

Introduction

ON NOVEMBER 9, 1993, Vice President Al Gore and Texas billionaire and former presidential candidate Ross Perot debated the controversial North American Free Trade Agreement (NAFTA) on CNN's television program, *Larry King Live*. An outspoken critic of the agreement, Perot had claimed that NAFTA would lead to a "giant sucking sound" of American jobs being lost to Mexico. Gore sought to defend the agreement on behalf of the Clinton administration, which was pushing a reluctant Congress to approve it.

In the opening minutes of the debate, Perot casually suggested imposing a "social tariff" on imports from Mexico to offset that country's lower wages. Gore pounced and brought out a framed picture of two men. "This is a picture of Mr. Smoot and Mr. Hawley," the vice president stated. "They look like pretty good fellas." He went

on to explain that “they sounded reasonable at the time” and that a lot of people believed them in 1930 when they said that increasing tariffs on imports would help protect workers. Congress passed the Smoot-Hawley tariff bill and, Gore noted solemnly, it “was one of the principal causes, many economists say the principal cause, of the Great Depression in this country and around the world.” He handed the picture to Perot and said, “Now I framed this so you can put it on your wall if you want to.” Perot received the picture coolly and put it face down on the desk. “We are talking [about] two totally different, unrelated situations,” he insisted.

Soon after the debate, Congress approved NAFTA. According to later polling, Gore’s spirited defense helped swing public opinion to view the agreement more favorably. His dramatic invocation of Smoot and Hawley, more than sixty years after the enactment of their notorious tariff act, reminded viewers of the long-standing association of protectionism, a collapse in world trade, and the Great Depression in the early 1930s. Ever since then, the ghosts of Smoot and Hawley have stood in the way of anyone arguing for higher trade barriers. