 1934, when Japanese military aggression had just occurred in Manchuria and seven years before it was to hit the U.S.

They argued:

> "There have been many instances in recent years where a sudden change in the tariff, monetary, or other economic policy of a state made sometimes solely with domestic effects in mind has led to serious international complications. For example, it seems probable that the passage of the Hawley-Smoot-Tariff in the United States, ignoring the representation made during its discussion by Japanese merchants, was a contributing influence in causing the recent military aggressions of that country in Manchuria. For years the policie of the pacific group in Japan associated with the name of Foreign Minister Shidehara had sought to meet the serious economic problems of the country by further industrialization and the expansion of exports of manufactured goods, especially to the United States and China. This group was opposed by the military group, which continuously insisted that the economic problem could only

be met by military conquest on the continent of Asia. The promoters of this aggressive policy were able to interpret the Hawley-Smoot Tariff, which increased the duties on most Japanese manufactured exports to the United States, as evidence that the Shidehara policy had failed, thus fatally weakening its prestige in Japan."[2]

The Commission's report contended that the struggle for markets and the worry over sources of raw materials was responsible for much of the feeling of insecurity that found expression in the race for armaments in the 1930s. Again it cites Japan as an example:

"She has coming into the labor market two hundred thousand mouths a year. No birth control, no slowing up of the adjusted birth rate -- already in evidence -- can alter the situation in the next fifteen or twenty years. These workers are already born. Japan can find work and a livelihood for them only by industrializing. She can industrialize only if she has access to raw materials and markets for her surplus manufactures. Her industrial development is hampered by tariffs, exchange controls, and quotas. Freer exchange of manufactures and more assured access to raw materials are necessary conditions for the peace of the world in the immediate future."[3]

The report goes on to demand that the U.S. should make it its "declared and considered policy ... to remove as rapidly as feasible the barriers to trade that we ourselves have erected, by taking immediate first steps in that direction, and by using every legitimate means at our command to induce others to remove their barriers." This policy recommendation, unfortunately, was not adopted by the US government at the time with the result that the projected consequences ensued. The depression, especially in the US, lingered on and, more fatally, military aggression culminated in World War II. It is true that -- as Robert Pastor has recently remarked -- the Reciprocal Trade Agreement Act of 1934 was a "watershed" in U.S. trade policies.[4] From then on to the present, tariff changes generally went only in one direction: down. But reductions were not undertaken unilaterally -- as had been recommended -- as a first step by the U.S. to compensate for the previous unilateral increases. Instead, until WW II they were lowered only gradually in a number of bilateral trade agreements, too little to have a decisive impact on the course of the world economy.

The situation today is certainly different on the political-military level.

Political-military confrontation between industrial nations seems to be a real danger only within the framework of the East-West division of the world. Of the two competing superpowers, the USA and the USSR, only one is a capitalistic country confronting the problem of over-production and a lack of markets, while the socialist camp is usually characterized by a shortage of goods and by pent-up demand on its markets. The volume of international trade and investments between the socialist and capitalist worlds being relatively low -- compared with economic relations within each of them -- the East-West conflict is definitely not a struggle over markets. Rather it could develop into a struggle over raw materials, for example, over Middle-East oil. But the struggle for markets overshadows the relations among the big Western capitalist economies during the present world depression. While their common stance against the communist military threat reduces the danger of military confrontation between them, their competition for market outlets produces political tensions, the threat of a new wave of protectionism and the danger of a downward spiral in world trade, as long as the depression lingers on. It is not even excluded that the depression experience lies behind the military "awakening" of the West in recent years. The armaments race today again -- as in the 1930s -- might partially result from a feeling of frustration in the industrialized Western economies and from a sense that an economic deadlock might eventually have to be broken by a military confrontation, this time as a showdown between the two rival economic systems in East and West.

The subject of this study, however, is not the economic roots of military aggression, but the political origins of international economic relations. Let us therefore turn to the recent developments in this field.

II. Current Protectionist Measures and Proposals

These days again -- as in the interwar period -- trade restrictions are seen by some politicians as an easy solution to national unemployment problems. In contrast to the 1920s, when tariff barriers were the main instrument of protectionism, governments mainly use non-tariff barriers today to impose trade restrictions: "voluntary" quotas on the volume of exports to one country ("orderly marketing"), most notably for steel, textiles, automobiles, and electronic consumer products. They usually come about after threats of the importing country to unilaterally establish quotas or higher tariffs on the imports of these products, if the exporting countries don't agree to self-restrictions. This has in recent years been done, for instance, between the United States and Japan for automobiles, between the U.S. and the European Community for steel, and between the European Community and Japan for a number of consumer products in the electronic field, automobiles, and machine tools, and between the U.S. and European countries on the one hand and the big South East Asian exporters -- Japan, Taiwan, South Korea, Hongkong, Singapore, and China -- on the other hand for textiles.

As to unilateral restrictions, the French government, for example, with its traditional ingenuity in the practice of non-tariff trade restrictions, decreed in October 1982 that videotape recorders, mainly imported from Japan, must go through customs clearance at Poitiers, a small city in the interior, instead of through the port of Le Havre. The delay in customs clearing makes these products more expensive in France. Thus, the measure produces the same effect as a rise of the tariff rate. Faced with such protectionist threats, Japan has meanwhile agreed to "voluntary" export quotas for its sales of videotape recorders to the European Community.

Also in the U.S. protectionist measures that have been taken or are in the making have been mostly directed against South East Asia, notably Japan which -- in the minds of the American public -- seems to play the role of a scapegoat for domestic unemployment and the poor performance of some key U.S. industries. An example of the public mood which breeds protectionism has been reported by Daniel Moynihan: the ritual murder of a foreign car in 1982.

