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Parade of Protection: A Survey of the European Reaction to the Passage of the Smoot-Hawley Tariff Act of 1930

Mark Milder

ABSTRACT. One of the most egregious errors committed during the Great Depression was the Smoot-Hawley Tariff Act of 1930. It was the highest U.S. tariff of the century and sparked massive foreign protest. Immediate retaliation from Spain, Italy, Switzerland and Canada destabilized the Western market. It nearly collapsed when Great Britain, France and Germany reacted to the crisis. Smoot-Hawley did not cause the Great Depression, but it certainly worsened it by initiating a wave of trade barriers that severely reduced world trade. It should be a caveat for all international trade issues and persuasively shows why protectionism is a dubious policy.

Introduction

Most would agree that the single most important economic event of the twentieth century was the worldwide depression of the 1930s. This catastrophic event was the outgrowth of many poor decisions in the United States and abroad. Yet, some economists and politicians blame a single American legislative action: the Smoot-Hawley Tariff Act of 1930. This governmental action was not the cause of the depression that started in 1929. Enacted at a crucial point of the downturn, the tariff did contribute to the deepening of that depression by reducing world trade. The Smoot-Hawley Act ushered in the partial collapse of international trade through the immediate retaliation of Spain, Italy, Switzerland and Canada. It contributed to a complete collapse of trade through the delayed reaction of Great Britain and France.

The Smoot-Hawley Tariff remains one of the most controversial legislative measures in U.S. history. The publicity and furor over the debates in Congress makes the recent NAFTA controversy look tame. It was a classic example of extreme protectionism. It should serve as a caveat for all major international trade issues. When Pat Buchanan calls for a return to our glorious protectionist past, one

should remember the kind of hazardous path to which that may lead. When President Clinton threatens to remove most favored nation status from China, one should realize that this might spark a retaliation similar to Europe's following the 1930 Tariff. We are now three generations past the Smoot-Hawley Bill so its lessons are fading. One should never forget a lesson of this magnitude. Extreme protection will more than likely bring about international retaliation and destabilize the world economy.

The Smoot-Hawley Tariff Act of 1930

The Smoot-Hawley Tariff was born as an agricultural tariff during the election of 1928. The twenties were a decade of prosperity for the United States, partly due to the fact that it was relatively unharmed by World War I. Yet, the agricultural sector of the economy was lagging behind. Oversupply of grains had forced worldwide grain prices through the floor. Republican nominee for president, Herbert Hoover, felt for the farming community and inserted a minor campaign plank to increase agricultural tariffs. Hoover was elected in a landslide and he immediately called a special session of Congress to adjust agricultural duties.

The handling of the tariff by Congress is where the Bill went completely awry. The Republican-dominated House Committee on Ways and Means penned the original draft, beginning in January of 1929. It was clear from the outset that this bill would cover much more than agriculture. Led by Willis Hawley (R-OR), the bill easily passed through the House. The draft that emerged protected numerous manufacturing and industrial interests that were not intended to be a part of the Act. Each Congressman felt the urge to protect the respective industries of their constituents, regardless of need [Taussig, 1967, 494-495]. The expanded bill was passed on to the Senate in June 1929.

The Senate did not finish their deliberations until June 1930, as debates dominated the headlines for an entire year. The chairman of the Senate Finance Committee, which was responsible for

drafting the final bill, was a Mormon apostle named Reed Smoot (R-UT). It was an epic battle between the old guard Republicans, led by Smoot, and the Democrats, who were aided by insurgent Republicans. Debate raged for months as the world anxiously awaited the outcome. The Republicans favored the tariff for many reasons. Prominent in the debates was a desire to soften the impact of the stock market crash and to reward industries that had supported them in the campaign [Pastor, 1980, 79]. Opponents of the bill feared that it would protect inefficient firms, cause foreign retaliation and force Europe to default on WWI loans [Magill, 1994c, 591]. Yet, in the end, enough Democrats and insurgents were convinced and the Senate passed the bill on June 14, 1930. The vote was a slim majority of 44-42.

The only obstacle left was Hoover's signature. Many hoped that a letter from over one thousand economists that urged veto of the Act would sway him, but it did not. Hoover was by no means pleased with the bill, but felt compelled to sign it as he probably did not want to make the past year of Senate debates meaningless. His faith in the bill rested with the "flexible provision". Hoover proclaimed, "...the outstanding step of this tariff legislation has been the reorganization of the largely inoperable flexible provision of 1922..." [Hoover, 1971, 57]. This provision created the Tariff Commission to adjust duties, based upon the principle of production cost equalization. However, the provision was anything but flexible, as it denied government officials any room to negotiate mutual concessions [Warren, 1959, 85]. Secondly, duties were rarely adjusted by the Commission because of the inherent difficulties in obtaining accurate production costs. Nevertheless, Hoover had confidence in the provision, if not the entire tariff.

The Smoot-Hawley Tariff Act was signed on June 17, 1930. It became the highest U.S. tariff of the 20th century and is considered to be the most blatantly protective tariff in its history. The average rate on all dutiable goods rose to 52.8%, an increase of 18% from the Fordney-McCumber Act of 1922 [Pastor, 1980, 78]. Some of the most important products on the list included: sugar, cotton,

hides, meat and dairy products, cotton, wool and silk textiles, chinaware and surgical instruments [Taussig, 1967, 500-515]. This small sample (381 increases in total) shows the variety of products that received protection. This “agricultural tariff” included numerous industrial products, many of which provoked the enmity of the international market.

Table 1: Value of Exports and Imports for 1930 & 1931
In millions of dollars

| Countries | Exports | | | Imports | | |
|----------------|---------|-------|--------|---------|-------|--------|
| | 1930 | 1931 | % dec. | 1930 | 1931 | % dec. |
| Great Britain | 2777 | 1894 | -31.8 | 5081 | 4196 | -17.4 |
| Germany | 2867 | 2286 | -20.2 | 2476 | 1602 | -35.3 |
| France | 1679 | 1193 | -29.0 | 2058 | 1654 | -19.6 |
| Italy | 638 | 528 | -17.3 | 912 | 611 | -33.0 |
| Belgium | 730 | 647 | -11.4 | 866 | 668 | -22.9 |
| Netherlands | 691 | 527 | -23.7 | 972 | 761 | -21.7 |
| Sweden | 416 | 285 | -31.5 | 446 | 364 | -18.4 |
| Norway | 183 | 117 | -36.1 | 285 | 215 | -24.6 |
| Denmark | 433 | 333 | -23.1 | 463 | 367 | -20.7 |
| Switzerland | 342 | 262 | -23.4 | 516 | 437 | -15.3 |
| Czechoslovakia | 518 | 389 | -24.9 | 466 | 349 | -25.1 |
| Poland | 273 | 210 | -23.1 | 252 | 164 | -34.9 |
| Yugoslavia | 120 | 85 | -29.2 | 123 | 85 | -30.9 |
| Austria | 386 | 310 | -19.7 | 265 | 188 | -29.1 |
| United States | 3843 | 2424 | -36.9 | 3061 | 2090 | -31.7 |
| Canada | 886 | 605 | -31.7 | 1009 | 628 | -37.7 |
| Argentina | 513 | 427 | -16.8 | 617 | 345 | -44.1 |
| Brazil | 320 | 225 | -29.7 | 261 | 130 | -50.2 |
| Chile | 161 | 113 | -29.8 | 170 | 86 | -49.4 |
| Colombia | 109 | 95 | -12.8 | 61 | 40 | -34.4 |
| Australia | 431 | 328 | -23.9 | 519 | 187 | -64.0 |
| Japan | 726 | 560 | -22.9 | 764 | 604 | -20.9 |
| Total | 19042 | 13843 | -27.3 | 21643 | 15771 | -27.1 |

Source: National Industrial Board (1932), *A Picture of World Economic Conditions at the Beginning of 1932*, New York: National Industrial Board, p. 3.

Foreign nations were emphatically displeased with the Smoot-Hawley

Tariff. Approximately sixty nations had sent formal protests to the U.S. government by June of 1930 [Pastor, 1980, 81]. Most of these nations were in debt to the United States, primarily due to the physical damage and monetary costs of World War I [Ratner, 1972, 53]. The United States had just previously renounced its role as world creditor by severely limiting further loans. Faced with a decreased flow of money, the only method of repayment for Europe was selling goods to the U.S. This method was effectively annulled by Smoot-Hawley, so their only resort was to retaliate. The result, as can be seen in Table 1, was a collapse of world trade.

Table 1 clearly shows that each of the major industrial nations experienced a decline in the value of imports and exports from 1930 to 1931. Obviously, the depression contributed greatly to this reduction in trade. However, the Smoot-Hawley Tariff and the many foreign reactions to it presumably played a more direct role in the decline. As can be seen, the total decline in imports and exports was greater than 27%. The range of decline varied from an 11.4% drop in Belgian exports to Australia's 64% decrease in imports. When the best figure achieved is an 11.4% decline, it is obvious that the international trading system had collapsed by 1931.

The Immediate Reaction

Scholars and economists have debated endlessly over the degree to which the world retaliated to the Smoot-Hawley Tariff Act of 1930. There is a small segment that believes that the proliferation of barriers to trade in the 1930s were due primarily to domestic decisions. While domestic concerns certainly played a role in most of the restrictions (i.e. protection for struggling industries), the Smoot-Hawley Tariff worsened the problems that concerned each nation. Thus, this international action became a domestic problem that required a reaction from each country. How could the effective abandonment of the world market by the most powerful nation not instigate a reaction? Along this line, Joseph M. Jones Jr. makes a strong case for retaliation in Spain, Italy, Switzerland and Canada. His work, *Tariff Retaliation*, remains the most extensive analysis of the world reaction to the 1930 Tariff. The Spanish tariff, Italian automobile tariff, Swiss boycott and Canadian tariff were direct retaliations against Smoot-Hawley that seriously reduced world trade.

SPAIN ERECTS THE WAIS TARIFF

Spanish hostility to the United States had been growing throughout the 1920s. A series of U.S. provisions and quarantines were met with dismay in Spain. The measure that hurt the most was Prohibition. Wine was one of Spain's best international products and was its top export to the U.S. [Jones, 1934, 37-38]. Prohibition put an abrupt halt to this trade. Another bone of contention was the fall in value of the peseta in the late 1920s. Jones points out that the reasons for its decline were varied, but the public held the not entirely erroneous belief that French and U.S. financiers were the cause [1934, 43]. They were the main parties that sold off pesetas, which deflated its value. Spain presents the clearest case of retaliation against Smoot-Hawley by enacting the Wais Tariff of 1930.

In light of their unhappiness with U.S. actions, the Wais Tariff was a completely logical response to the Smoot-Hawley Act. Spanish officials made it clear how they would react if Smoot-Hawley passed. An undersecretary of the Ministry of State was quoted in the May 29, 1930 edition of *El Imparcial*, "The denunciation of our (commercial) treaty with the United States does not depend on us; it depends upon how they comport themselves, upon what they do" [Jones, 1934, 50]. In this case, the "what they do" referred to whether the U.S. passed Smoot-Hawley. In fact, by May the Council of Ministers had decided upon reciprocal action [Jones, 1934, 50]. The Wais Tariff was decreed on July 22.