> "It was a small steel town in western New York State. The industry had known good times, and the steelworkers had also. . . . But troubled times had come. Emotions had to be exorcised. And so a barbecue was arranged, a speaker engaged, an old beat-up Toyota procured. The ritual started slowly. Small wounds inflicted by sledgehammer. Then larger ones, the mood mounting. A final crescendo, as a giant bulldozer crushed the hated object into a cube of metal."[3]

Employers, too, are not exempt from being carried away by protectionist sentiment in times of depression. The New York Times reported in March 1983, that Richard Moe, chairman of the Delta Rubber Company in Killingly, Connecticut,

> "... attempts to live a life as free of Japanese products as possible ... outside his plant is a large sign reading 'Export the Recession. Buy American.' He believes that Japanese products and trade policies that favor them are responsible, in large part, for the recession in this country, and particularly for high unemployment."

The company's payroll and sales to American auto makers have declined sharply recently.

> "Growing increasingly angry over all this, Mr. Moe has banned Japanese automobiles from the company parking lot. When clients, suppliers and salesmen arrive in Toyotas, Datsuns and the like, they are told in no uncertain terms to remove them from company property -- getting many a sales call off on the wrong foot. The policy is less stringent for employees, affecting only their Japanese automobiles purchased after the policy was announced."[4]

In order to ease market pressure on domestic automakers and to provide more jobs for laid-off steel and autoworkers, the Administration in 1981 had worked out a two-year "voluntary" quota agreement with Japan on its auto exports to the U.S. limiting the number of vehicles to 1.68 million a year. (Meanwhile the agreement has been extended for a third year.) The agreement did not produce the desired results, namely an increase in the sale of American cars. Instead, it seemed to help the sale of other foreign cars in a period when the total demand for new cars fell, as the economic depression deepened. With overall unemployment in the U.S. rising all through 1982 into double digit percentages, and much higher among workers in the automobile and steel industries, the U.S. Congress finally took action.

In the late summer of 1982, Rep. Richard L. Ottinger (Democrat, New York) introduced H.R. 5133, the "Fair Practices in Automotive Product Act," better known as the Domestic Content Bill. It was reported with amendment by the House Committee on Energy and Commerce on September 21, 1982, and passed by the House with two further amendments on December 15, 1982 by a vote of 215 to 188.

The legislation is designed to limit Japanese car exports to the U.S. where they come close to a share of almost a quarter of the market. The bill requires that for every 10,000 vehicles of an automaker sold, 1 percentage point of the content (parts, assembly) must be made by or involve American workers. The law, once fully effective in 1986, would apply only to those foreign automakers who sell more than 100,000 vehicles per year in the U.S. The domestic content would reach a maximum of 90 percent for an automaker who sells more than 900,000 cars per year in the U.S. The President opposed the bill. Before passage in the House, it had been weakened by an amendment stating that "nothing in this Act shall be deemed to supersede the terms or conditions of any treaty, international convention, or agreement on tariffs and trade which is in existence on the date of enactment to which the United States is a part."[5] The bill had been pressured for mainly by the United Automobile Workers Union and its now retired president

Douglas A. Fraser, hence its nickname "Fraser's folly."

The H.R. 5133 did not receive consideration in the Senate. Fearful that U.S. courts would find that the original amended version would violate the terms of the GATT, it has been revived in similar form, but without the amendment, as H.R. 1234 and was approved by the Commerce, Transportation and Tourism Subcommittee of the House Energy and Commerce Committee on May 20, 1983 and by the full committee on June 21, 1983.[6]

The arguments of those who opposed the 1982 bill in Congress are well summarized in an amendment proposal that, of course, was not adopted. In December 1982, Rep. William E. Dannemeyer (Republican, California) had offered an amendment which as mentioned, sought to rename the Act, "The Smoot-Hawley Trade Barriers Act of 1982" and it stated:

> "The purpose of the Act is to reduce competition in the automobile industry, protect jobs in one industry to the detriment of jobs in other industries, and to increase the price of automobiles to consumers."

Even the American automobile firms do not support the bill, because they feel already overburdened by government regulations of the auto industry and, moreover, because this act would limit their possibilities of reducing production costs by importing foreign parts and doing business overseas. This bill therefore strongly supports the hypothesis that in this age of multinational corporations the most dangerous attacks on free trade are launched by labor unions, especially when strongly organized, in situations of unemployment.

While the American automobile industry is against the "domestic content" bill, it seems to go along with the autoworkers union in demanding that the existing limitation on Japanese auto exports to the U.S. should not only be extended, but should be substantially scaled down in number, because the 1.68 million limit was supposed to leave the Japanese producers a market share of 17 percent in 1982, but on account of the depressed market with lower-than-expected total sales it actually left the Japanese with a share of 22 percent.

The domestic content idea for automobiles, however, has meanwhile spread across the borders. On May 21, 1983, the New York Times reported that Canada's auto industry is asking Parliament for action along these lines. This initiative is also aimed at Japanese car exports, which in 1982 captured 20 percent of the Canadian auto market.

Another example of how poor technological and managerial performance of American firms competing with Japanese industries is turned into a demand for protectionist measures is the motorcycle industry. The only U.S. producer, the Harley-Davidson Motor Company in Milwaukee, in January 1983 filed a petition with the International Trade Commission of the U.S. which contended that the company had been injured by Japanese imports of heavyweight motorcycles and of engines and drive trains used to assemble Japanese motorcycles in the U.S. (Honda and Kawasaki). The International Trade Commission ruled in a two-to-one decision on January 19, 1983 that imports of motorcycles themselves, not of parts and sub-assemblies, threatened the American motorcycle industry and on January 25 recommended to President Reagan an increase in the tariffs on Japanese motorcycles from its normal level of 4.4 percent to 49.4 percent. The recommendation provides for a gradual phasing-out of the tariff increase, until the customs rate reaches 4.4 percent again in 1989. The proposal was approved by the President and went into effect on April 1, 1983.

The economic background to this action is that Harley-Davidson has incurred substantial losses in 1981 and 1982 -- the first losses in the company's history, while sales were down from a record of $289 million in 1980 to just over $200 million in the following two years. The company's total motorcycle market share has declined from 6.1 percent in 1977 to 4.5 percent in 1982, while the Japanese producers Honda and Yamaha alone in 1982 captured close to 65 percent of the U.S. market. About 40 percent of the firm's 3,800 employees have been laid off in 1982, and the company in August 1982 even announced that it would have to close unless business improved. The competitive decline of the firm is best evidenced by the fact that it possessed a virtual monopoly of the large motorcycle market in the U.S. until the end of the 1960s and that its share in this market had dwindled to about 30 percent in 1982. Harley-Davidson motorcycles cost about $1,500 to $2,000 more than their Japanese counterparts, while at the same time consumers rated Japanese motorcycles, especially Honda, as being technologically superior. American industry analysts have judged that Harley-Davidson suffered from inefficient production methods, poor management and an inferior product. Even the company itself acknowledged that improvements in its production facilities had been neglected and that the equipment was typical for the U.S., but far below the standard needed to compete with the Japanese producers. So it seems clear that, while lack of investment, of innovation, of technological improvement and, of course, the overall economic depression and the high exchange value of the U.S. dollar are the core of Harley-Davidson's problems, the measure that the firm itself and the government bureaucracy were demanding as an easy way out is trade protectionism.

Another U.S. industry threatened not only by the overall economic depression and the exchange rate of the dollar, but by its outmoded production apparatus vis-a-vis its European and Japanese competitors, has made its influence felt in the U.S. Congress in favor of protectionist legislation. When in December 1982 the House of Representatives passed the "bridge and highway repair" bill (Highway and Mass Transit Improvement Act) that added five cents-a-gallon to federal gasoline taxes to finance this job-creation program, it amended the Administration's proposal with a "Buy American" provision which requires the use of U.S.-produced steel in bridge and highway repairs under this program. The Senate also passed and the President enacted the bill with the provision. Also in December 1982, the U.S. steel industry asked the Reagan Administration to unilaterally restrict imports and impose tariffs on Japanese steel. David M. Roderick, Chairman of U.S. Steel Corporation and head of the American Iron and Steel Institute, filed a complaint with U.S. Trade Representative William E. Brock that charges Japan for having set up during the past ten years agreements with the European Community to limit imports and establish minimum prices on steel. It also contends that the Japanese and European steel industries carved the world into spheres of influence, with the Europeans taking the part of the globe west of the Suez Canal while the Japanese took the Far East, India, and Pakistan. A similar complaint had been lodged by the American Iron and Steel Institute in 1976 and was rejected by former U.S. Trade Representative Robert Strauss. This time the U.S. steel industry claimed that it has more evidence to back the complaint. The concrete measures demanded from the American government on behalf of the American Iron and Steel Institute and eight individual steel companies were a limit of Japanese steel imports to 1.9 million tons a year for four years — a decrease of almost 4 million tons from the 1981 imports — as a sort of compensation for past injuries, and the imposition of a 25 percent tariff on Japanese steel in order to compensate for the present low value of the yen.[10]

The Japan Iron and Steel Exporters Association denied all of these charges. It contended instead that the worldwide economic recession with an unprecedented decline in the demand for steel products and the relatively poor competitive position of the American steel industry was the root of the low capacity utilization of U.S. steel plants (about 40 percent in 1982). That Japanese steel exports did not cause the American steel industry's depression -- it is claimed -- is evidenced by the fact that sales of Japanese steel to the U.S. had remained relatively constant at about 6 million tons since 1972 with the exception of 1976 and 1977, when they reached almost 8 million tons, and of 1982, when they hit a new low of about 5 million tons.[11]

In this case, U.S. Trade Representative William Brock rejected the request of the steelmakers on February 25, 1983.[12]

Most of the protectionist sentiment and actions have been directed against Japan, which runs a large surplus in trade with the U.S. The U.S. trade deficit with Japan amounted to almost $20 billion in 1982, almost half of the total U.S. trade deficit. The reasons given by the American side for the comparatively poor performance of U.S. exports to Japan amount to charging Japan with unfair trade practices:

- that Japan is manipulating the yen in order to keep it undervalued, thus making Japanese goods less expensive in terms of dollars;
- that Japan's agricultural trade policy prohibits American farmers from penetrating the Japanese market in areas where they are more competitive, namely in beef and citrus exports, for which Japan maintains low quotas;
- that American exports of manufactures are hampered by non-tariff, non-quota barriers, namely by bureaurcratic trade restraints. American exporters complain that Japanese officials greatly slow the importing of such products as American baseball bats by painstakingly inspecting each batch upon arrival;
- that the high-technology market in Japan is strongly protected against foreign, which is especially American, competition by the Japanese government.[13]

The Japanese side, on the other hand, contends that the bilateral trade imbalance results mainly from the fact that the American productive plant for automobiles and steel is less modern and efficient and thus less competitive than the Japanese factories.

But Japan was not the only country in Southeast Asia against which protectionist sentiment in the U.S. was turned into political action. On January 13, 1983, the U.S. Administration -- pressed by American textile manufacturers -- imposed unilateral restrictions on textile imports from the People's Republic of China in spite of the fact that the U.S. was running an export surplus in overall trade with China of about 700 million dollars in 1982. This action was taken after U.S.-Chinese negotiations since August 1982 failed to extend a three-year-old negotiated quota agreement which expired on December 31, 1982. Beijing had asked for a 6 percent annual increase in its textile exports to the U.S., while Washington wanted to limit this to 2 percent or less on account of the recession in the American industry. The American move implied that import quotas, which formerly applied to 14 categories of textiles, were extended to 32 categories. It is expected that the new quotas will reduce the level of imports from China by about 16 percent, and it was reported that the quota on the major textile category (clothing and accessories) has been cut by 45 percent. This measure is a heavy blow to the expansion of Chinese foreign trade. For Beijing, textiles and oil are the most important export commodities. Expansion of sales of these items abroad seems to be a necessary condition for China to earn the increasing amounts of foreign exchange which are needed to pay for high-technology imports from the Western world -- an essential element in the process of modernizing China's economy. In 1982, Chinese textile exports to the U.S. accounted for about 25 percent of total Chinese sales in the United States.