The Tariff was aimed at the United States, France and Italy. The main goal of the decision was to improve the trade balance and the value of the peseta. Most important to U.S. interests were the restrictions on automobiles.

Table 2: Number of Automobiles Imported Into Spain

| Year | Total | U.S. | Fran. | Italy | Ger. | G.B. | Can. |
|--|-------|------|-------|-------|------|------|-------|
| 1929 | 15309 | 7415 | 4864 | 1052 | 246 | 351 | |
| 1930 | 9387 | 5002 | 2314 | 1403 | 159 | 106 | 48 |
| 1931 | 1706 | 841 | 397 | 137 | 240 | 89 | |
| 1932 (1 st 11 months) | 3695 | 473 | 771 | 470 | 678 | 783 | 538 |

Source: Figures for 1929-1931 taken from *Estadística del Comercio Exterior de España*, Tomo I. Figures from 1932 taken from *Resumen Mensual de Estadística del Comercio Exterior de España*, Nov. 1932.

As can be seen, imports from all countries were reduced drastically

in 1930 and 1931, following the Wais Tariff. Most auto imports became saddled with increases of 100%-150% on duties [Jones, 1934, 53]. In the long run, Germany, Great Britain and Canada wound up big winners, at the expense of the other three. Each of them experienced a significant gain in autos exported to Spain between 1929 and 1932. One can also see that France and Italy saw increases in exports in 1932. This is due to the fact that France and Italy signed compromise treaties in an effort to “make up” with Spain [Jones, 1934, 54-60].

The U.S. saw no relief in the cutbacks on imports of automobiles. In fact, the U.S. was singled out in a separate duty. This extra duty was put on non-European autos assembled in Europe and shipped to Spain. Jones explains that this was a clear shot at General Motors, in that they found it profitable to ship parts to Amsterdam for assembly [1934, 53]. It was no secret that the Wais Tariff was aimed primarily at the United States. Among the other products included on the list were the main U.S. exports to Spain: razor blades, sewing machines, films, motorcycles and bicycles. No “make-up” treaty was made between Spain and the States. Spain cut U.S. auto imports by 94% in three years, from 7,415 to 473 autos. The Wais Tariff was a clear retaliation to the Smoot-Hawley Tariff.

ITALY SEVERELY LIMITS U.S. AUTOMOBILES

Being an agricultural country, Italy was hit hard by the falling grain prices of the 1920s. Combined with the decrease in foreign money available to borrow, Italy was feeling the full force of the worldwide downturn. It should be no surprise that they followed the passage of Smoot-Hawley with great interest. The Italian public felt like the U.S. was trying to ruin the entire world, for her own benefit [Jones, 1934, 69]. When it did finally pass, Italy enacted a strict automobile tariff in an attempt to protect its dominant automaker, Fiat.

Italy's Fiat was one of Europe's top-selling car companies during the 1920s. It completely dominated the domestic market and was a major exporter. However, by the late twenties, U.S. cars began to sweep over Europe. Fiat's competitiveness in the export market disappeared [Jones, 1934, 77]. Automobiles were one of America's top exports to Italy, so naturally Fiat asked for protection. Their pleas fell upon the deaf ear of Premier Benito Mussolini. He was convinced that U.S. cars were higher quality and that competition would be healthy for Italy [Jones, 1934, 77]. The passage of Smoot-Hawley provided Fiat with the ammunition it

needed for protection.

It may be possible that Italy would have enacted an auto tariff in the absence of the Smoot-Hawley Act. Fiat, as has already been stated, was pushing for protection prior to the Act. Faced with a viable competitor like the United States, it is quite likely that a tariff would have been enacted independently [Eichengreen, 1989, 33]. However, it is doubtful that tariff would have been as prohibitive as the one actually passed. This is clear from the amount of public outrage to the American tariff. Also, Mussolini wasn't keen on protecting Italy's less efficient auto production. It seems that Italy's tariff was retaliatory towards the United States.

The passage of Smoot-Hawley added fuel to the fire of Fiat's drive for protection. Public outrage to the U.S. tariff helped to sway many leaders. On June 30, 1930 (two weeks after passage of the U.S. tariff), Italy's Cabinet Council finalized its automobile tariff. The Council originally wanted to retaliate against sixty American items, but Mussolini convinced them to attack just three: automobiles, agricultural machinery and radios [Jones, 1934, 82].¹ Some of the duties included an increase on Fords from \$350 to \$815.50 and from \$400 to \$950 on Plymouths [Jones, 1934, 82]. American exports of automobiles to Italy were put at a significant disadvantage due to the automobile tariff. Through the auto and radio tariff that followed, Italy directly retaliated to Smoot-Hawley.

SWITZERLAND BOYCOTTS U.S. PRODUCTS

According to seasoned observers, rarely in history have the peaceful and phlegmatic people of Switzerland become so thoroughly aroused against a foreign nation as was the case against the United States during the year 1930 [Jones, 1934, 104].

This was the reaction of Switzerland to the Tariff Act of 1930. What could possibly anger the peaceful Swiss so much? Perhaps, only watches could have accomplished the task. No nation is associated with a single product more than Switzerland and its watches. Watch making is not simply their top export, it is a source of national pride. When Smoot-

¹ Both agricultural machinery and radios were eventually dropped. Restriction of the machinery would have hurt Italian farmers too much and Italy had no radio industry. Radios were targeted in 1931, after an industry had been developed.