Beijing retaliated to the U.S. move by announcing on January 19, 1983, that it would stop further purchases in 1983 of cotton, soybeans and synthetic fibers from the U.S. and that it would cut imports of other U.S. farm products. While Chinese imports of these specified items had already dropped sharply or — as in the case of cotton — almost stopped in 1982 on account of a big increase in domestic production, the Chinese action is seen as a symbolic retaliation. But U.S. exporters could be hurt more seriously, if Beijing also reduces purchases of corn and timber from the U.S., as Chinese officials have hinted privately they may do.[14]

This struggle, as well as the quantitatively more important confrontation over U.S.-Japanese trade relations, will certainly not be the cornerstone, whose destruction will make the house of world trade relations fall apart. But if — as in the 1930s — one stone after another is removed from the house, it will obviously become more likely to crash in.

One of the best examples of how a depressed world market motivates protectonist action is the case of quotas on U.S. sugar imports. President Reagan imposed such quotas on May 4, 1982, after world sugar prices had dropped to 9 cents a pound in contrast to the U.S. statutory minimum of 17 cents a pound. Instead of the otherwise costly intervention by the U.S. Government to maintain the price of 17 cents, the President chose to reduce domestic market pressure by restricting imports, a classic case of a beggar-my-neighbor practice.

Other U.S. industries have also demanded protectionist actions by the President. Houdaille Industries, a Florida-based machine tool manufacturer, hard-pressed by Japanese competition, succeeded in motivating a Senate resolution (S. Res. 525) on December 21, 1982, which requested President Reagan to deny investment tax credits to U.S. companies that purchase certain Japanese computerized machine tools. This measure would have been equivalent to a 10 to 15 percent tariff. Houdaille's initiative was of great importance, because it contained a novel element in trade complaints. It did not charge that machine tool imports were dumped on the U.S. market. Nor did it complain specifically of export subsidies, or of existing barriers to U.S. machine tools in the Japanese market. Instead, it put the blame for the deteriorating performance of machine tool industries in the U.S. vis-a-vis Japan on the Japanese government's successful industrial policy in the last three decades. It suggests that Japan's industrial policy is an unfair trade practice.

Although Houdaille's initiative and the Senate resolution did not lead to presidential action, the Administration seems to share the view that "industrial policy" amounts to an unfair trade practice. U.S. Trade Representative William Brock, in a paper sent to Congress in November 1982, included "industrial policy" in its list of Japan's trade barriers. Behind the scenes he also supported the passing of the resolution by the Senate.[15]

After the tax credit initiative failed to yield concrete results, the National Machine Tool Builders Association in February 1983 asked the Administration to put quotas on machine tool imports on the ground that the national security was threatened by the current import level. The association claimed that such imports recently captured 44 percent of the U.S. market in volume and 27 percent in value and demanded that it be held to 17 percent for five years. It is typical that it was not mentioned that, of course, the U.S. is also an important exporter of such products.[16]

Reacting to a similar demand, the International Trade Commission recommended on April 27, 1983, that the President place quotas on specialty steel imports for three years to protect American manufacturers.[17]

On March 31, 1983, President Reagan ordered a protectionist move directly hurting Third World countries and making it more difficult for them to service their debts. He reduced by 1.4 billion dollars, down to 7 billion dollars, the ceiling for duty-free imports from developing countries under the so-called Generalized System of Preferences.[18] There is little Third World countries can do in retaliation except default on their foreign debts. This is different from trade conflicts between the rich trading nations, such as the U.S.-European confrontation over agricultural trade.

Attacks on the traditionally protectionist agricultural policy of the European Community were launched by the U.S. Administration in 1982, which led to the serious U.S.-European conflict that overshadowed the top-level GATT meeting that took place in November 1982. On January 18, 1983 the U.S. Administration announced its plan to sell one million metric tons of flour to Egypt in the next fourteen months at a subsidized price of about $155 per ton, which is about $100 below the current price in the American market. This sale is expected to push the European Community out of the lucrative Egyptian market, one of its major markets, for at least a year, and was interpreted as part of the U.S. campaign to end the Community's subsidies for farm exports. On January 25, 1983, William Brock, the U.S. Trade Representative, and Agricultural Secretary John R. Block indicated in hearings before the Senate Finance Committee that the U.S. Administration will strike at the Europeans with more subsidized sales of American commodities to bring the European Community to the negotiating table.

The announcement was followed by Congressional action. On March 2, 1983, the Senate Agricultural Committee approved a bill authorizing gifts of surplus grain to American exporters that compete with farmers in the European Community. The bill also requires the Secretary of Agriculture to sell at least 150,000 metric tons of federally owned surplus dairy stocks abroad annually in the fiscal years 1983, 1984 and 1985 at subsidized prices. Members of Congress speak openly of an ongoing trade war with the

European Community over agricultural markets. The Europeans have already responded by granting subsidies on the export of 55,000 metric tons of wheat to Central and Latin American countries, traditional U.S. customers, in retaliation for the U.S. flour sale to Egypt. The U.S. keeps justifying the confrontation by pointing out that its goal is to liberalize international trade of agricultural products and to bring such trade under the same discipline and rules that within the GATT now apply to trade in manufactured goods. The U.S. government keeps using free trade rhetoric, while at the same time producing ammunition to engage in trade wars. While President Reagan in his first two years of office attempted to cut the funds of the Export-Import Bank that subsidizes U.S. exports, in his State of the Union Message of January 25, 1983 he supported the proposal to equip the Bank with a "war chest" ($2.7 billion) to be used only "if the President determines that it is needed to counter inappropriate foreign government export financing practices."[21]

The outright failure of the meeting of ministers of the 88 member nations of the GATT (General Agreement on Tariffs and Trade) in Geneva in November 1982 — the first such high-level meeting after those in 1963 and in 1973 — to reach any concrete results on the worldwide liberalizing of trade relations indicates the alarming decline of the cooperative spirit under which the GATT members have been successfully working since World War II to reduce barriers to international trade. Utter disagreements between the two biggest economies, the European Community and the U.S., as to the areass for further liberalization efforts (agriculture, high-technology, and services, which are mostly exempt from the GATT rules that apply to trade of manufactured articles; non-tariff barriers like "voluntary" export quotas and export subsidies) showed up at the meeting. The final communique contained no concrete commitment and was so meaningless that the Australian government refused to sign it. The French Foreign Trade Minister, Michael Jobert, accused the U.S. of "dogmatic liberalism" and denounced it for using this ideology of the strong economic powers to dominate the weak. Since World War II the U.S. government has been the driving force behind GATT's tremendous achievements in liberalizing and expanding world trade with consequential benefits for almost every member nation, but in U.S. government circles recently there was talk of trying to get together a smaller group of like-minded nations, excluding the European Community, with a view to liberalizing international trade at least on a small scale. On January 25, 1983, the Senate Finance Committee began hearings whose announced purpose was "to review the result of the Geneva conference and to reassess U.S. involvement in the GATT system," according to its chairman Senator Robert Dole.[22]

An attack on one of the basic principles of the GATT system had already been launched in Congress earlier on. I am referring to the "reciprocity" legislation, initiated in early 1982, which in effect would square with the principle of the multilateral approach to trade flows and tariff concessions that has been the cornerstone of GATT's successful development in the last 35 years. Early in 1982 at least 10 reciprocity bills were pending in Congress. Their common aim was to empower or even require the U.S. Administration to retaliate against specific nations that do not allow market access to U.S. firms equal to that afforded foreign firms by the U.S. The Reagan Administration, still holding the banner of the free-trade principle, considered this to be protectionist trade legislation, violating the GATT rules in that it defined non-reciprocity as an independent cause for trade action against another country and required equal access on a product-by-product basis. Instead, the Administration asked Congress for legislation to strengthen its authority to negotiate reductions of trade curbs on international investment; services such as banking, data processing, communications, advertising; and high technology goods, because non-tariff barriers hamper the exchange of high technology products.

Under present trade laws (Section 301 of the Trade Act of 1974 as amended by the Trade Act of 1979), the President, acting on his own initiative or after complaint by an interested party, is permitted to begin an investigation into an alleged unfair trade practice by a foreign country. In such a case, the President first consults with the offending nation to resolve the complaint, and, if that fails, sets in train the GATT dispute settlement process. Ultimately, he may take retaliatory trade action.

The most important "reciprocity" bill was introduced by Senator Danforth (S. 2094) and was originally intended to make non-reciprocity or lack of equivalent market access a criterion for a complaint. It provided for the broadening of presidential power under the existing laws to include direct investment and exchange of services. It expanded the list of foreign practices that would be considered unfair under Section 301 of the 1974/79 Trade Act to include non-reciprocal practices, and it allowed Congress to petition for action by the President. Under pressure from the Administration, Congress is now considering watered-down versions of the original "reciprocity" proposals. Specifically, the ideas of a product-by-product retaliation, of non-reciprocity as a criterion for a complaint under Section 301, of required presidential action in case of non-reciprocity, and of the right for Congress to petition action have been dismissed.

But the present legislative "reciprocity" proposals (e.g., S. 144 "International Trade and Investment Act") still seek to increase the authority of the Administration to retaliate against the exports of countries that do not grant U.S. firms equal access. While the present Republican Administration, with its free-trade orientation, might use such an authority with care, the proposed legislation could result in extreme protectionist actions in the hands of a more protectionist administration.[23]

At the beginning of the year it was claimed that in the U.S. 1983

> "... could be a watershed for trade legislation. The new Congress is to decide whether to increase subsidies for American exports. It will consider prolonging and even expanding tariff breaks for third-world imports. It is to review the rules that govern restrictions on exports to Communist countries. It is to weigh how much help to give to our workers hurt by imports. More than 100 bills to shut out imports of specific products may emerge."[24]

This happens at a time in which the world economy is still in depression and unemployment rates have reached proportions familiar only from the interwar period. Is it "Smoot-Hawleyism" that the U.S. Congress and the nation have turned to or might engage in? The question cannot be answered without an understanding of the causes and effects of U.S. trade policies from the First World War into the Great Depression.

III. General Assessment 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 "begger-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. 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-existant, 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 25 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.

U.S. trade policies in the 1920s were clearly shaped by such 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."

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 special "right to protection."

With reference to the <u>first</u> 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 differences 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.

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 nations had free access to other nations' markets, each nation could specialize in the production of those goods which it could produce at a lower costs than other nations. This specialization would lead to price reductions as the advantages of 'economies of scale' could be reaped.

Early in the 19th century David Ricardo refined this theory even further with his concept of "comparative cost advantages." 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 field 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 British production costs, especially wage costs, were for most of the period the highest in the world.

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 leader of the world economy. 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. Despite the fact that the U.S. pressured for "open door" treatment of its exports abroad, it erected a "Chinese wall" around its domestic market in the 1920s. This is 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". 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."

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 consideratons, international trade would stop if all the tariffs conformed to the production cost formula. Its introduction by the Republicans as a principle, 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. 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." 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' thoughout 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. 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.

Though this broadening of the executive's powers can be regarded as a step in the right direction towards future trade liberalization, 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. The 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."

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?"

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.

In considering the <u>second</u> 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." 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." 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.

IV. The Fordney-McCumber Tariff Act of 1922

Until the Second World War the Republican and the Democratic Parties had 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. 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' attitude 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 low-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. It is, therefore, no coincidence that the Democrats instituted for the first time in American history (except during periods of 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 on the grounds of its progressive feature. 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. 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. This 'near-to-free-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. The war changed the U.S. status of a debtor nation to that of the world's largest creditor. 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.

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 as well as the Central European Powers 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, though 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. 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.

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. These depreciations gave the Europeans a competitive advantage over American producers. 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.

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, and by May 27, 1921, the Emergency Tariff Act became effective. 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 inundated with low-priced commodities already in surplus in the United States, such as lard, wheat, and wool."

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. 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.

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, with 35 Republicans and 3 Democrats voting for it, and 24 Democrats and 1 Republican voting against it. 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.

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. 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." 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.

Some interest groups sided with the Democrats in opposing the high protective nature of the tariff bill, namely those who 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 Council of American Importers and Traders and through the Fair Tariff League. But with minor exceptions they didn't 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 even excluded Democratic members of Congress from participating in the hearings.

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. 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. 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 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 Fordney Act was 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.

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 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 the average rate was restored to around 39%, which was the average ad-valorem rate between the years 1922-29.