Hawley increased duties on imported watches, Switzerland became clearly agitated. Knowing that a trade war was futile against the U.S., Switzerland chose to boycott American products as a way to express their anger over the Smoot-Hawley Tariff.

Switzerland was, and still is, primarily an exporting nation. Their domestic market is limited, so they export finished goods. In fact, at the time, Switzerland exported 90%-95% of their watches [Jones, 1934, 105]. Approximately one-sixth of those exports went to the United States. The impact of the raised U.S. duties upon the Swiss is obvious. In addition, some of their other major exports to the U.S. were hit hard: embroideries, textiles and cheese [Jones, 1934, 106]. Swiss protest was assured following Smoot-Hawley's passage.

Switzerland did all it could to persuade the United States to exclude their products. As early as June 1929, official protests were sent to the States. The efforts were futile, as Swiss watches were socked in the final bill. Tariffs on the most popular imported watches increased anywhere from 194% to 266% [Jones, 1934, 107]. This prohibitive increase aroused extreme anger among the Swiss and they searched for a way to express it. Switzerland was a main proponent of Briand's idea of a United States of Europe. This was the idea that Europe would have to unite as a market in order to compete with the U.S. market [Jones, 1934, 109]. Since the likelihood of that proposition succeeding was zero, Switzerland favored a boycott of American goods as a way to express its displeasure.

The Swiss boycott was intense in late 1930 and early 1931. Curiously, it was U.S. automobiles that were hit hard again. The refusal of the mail service to buy new American cars was especially damaging [Jones, 1934, 118]. The typewriter industry was also hit hard. American typewriters were the preferred make in Swiss banks and railways. Railways switched to a German brand and banks to a Swiss brand [Jones, 1934, 118]. While Swiss imports from all nations fell in 1930, U.S. imports seemed to be singled out. Switzerland saw a 5.4% total decline in imports, while imports from the U.S. fell an astonishing 29.6% [Jones, 1934, 122]. 1931 saw the same, with the exception that both figures were higher. The Smoot-Hawley Tariff and the retaliatory Swiss boycott seriously strained Swiss-American trading relations.

CANADA ENACTS A RETALIATORY GENERAL TARIFF

Canada was still a Dominion of Great Britain in 1930, and as such was

not the major economy it is today. Its primary activity was to supply raw materials to Britain and the United States. Exports accounted for one-third of Canada's national income at the time [Magill, 1994a, 599]. Given that most of its trade was with two nations, it is obvious what type of impact Smoot-Hawley had on Canada's well being. Canada was also vital to U.S. trade. It was America's only neighbor with a productive economy and was its top trading partner. The Tariff Act of 1930 was a disaster from the U.S. and Canadian viewpoint:

The mutilation of the billion dollar market that was Canada may be regarded as the most deplorable and the most costly single fruit of the Hawley-Smoot Tariff [Jones, 1934, 176].

The reason it became such a disaster was because of the immediate retaliation of Canada. Canada instituted its own general protective tariff, which served to sever the strong economic ties it had with the United States and further reduce world trade.

The decline in worldwide grain prices of the late twenties had hurt Canada more than most countries. Its Prairie Provinces virtually lived off of wheat. Two-thirds of rural Saskatchewan residents were forced to seek public assistance at this time ["Canada Passes Tariffs...", 1994, 598]. Out of this situation, there logically arose a vital protectionist movement. However, Canada's Prime Minister, William Lyon Mackenzie King, was a Liberal who was committed to lower tariffs. The Smoot-Hawley Tariff forced this strident free trader into a more protectionist mode. Influenced by the Senate deliberations in the U.S., King tried to shift the focus of trade to Britain. In May 1930, before Smoot-Hawley officially passed, he slashed duties on 270 empire goods and made small increases on certain American imports ["Hoover Signs...", 1994, 593]. This measure was not enough to stem the rising call for protection. King lost the 1930 election to Conservative Richard Bedford Bennett. Soon after the election, the Smoot-Hawley Act was passed and signed.

The U.S. tariff was met with universal anger in Canada. It doubled the duty on halibut, which angered the Eastern Provinces [Jones, 1934, 206]. The act hiked rates on potatoes, milk and cream, which garnered the dismay of Ontario and Quebec. The Prairies Provinces were injured by duties on cattle, fresh meats and wheat. Lastly, British Columbia and Alberta fumed over tariffs on apples, logs and lumber. Each sector of Canada was injured by Smoot-Hawley.

Bennett reacted to rising public anger by signing the Canadian Emergency Tariff on September 17, 1930. It increased protection of “virtually every important industry” by 50% [“Canada Passes Tariffs...”, 1994, 599]. The result was an easing of Canadian unemployment, but imports were drastically reduced. Within six months, the value of U.S. imports had been cut in half [Jones, 1934, 196]. The billion-dollar Canadian-American trading partnership was not to be renewed until the end of the 1930s.

Immediate reaction to the Smoot-Hawley Act was limited primarily to Canada, Italy, Spain and Switzerland. These were not the most powerful trading nations of the world by any stretch of the imagination. Only Canada was a vital partner of the United States. This does not diminish the importance of their retaliation, however. The Canadian, Italian and Spanish tariffs, along with the Swiss boycott and the initial U.S. tariff, seriously weakened the state of international trade. The rest of Europe witnessed most of their trading partners gradually disappear behind walls of protection. It would only be a matter of time until they would also have to react. When they finally did, the entire system collapsed and the Great Depression hit high gear.