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 tools. The 1922 Act cut down this list, removing such products as iron and steel from the list, but it did not restore the 1909 conditions. Thus, while the average 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.

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 of 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. Such instances were rare and 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. 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.

The 1922 Act basically restored the tariff rates in the following product fields to their 1909 level: the bulk of textiles, 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 postwar years.

There were instances where the new rates were well above historical precedents. Such cases concerned mainly the various chemical industries, 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 agricultural 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 it 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 costs differentials between countries. This goes against the very principle upon which international trade and competition was based. It is true that there was a real competitive threat to U.S. producers from the rise in domestic wages and prices 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 manufactures 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."

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 price which was the usual procedure. (This American selling price system has since then been an object of international dispute.) What it all amounted to was a prohibitively high protection, which had the same effect as an embargo would have had.

I have cited these examples in order to illustrate this point: that the Fordney-McCumber Act effectively prevented the world's biggest 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".

But the 1922 Tariffs also met with criticism from some economic sectors. Within the business community, opposition to the new protectionism 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, and also in trade papers like the American Metal Market. These articles reflected the opinion 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 payings its war debt to the U.S.

Leaders of the Democratic Party, such as Norman Davis and Cordell Hull, remained critical througout the 1920s. They attacked the Republican Party's policy of supporting high tariffs and at the same time encouraging American bankers to sell foreign government bonds. Davis charged in 1925 that although the outflow of American capital might temporarily promote American exports, in the long run, the high tariff policy would make it impossible for foreigners to earn the revenue required to repay their loans, and the entire debt structure would collapse. 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 not only closed its markets to foreign competitors in 1922, but also closed its country to foreign immigration in 1924 (Immigration Restriction Act), 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."

Some of the U.S. politicians who had framed the Fordney-McCumber Act had 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 had 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 exception, 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 discrimatory systems were. In addition, the "flexible" provisions were regarded to be useless in promoting trade liberalization, as they 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 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.

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. 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 item. 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.

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 resticted 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. 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 <u>Tariff Retaliation</u> pointed out:

> "It is scarcely to be supposed that a foreign government would proclaim openly the retaliatory character of a local piece of legislation when there are at any given time in any country so many conveniant 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."

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. Nonetheless, of the foremost industrial countries of the world, namely England, Germany, France, and the U.S., the U.S. retained the lead in tariff protection of its domestic market. The only country known to have had a slightly higher average rate of tariff protection in the 1920s than the U.S. was Spain.

V. 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 US protectionism in stating that it was "partly an outcome of the post-war agricultural depression." American agriculture, which had experienced its most prosperous years during and immediately after WW I (see 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.

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 US 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 situations 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 sections, 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."

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."

In the presidential campaign of 1928, Hoover kept promising more protective tariffs as an aid to agriculture. 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. 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." (p. 243) 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." There had been initiatives in Congress before to introduce price-support policies for agricultural products, most noticably the famous McNary-Haugen bill, which was passed twice by Congress in 1927 and 1928 and vetoed by President Coolidge both times. To this kind of market intervention the 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, can not 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 Congress."

Immediately after the election, Congress, in which the Republicans now had majorities in both Houses, had started to work on the new trade legislation. When Congress convened in December 1928, it had already 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. 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. 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."

The haste which with 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 July 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 orignially 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 oppositon 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. It is notewory that Berglund observed that the principal influences deciding which way a Congressman or a Senator would vote were the industrial or sectional interests represented. 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.

Schattschneider noted correctly that "the sentimental basis of the protective system is nationalism." This sentiment had already been the basis on which the Tariff Act of 1922 had found such wide acceptance, a sentiment which President Reagan recently called the "bunker mentality" of protectionism. 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. Schattscheider summarized 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."

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."

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 capital 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 nature 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."

He observed that "to an amazing degree the hearings were permitted to take whatever direction was given to them by the witnesses themselves." The data submitted in the briefs were not checked, the statements were not audited, the witnesses were not required to present the sources of their statistics. "In an investigation of this sort, it is probable that the most valuable information is that which must be extractred more or less forcibly from witnesses who are reluctant to give it. Thus, the hearing turned out not to be "an inquiry by a governmental body into the merits of public policy." With the exception of questions posed by Senator Cordell Hull, Member of the Senate Finance Committee, it was like a negotiating table at which every major premise of the petitioners was conceded in advance.

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. 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 <u>effective rate of protection</u> 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.

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 reciprical 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 reciprical non-interference in their drive to establish a parity of agriculture and industry."

Berglund as early as 1930 observed that "the tariff act of 1930 will mark the apex or culminating point of protection in this country. 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 protectection in Tables 1 and 2.

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 tariffs rates set in 1922 on certain chemicals, aluminum, and a few other products were lowered.

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 reapeatedly 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 first half century before the First World War. In the Act of 1930, they were kept unchanged at the low or moderate level that they were 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 in previous years). 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 a 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 1921 to \$2.1 billion in 1930 to \$1.4 billion in 1931 to \$0.9 billion in 1932. This reflects partly the price decline in these commodities during the depression years, but it also reflects the decline in the total volume of imports. That the percentage of free goods of 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."

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 13.3% under the Act of 1922 and the 25.8% under the highly protective Dingley Act of 1897. The truth of the matter is that tariffs increases over the 1922 levels were substantial, especially in the case of agricultural products, many 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 grown 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 ore imports in excess of 30% manganese content were dutiable, whereas the Act of 1930 made the ore imports in excess of a 10% manganese content dutiable.

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 <u>effective rate of protection</u> 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 producton 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.

The academicians, in contrast to the majority of the policymakers, 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 with foreign markets also protested, not to mention the thirty-three foreign governments that were up in (trade war) arms. 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." As we now know, the critics 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 reacton to any piece of local legislation as that attending the Tariff Act of 1930." 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. An 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."

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." 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."

Monetarists concerned with rational expectations formation in the setting of the Great Depression have recently confirmed this in 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 legislaton would have on international trade and national prosperity.

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 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 pointed out--"foreign nations should have no influence and even American foreign interests no weight." When the U.S. Congress—on the basis of such a 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. In fact, the U.S. discrimated 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.

The closing of the important American market to highly specialized export products of other countries was perceived by foreign producers as direct discrimation 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 U.S., 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."

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 in 1931 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 mostfavored-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). 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.

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 1931-2 analysed 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 1925-32. 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 international capital exports during the depresson, 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.

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.

VI. Comparison

In comparing current protectionist tendencies in the U.S. with the historical experience of the 1920s and early 1930s, it is mostly the differences that leap to the eye.

1.) The historical background differs. When the Republican President Harding was elected into the White House and took office in 1921, he initiated the new protectionist legislation as something which the Republicans had traditionally stood for. It was deep-rooted in U.S. history ever since the Republicans first came to power in 1862. He was only "conservative" in the original sense of the word. He and his party failed to adapt policies to the new role which developments connected with the First World War had assigned to the U.S. in the world economy. The relatively liberal trade act under Wilson was seen by the Republicans as an aberration from the rule of highly protecting the home market. High tariffs, in their view, had proven themselves to serve the national interest of the U.S. best. U.S. prosperity in the 1920s seemed to confirm this view and supported the argument for even higher protection under the Smoot-Hawley Act of 1930.

Since 1934, however, and especially since World War II, Republicans and Democrats in Congress and in the Administration built up a tradition of liberalizing international trade. This became a cornerstone of U.S. foreign economic policies since then. The generally prosperous development of the world and U.S. economy since the Second World War into the 1970s reinforced the support for such policies. Protectionism now has become the aberration from the rule. This might explain why these days the majority of Republicans defend free trade while protectionist legislation is demanded or supported by Democratic members of Congress. Against a different historical background conservatism on the same issue means a different thing.

2.) While protectionism has been growing worldwide in the last decade, it has done so in a form different to that of the 1920s. In those years the main instrument was an increase in tariffs, while at the same time quantitative restrictions -- namely import quotas, which had been imposed during World War I -- were long being phased out or reduced. In the 1970s the reduction of tariff barriers was still moving ahead, while quantitative restrictions, namely voluntary export quotas and other non-tariff barriers (e.g., safety regulations, local content requirements, and restrictions on high technology exports), were increasing. In contrast to the 1920s, the exchange rate has been put on the agenda of discussions on international trade problems.

3.) The awareness of the economic interdependence of the national economies of the world is far greater since Roosevelt's presidency and especially since World War II than it had been in the 1920s and further on in the midst of the Great Depression. The discussion about the "locomotive theory" from 1978 on, although abortive as to economic policy results, testifies to this awareness, as does the concern abroad for national monetary and fiscal policies and their effects on capital movements, the exchange rates and thus on trade relations.

4.) Since World War II, an elaborated framework of international institutions has substantially contributed to the coordination of national economic policies in general and -- under the auspices of the GATT -- of trade policies in particular. In contrast to the 1920s, there is an extensive set of binding rules, which the member nations of international organizations have agreed to accept and which provide the guidelines for conducting their national economic policies with respect to their effects on the international economic environment.

5.) In the 1920s the protectionist forces in the U.S. demanded high tariffs almost across the board, without regard for the specific situations and needs of the different sectors and branches of the economy. High tariffs resulted even for products which the U.S. was exporting on a large scale, and hardly importing at all. This was done mainly for a number of agricultural products. Tariff barriers were mistaken for and misused as price support schemes. Sometimes high tariff barriers were intended to counteract a falling domestic sales volume in markets where prices were relatively resistant to declines, such as the industrial sector. Sometimes they were meant to cure the problem of depressed prices, e.g. for agricultural products. Thus the demand for protectionism, specifically in a state of depression, was a cry for universal protection, i.e. for all sectors of the economy. Consequently, the outcome were the generally protectionist Trade Acts of 1922 and 1930.

Currently, the cry for protectionism is voiced in specific branches of the economy only, namely those whose present performance is weak and whose future growth is threatened by imports, like steel, automobiles, textiles, _et al_. The notion that tariff barriers serve as price support systems even where there is no import competition has lost all appeal, after the developments in the interwar period proved it wrong. The result is that currently the demand for protection is highly selective according to the situation of the specific industry which faces foreign competition. Legislators or the Administration, accordingly, tend to respond with specific measures rather than with across-the-board protection. This, at present, reduces the likelihood of a generally protectionist new trade act.

6.) When the Fordney-McCumber and Smoot-Hawley laws were enacted, Congress and the White House -- both dominated by the Republicans -- agreed on the general course of trade policy. Currently, the Republican President Reagan in the White House has again and again declared his determination to defend free trade, while most of the Democrats and some Republicans in Congress favor protectionist legislation. Even if Congress should pass, for instance, the domestic content bill, its enactment might well be prevented by a veto of the President. In 1932, when Congress had realized the disastrous effects of the Smoot-Hawley Act on the world and U.S. economic development and had passed a bill "to amend the tariff act of 1930 and for other purposes" suggesting substantial tariff reductions, it was the Republican Hoover in the White House that vetoed the act that could have been the first U.S. step toward liberalizing international trade. Today as then, it seems difficult to imagine a situation in which Congress could overrule a veto by the President on trade legislation.

7.) In the 1920's the cry of special interests for protectionism in general was received favorably by policy makers and was followed by the enactment of legislation which the protectionist or "home market" oriented forces had asked for. The never dying cry for protectionism in the U.S. during the post-World War II era, in contrast, often surprisingly resulted in the passing by Congress of "liberal trade laws, which lowered barriers rather than raised them. They cry of protectionism often precedes a sigh of relief that the open trade system has survived." Whenever Congress turned to the discussion of trade questions in the years since World War II, there was a cry for protectionism. But it has been the rule that it invited "the forces of free trade to wrestle once again with new and more difficult barriers." But as in boxing, a past record of victories is no guarantee on the outcome of future matches.

But there are also similarities between current protectionist tendencies in the U.S. and its historical antecedents in the 1920s and early 1930s.

1.) When Congress started discussions and hearings which led to the Emergency

Tariff Act of 1921 and the Fordney-McCumber Act of 1922, and again those which paved the way to the Smoot-Hawley Act of 1930, it was in a situation of depression on both occasions, either for the whole economy, as from 1920 on, or for important segments of the economy, namely agriculture from 1925 on.