Delayed Reaction to the Smoot-Hawley Tariff

The last powers to give in to the ideology of protection were France and Great Britain. Neither of these nations immediately reacted to the protectionist Smoot-Hawley Tariff, however. Each had its own reasons for the delay, but the problem had to be dealt with eventually. Great Britain, the bulwark of free trade, tried its best to resist. But, the impact of the U.S. tariff proved too much for it to handle. Saddled with debt and faced with a vanishing market for its goods, Great Britain had to resort to protection in 1931. France avoided an immediate reaction because it did not feel the depression until after the rest of the continent. It, too, eventually reacted to the collapse of trade with a particularly devastating quota system. Added to these reactions, were the economic actions of Germany during the 1930s. Hitler and the Nazis abandoned the Western market and strove to build their nation into a self-sufficient power. They accomplished this by entering quasi-colonial bilateral trade pacts with Southeastern Europe and South America. The delayed reactions to Smoot-Hawley of Great Britain, France and Germany ushered in the complete collapse of international trade.

GREAT BRITAIN ENACTS TARIFFS AND INITIATES IMPERIAL PREFERENCE

There is considerable debate over whether Great Britain retaliated to the Smoot-Hawley Tariff. The case is not as clear as it was with the previous countries. Britain did not retaliate in the sense that its reaction was aimed at the United States. The British reacted to the international situation that was caused in a great part by Smoot-Hawley. That is, when faced with severe restrictions on trade, Great Britain was forced to protect itself. It was not retaliation in the strict sense, but a reaction to a shrinking market for its goods. The British reacted to the post-Smoot-Hawley world with a set of tariffs and a devotion to imperial preference.

Great Britain remained the lone island of free trade in a sea of protection in 1931. Conservatives had steadily gained popular support for a shift against free trade, however. Smoot-Hawley contributed to this shift by, “hardening feeling amongst Conservatives that it was time Britain introduced protective tariffs” [Capie, 1983, 49]. The Labor party was in power in 1930. Its leaders were undecided on what course to take, but Britain could not survive as the sole free market. Their balance of trade continued to fall, as goods were being dumped into their tariff-free borders. Prime Minister Ramsay MacDonald went to the U.S. and France for loans. They would loan funds only if Britain attempted to improve their balance of payments problem. MacDonald tried to do just that by reducing unemployment benefits. This was his attempt to reduce government expenditures and thus improve the balance of payments. However, this ploy caused his party to desert him and a coalition party of Conservatives and Labor formed under the Nationalist banner [Jones, 1934, 229-230]. The election of 1931 brought this party to power.

Immediately after coming to power, the coalition government introduced the Abnormal Imports Act. Decreed on November 20, 1931, this act gave the Board of Trade the ability to adjust duties up to 100% on any product it wished [National Industrial Board, 1932, 17-18]. This was followed by the Horticultural Products Act, which granted the Board the same right on any agricultural product [Benham, 1941, 21]. The coup de grace was the Import Duties Act of 1932, which instituted a general tariff of 10% [Benham, 1941, 21]. Free trade was given its last rites in 1932.

Why would the great defender of free trade implement protection? Eichengreen points out that British tariffs were not aimed at the United States [1989, 34]. Very little of the Parliamentary debates mentioned any

type of retaliation. It was not retaliatory toward the U.S., but rather a reaction to the international situation that Smoot-Hawley played a large part in creating. In this particular situation, enacting tariffs seemed to be the only hope for free trade. This is counterintuitive, but it makes sense. Benham argues, “The government doubtless hoped that once a tariff was adopted it could be used as a bargaining weapon to extract concessions on British exports from other countries” [1941, 21-22]. This is exactly what happened in Europe. Most tariffs were negotiable so that countries could make mutual concessions. The “flexible” provision of the U.S. tariff would not allow this, however. It allowed adjustments on no other grounds than differences in production costs. The U.S. tariff was completely inflexible and unable to extract mutual concessions [Jones, 1934, 22]. The British idea of a tariff to extract concessions was completely logical except in respect to the United States.

Britain was not done with their brief experiment in protection, however. In 1932, Great Britain met with Canada and the other Dominions in Ottawa, CA. Canada was the main instigator of the meeting, as they were trying to guarantee a market for their goods. The Ottawa Agreements essentially adopted the idea of imperial preference. This involved a relaxation of tariffs upon the goods of all of the Dominions and Britain. For example, Canada increased preference for 223 British goods [Magill, 1994, 627]. Britain reciprocated by allowing all Dominion products to be admitted free into the mother country and maintaining their 10% general tariff against outside nations [Benham, 1941, 92-93]. Further, they constructed duties on specific products important to the Dominions. World trade was beginning to come to a standstill.

The complete collapse of trade in the four major industrialized nations is shown in Table 3. Of interest now is the performance of Great Britain. As can be seen from the table, Britain was the dominant trader of the twenties. However, the impact of the initial collapse (due to Smoot-Hawley and retaliations to it) hit exports hard in 1930. Britain introduced its many tariffs and restrictions starting in 1931. Average exports and imports from 1931 to 1935 fell to less than half the already declining 1930 figures. World trade had disintegrated.