When the Domestic Content Bill was taking shape in Congress in 1982, or when "Buy American" provisions were proposed in connection with certain appropriations bills, the U.S. economy was again in a state of depression, with low rates of capacity utilization, negative real growth and high unemployment.

2.) In both of the interwar cases (1922 and 1930), the protectionist steps were preceded by restrictive monetary policies of the Federal Reserve Board to combat inflation or inflationary speculation. In the early postwar case the Federal Reserve had started its restrictive monetary measures in December 1919, in the later case, it started them in early 1928. With a lag of less than a year depression and an alarmingly high unemployment rate ensued. Special interest groups and legislators picked on foreign competitors as the scapegoat for unemployment and depression.

In the recent past, the situation conformed to this pattern. The Federal Reserve Board initiated a determined anti-inflation policy in 1979/80 in restricting the growth of the money supply, thereby pushing nominal interest rates upwards to postwar record levels. The real interest rate which had been zero or even negative throughout most of the 1970s, was gradually turned into a relatively high positive real interest rate. The U.S. economy, however, slid into depression with negative real growth and high unemployment. Again interest groups and legislators picked foreign competitors as the scapegoat and demanded protection of the home market against foreign competition. The Domestic Content Bill for automobiles, mainly directed against Japanese competition, is a prime example. Under pressure from the U.S., the Japanese government had agreed to voluntary export restrictions in the spring of 1980 limiting auto exports to the U.S. to 1.68 million cars per year. This limit has not been exceeded since. The dramatic increase in the Japanese share in the U.S. auto market resulted exclusively from the shrinkage of total auto sales in the U.S. during the recent depression, when high interest rates reduced the demand for consumer credit which is so prominant in the purchase of automobiles. The cause of the depressed market thus being rather clear, the promoters of the Domestic Content Bill decided nevertheless to combat the symptoms, namely the increase in the market share which Japanese competitors had captured with a constant volume of auto sales in the U.S.

3.) As in the making of the Fordney-McCumber tariffs pressure for trade protection today is often based on the competitive advantage foreign producers derive from the temporary or more permanent undervaluation of their currencies in a system of floating exchange rates. Free exchange rate fluctuations tend to overshoot from their long-term equilibrium (purchasing power) levels, as the European currencies, specifically the German mark, did in the period after World War I in the negative direction and as the dollar did since 1980 in the positive direction. Government have a tendency to cope with such distortions of competitive relations by trade policy measures, but only in those countries that have relatively lost in competitive power. Thus exchange rate flexibility tends to create a bias toward protectionism. But as was pointed out recently in an IMF publication: "Protectionism is not a viable solution to the problems arising from inappropriate exchange rate levels or exchange rate instability; it is likely to lead to a misallocation of resources, to slow the pace of necessary structural adjustments (particularly in the case of ailing industries), and to invite retaliation in other countries," a lesson that is well supported by the developments in the 1920s.

4.) Today as in the 1920s pressure for protectionism comes mainly from the traditional sectors of the economy, like agriculture in the 1920s, and, in addition today, the iron and steel, automobile, textile and clothing industries. The political influence of such traditional branches of the economy is usually well developed. On the other hand, the victims of protectionist policies, including the consumers and taxpayers, possess relatively less influence on the political decision-making process. Also new industries, "infant industries" have succeeded in both periods in their efforts to raise protection, most notably the U.S. dyestuff industry in the post-World War I period and the electronics industry in recent years.

5.) As in the interwar period, the U.S. economy is vulnerable to trade retaliation by foreign nations. In fact, its vulnerability is greatly increased owing to the fact that the share of U.S. exports in GNP has reached more than 12 percent today as against about 5 percent in the 1920s and only 6 percent ten years ago. In addition, the share of manufactured goods in total U.S. exports has reached 66 percent in 1982. And it is precisely this class of traded goods against which retaliation is most effective.

6.) In spite of its relative decline since World War II, the U.S. is still the dominant industrial country in the world, which it had been to an ever greater extent in the interwar period. Its policy measures, therefore, largely determine the spirit and the tendency in which international economic cooperation will be conducted and developed. It still calls the tune and its political leaders have expressed their aspiration to do so many times recently.

7.) There is also a similarity between the first months of 1983 and of 1931. In both periods the world economic depresssion seemed to have come to an end with recovery on its way. Then, in May 1931, the credit crisis broke out in Europe, which was heavily indebted to the U.S. It shattered the hopes of recovery and turned the spiral of depression strongly downward again. It was only thereafter that the world trading system fully fell apart. Today the danger of an international debt crisis looms again; this time it is mainly Third World and Eastern European countries that are heavily indebted to the U.S. and to other Western industrialized countries. Let's hope that the similarity ends there and that the preventive mechanisms meanwhile available against such a credit crisis will effectively prevent it from happening again.

At the end of this paper readers will probably expect some economic policy conclusions. But it is not the historian's task to come up with concrete advice for political action. The dangers of progressive protectionism loom over the world economy today. Yet in spite of some protectionist actions, there is nothing comparable to the trade barriers which were erected in the 1920s, nor does the danger seem to be as great. History doesn't repeat itself, because at least there is always one difference: the historical experience of the similar case in the past with its effects wide open to observation, study and judgment. The purpose of this paper is to to call attention to the results which U.S. protectionism produced in the past. If the electorate and policy makers tend to be short-sighted in their outlook on the future as well as in their reading of the past -- as they sometimes are -- it might serve a humanitarian purpose, if historians, who take a longer view by definition, report on their findings and leave the concrete policy conclusions to those who have chosen politics as their profession.

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

TARIFF ACTS	IMPORTS		COMPUTED AD VALOREM RATES ON	
	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 in 1928 (in million U.S.$) (1)	ACTUAL OR COMPUTED AD VALOREM RATE (in %) 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 Manufactures 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 Manufactures 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	–	88
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	218
1920	205	222	174	239	155	209
1921	116	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	80	–	79

Source: *Yearbook of Agriculture, 1932*, p. 900, and ibid., *1934*, p. 706. Farm gross income calculated from R. E. Lipsey, *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.