Table 3: World Trade In The Interwar Period (Trade In Manufactured Articles According To The International [1913] Classification, Annual Averages In Millions Of U.S. Dollars)

| 1945 prices | 1921-25 | 1926-29 | 1930 | 1931-35 | 1936-39 |
|-----------------------|---------|---------|------|---------|---------|
| United States | | | | | |
| Exports | 1436 | 2027 | 1686 | 629 | 862 |
| Imports | 821 | 1064 | 773 | 342 | 343 |
| Germany | | | | | |
| Exports | 1810 | 2001 | 2153 | 1064 | 1048 |
| Imports | 418 | 512 | 428 | 188 | 132 |
| United Kingdom | | | | | |
| Exports | 2482 | 2683 | 2021 | 946 | 986 |
| Imports | 790 | 1082 | 1045 | 458 | 426 |
| France | | | | | |
| Exports | 1336 | 1356 | 1117 | 527 | 316 |
| Imports | 342 | 336 | 492 | 225 | 138 |

Source: League of Nations, Industrialization and Foreign Trade (Geneva, 1945), pp. 158,160

Britain reacted to the initial trade collapse caused by Smoot-Hawley by restricting its own trade. It did so through a set of tariffs and imperial preference. This reaction to the international situation probably accelerated the total destruction of trade, as all of the major powers slipped into the abyss. Britain differed from the U.S., though. It enacted restrictions with the knowledge that it would be a temporary action to extract concessions from other nations. Even though the British reaction worsened the situation, it was probably vital to the eventual recovery, as negotiation would begin to take place.

FRANCE ESTABLISHES A QUOTA SYSTEM

The Great Depression reached France much later than most other nations. It didn't affect the French until deep into 1931. This is illustrated above, in Table 3. Exports fell only slightly in 1930 and imports actually increased. However, France eventually began to experience the depression and was forced to take action. It did so with a particularly devastating set of quotas. By 1936, 65% of imports into France had a quota on them [Saint-Etienne, 1984, 29]. As Table 3 shows, the downturn in trade lasted longer in France than the other three nations. It was the only major country to continue to decline after 1935. This is most likely

due to the ubiquitous quota system. In fact, most experts rank the French quota system, second only to Smoot-Hawley, as the harshest reaction to the world depression. This quota system also had a bias against the United States that can be attributed to the Smoot-Hawley Tariff Act of 1930.

The United States was not very popular in France in 1931. France had borne the brunt of the damage from World War I. A major portion of the French financing of the war and reconstruction was borrowed from the U.S., which left them heavily in debt. France paid this debt in two ways: by selling products to the States and receiving reparation payments from Germany [Weber, 1994, 100]. The United States cut off both of these avenues by leading the drive for a moratorium of one year on German reparations and enacting the prohibitive Smoot-Hawley Act. Additionally, Hoover constantly hounded Europe to pay their debts. France had no easy way of accomplishing this and saw Americans as “unfeeling usurers” [Weber, 1994, 100]. France was outraged, but its reaction was delayed.

France could not retaliate immediately because of its numerous commercial treaties. Jones states that 70% of their tariff duties were fixed by treaties [1934, 144]. These treaties limited what France could do with tariff revision, so they opted for a quota system. The quota system had three main aims. First, it attempted to protect its domestic producers. Second, it created a barrier that would allow France to denounce their entangling treaties. Last, the quota system implicitly tried to promote European unity to counteract the U.S. [Jones, 1934, 145-146]. The first reason is obvious and the second beyond the scope of this study. However, the third reason could be seen as a direct retaliation against the United States.

The idea of European economic unity was touched on in the analysis of Switzerland. It was a popular idea that strove to create a unified European market able to compete with the U.S. market. A quota system hardly seemed like a good way to accomplish this, but the system was biased against America in such a way as to promote that end [Jones, 1934, 150-152]. The quotas were negotiated as contractual treaties that guaranteed, rather than limited, a certain segment of the French market to European countries. The United States was limited, especially in its main exports to France: electrical and radio equipment, pork and canned meats. The French quota system discriminated against U.S. imports while promoting European imports, which in turn promoted a sort of economic

unity in Europe. The unity was not strong, however, and France struggled throughout the rest of the decade. Its quota system, without a doubt, worsened the state of the world economy after 1931.

GERMANY ENTERS INTO QUASI-COLONIAL BILATERAL TRADE PACTS

Germany was the major trading nation that had literally no reaction to the Smoot-Hawley Tariff. There was no public outrage following the passage of the Act. This is easily understood when one considers the situation in post-war Germany. It had not experienced the boom that the other major powers had. Instead, it was saddled with a punitive World War I peace settlement, rampant unemployment and outrageous hyperinflation. With the vast array of problems facing Germany, it is logical to assume that a tariff hike in America was not foremost on their minds. What was on Hitler's mind was rebuilding Germany into a world power. He attempted to do this by turning away from the West. Germany entered into quasi-colonial trade pacts with Southeastern Europe and South America.

Germany increased tariffs and quotas, much like the rest of Europe. However, these measures were not important, as Germany essentially abandoned the Western European market. The situation was quite perplexing. Germany did not receive better prices or significantly help their economy by switching focus to Southeast Europe and South America. It paid 20%-40% above the prevailing market price on most goods it bought from Eastern European countries [Foreman-Peck, 1983, 218]. In return, Germany received low prices for its goods. Further, the region did not benefit as much from the new trade as it could have. The agreements were bilateral, meaning that they involved only Germany and a single nation [Raupach, 1972, 243]. Multilateral trade would have resulted in fully exploiting the comparative advantage of each nation. Bilateral agreements fail to fully utilize this vital economic phenomenon.

The key to understanding the German reaction is the realization that Hitler came to power at this very time. Hitler was in the process of rebuilding the German economy and preparing for eventual war. Germany is notoriously deficient agriculturally, so their focus to rural, developing countries was logical. Einzig states, "...the tendency of the official policy of the new regime is supposed to be to make Germany economically self-sufficient..." [1934, 87]. Unable to adequately supply the state with food, quasi-colonial (used for resource exploitation) trade

pacts with agricultural nations were necessary. Secondly, trade policy was geared to prepare for conflict. Hitler determined which goods to trade and with whom those goods would be traded based on "...their usefulness in the preparation for war" [Kaczynski, 1945, 65]. The list of countries he wished to trade with did not include the United States. When the German actions of the 1930s were added to the already desperate atmosphere of trade, the Western market nearly ceased to be.

The Smoot-Hawley Act and the retaliations that followed seriously undermined world trade. Perhaps the combined economic power of Britain, France and Germany could have stabilized the situation. We will never know, as they each reacted in a negative way. Great Britain built several tariffs and implemented a preference for imperial products. France established a quota system that discriminated against the U.S., but hurt all of Europe too. Germany extracted itself from the market and entered into bilateral treaties with Southeastern Europe and South America. Added to the initial collapse, the reactions of these three major powers finalized the annihilation of international trade. Smoot-Hawley cannot be fully blamed for the collapse, but it did initiate the "parade of protection" that brought world trade to a standstill.

The Smoot-Hawley Tariff Was Not the Cause of the Great Depression

Historians are constantly tempted to pin the blame for the Great Depression on a single event. Once in awhile, this blame becomes focused upon the Smoot-Hawley Tariff. Two theories have gained considerable recognition. One is that the Senate debates on the bill caused fluctuation in the stock market and contributed to the October 1929 crash. The other argues that the world had recovered from the crash by early 1930. Smoot-Hawley, from this point of view, helped destroy the domestic economy and turned a minor recession into the Great Depression. In reality, the Great Depression was due to many factors. The U.S. tariff was just one of the many mistakes that contributed to the crisis. The Smoot-Hawley Act did not cause the Great Depression. It merely worsened the root problem by starting a wave of protection that destroyed world trade.

In his book, *The Way the World Works*, Jude Wanniski puts blame for the entire depression on the Smoot-Hawley Tariff. He claims that debates in the Senate undermined confidence in the stock market and caused the crash of October 1929 [Wanniski, 1978, 125]. A tariff acts just like a tax

on imports. It increases prices and decreases the volume of trade. So, as debates progressed in the Senate, the business world should have reacted as though prices would increase and imports would fall in the future. The record seems to agree with the theory.

The stock market fell on December 7, 1928, the day it was announced that the bill would not be confined to agriculture [Wanniski, 1978, 129]. It fell again on March 25, due to a Republican announcement that they would fight for their respective industries [Wanniski, 1978, 130]. It appeared that the Senate opposition would vote down the bill and the stock market sailed throughout the rest of the year. Then came October 23. Word reached the market floor that the Senate had voted to consider only an expanded tariff and the Dow Jones fell 21 points (a substantial sum at the time) [Wanniski, 1978, 133]. Within a week the crash was complete. The market recovered somewhat, but fell again the day Smoot-Hawley was passed. There seemed to be a correlation between the stock market and Smoot-Hawley.

There definitely was a correlation between the market and the tariff, but the tariff did not cause the crash in October. It is logical that the stock market would react to the debates. Exporters stood to lose much from the bill and they probably panicked as it seemed that it would pass. However, most of the business world was in favor of protection and saw the tariff as a good thing [Schattschneider, 1935, 141]. Second, Wanniski over-emphasizes the importance of the October 23rd announcement. There was still no certainty that the Senate would pass the bill, thus the stock market would not have reacted so harshly. Smoot-Hawley did not cause the stock market crash and even if it did, the crash was not the sole cause of the Great Depression.

Another common argument is that the world had recovered from the 1929 crash and that the Smoot-Hawley Tariff turned a minor recession into a depression. Fernand Baudhuin points out that there was little awareness that things were bad in 1930 [1972, 62]. Germany continued to pay creditors in gold, Belgium celebrated their centenary without a hint of worry and the United States conducted itself like it was business as usual. Saint-Etienne saw the crash as a logical correction of enormous growth and profits [1984, 20]. Everything seemed to have been stabilized by early 1930. Saint-Etienne argues that the U.S. tariff, along with a tight money supply, destabilized the world economy in June of 1930 [1984, 20-21]. He goes on to say:

...if the Federal Reserve had pumped money into the system in the second quarter of 1930 and kept the money stock slightly increasing thereafter and if Hoover had vetoed the Hawley-Smoot Tariff in June 1930, there probably would not have been a Great Depression [1984, 29].

Saint-Etienne may be correct in his analysis that the depression may not have occurred with an expanding money supply and without Smoot-Hawley. However, I believe he overestimates the role of the U.S. tariff. It contributed greatly to the collapse of international trade in the 1930s, but this was a worsening of the downturn, not a cause. There were numerous causes of the downturn. Some of the main culprits were probably an unorganized U.S. banking system that extended credit too easily, speculative investments, stagnant domestic demand and the post-crash deflation [Patterson, 1965, 215-239] [Watkins, 1993, 41-47]. Added to this was the failure of the Fed to increase the money supply to battle the post-crash deflation [Friedman and Schwartz, 1963, 299-300]. There was no single cause and if there were, it wouldn't be the Smoot-Hawley Tariff. It contributed to the collapse of international trade, which worsened, but did not cause the downturn.

Defenders and Minimizers of the Smoot-Hawley Tariff

Ever since the Smoot-Hawley Act passed, it has had its defenders. Some believe whole-heartedly in protection and believe that the tariff was a good thing for America. This camp argues that American prosperity was built upon protective tariffs. Another argument is based upon the fact that the 1930 Tariff did not raise duties nearly as high as its critics contend. How could such a modest increase be responsible for all of the evil that is associated with it? First, it is true that America emerged under protection. However, the international system had transformed so much by 1930 that isolationism was unacceptable. Second, critics that argue that the tariff was not terribly high ignore the fact that the real problem with the tariff was its timing, not its severity.

Behind a tariff built by Washington, Hamilton, Clay, Lincoln, and the Republican presidents who followed, the United States had gone from an agrarian coastal republic to become the greatest industrial power the world had ever seen – in a single century.

Such was the success of the policy called protectionism that is so disparaged today [Buchanan, 1998, 224].

The United States has a proud tradition of protection. Many, like Buchanan, contend that protection is how we grew into the power we are today. This view was especially dominant at the time of Smoot-Hawley. Schattschneider points out that “opposition to duties based on a dissent from the philosophy of protection was extremely rare” [1935, 141]. Protection is and probably always will be popular in America. It plays upon our ingrained belief in democracy, that everyone has a right to protection.

The protectionist argument is based upon unsound economic thinking, however. Buchanan and other protectionists argue that an increased tariff will help domestic producers. They will experience increased profits, which will increase jobs and spending in the economy. In reality, protection does not stimulate the domestic economy. Bastiat concludes that protection hurts consumers who would be faced with higher prices [1964, 27]. Secondly, domestic production would not increase because any increase in sales for one industry must be offset by losses in another [Bastiat, 1964, 29]. Consumers spend more on the protected product than they used to when the cheaper import was allowed. They must, therefore, decrease spending on some other domestic product in order to purchase the protected product.

Not only is protection ineffective domestically, it is damaging internationally. Whichever nation had sold their products to the United States loses sales due to protection. More than likely, this will cause that nation to retaliate with protection of its own. U.S. exporters would now lose sales due to foreign protection. Therefore, protection is even more destructive when the international response is considered. A quick look at the European reaction to the Smoot-Hawley Tariff exemplifies this point. To quote Schattschneider again, “The history of the American tariff is the story of a dubious economic policy turned into a great political success” [1935, 283]. Extreme protection is a bad policy today and it was a bad policy in 1930.

The Smoot-Hawley Tariff was not the monstrosity that it is often portrayed as, however. Many argue that the moderate increases in the 1930 Act could not have possibly caused a breakdown of world trade. In terms of degree of increase, the Smoot-Hawley Tariff was no worse than the Fordney-McCumber Tariff of 1922. In nominal terms, Smoot

increased duties more than the 1922 Act. However, under constant prices, the effect of the 1930 Act was less than its predecessor [Eichengreen, 1989, 17]. The deflationary prices of 1930 made the tariff worse than it should have been [Irwin, 1998, 335-336]. The Smoot-Hawley Act did not increase rates any more than previous tariff and none of those provoked a breakdown of trade. It appears that the tariff was not as bad as it seemed.

What is missing from the previous analysis is timing. It is true that the duty hike in Smoot-Hawley was similar to Fordney-McCumber and other previous tariff revisions. But, as the famous saying goes, “timing is everything”. As Foreman-Peck states, the “timing of the Act was most unfortunate” [1983, 213]. Enacted at a crucial point in the downturn, the tariff threw a knockout punch to the world economy. “This increase in tariff rates came at a time when just the opposite course should have been pursued” [Warren, 1959, 92]. Instead of a tariff hike, a reduction should have been undertaken. The fact that the hike was not abnormally high is almost irrelevant to the situation. This highlights why any increase in protection should be initiated with extreme caution. Smoot-Hawley increased an already high tariff at a precarious time and that is why the Act was so disastrous.

Conclusion

The Smoot-Hawley Tariff Act of 1930 was not the cause of the Great Depression, despite claims to the contrary. It contributed to the depression by undermining world trade. Enacted at a crucial point in the downturn, the tariff elicited a flurry of retaliation. This immediate reaction came primarily from Canada, Spain, Switzerland and Italy. Spain, Canada and Italy enacted protective tariffs that were blatantly aimed at the United States. Meanwhile, Switzerland reacted to the Act by boycotting U.S. products. This immediate reaction to Smoot-Hawley seriously threatened world trade.

More important than the immediate retaliation was the delayed reaction of Great Britain, France and Germany. Great Britain enacted several tariffs and instituted imperial preference in a reaction to the declining market for its goods. France reacted to the international system with a particularly devastating quota system that had a bias against the U.S. Finally, Germany abandoned the Western market and chose to enter bilateral treaties with Southeastern Europe and South America. The

delayed reaction of the European superpowers, added to the immediate retaliation, resulted in a complete collapse of world trade. Even though the Tariff Act may be characterized as no worse than previous tariffs, its timing was most unfortunate. Therefore, the Smoot-Hawley Act must bear the responsibility for inaugurating the “parade of protection” that ruined international trade in the 1930s.

The lesson of the Tariff Act of 1930 must not be forgotten. It highlights the importance of thinking internationally. No domestic economic decision can be made without first considering how it will affect the world. Jones states in 1934:

That the fiction of full national sovereignty in tariff legislation should survive so long in a world where the interdependence of the world economic system is so generally recognized, is a rather curious commentary upon the rationality of man [27].

This statement goes doubly for 1999. Protection served us well in the formative years of our country, but we are in an entirely different world today. Extreme protection has no place in the modern world economy. It had no place in the 1930 economy, either.

This study gives a general survey of the European retaliation and reaction to the Smoot-Hawley Act of 1930. Further study may want to broaden the scope to include other areas of the world. Perhaps of more use would be a more focused study on the importance of the reaction of Great Britain and its Dominions. Also, a closer look at the newspapers of the time may provide even more insight into the mood of the public in America and over seas. Lastly, of great importance, would be a study of the impact of the 1930 Tariff on the United States. No matter where research is directed, this topic is relevant. As long as tariffs are a part of the world economy, a study into their effects would be beneficial.

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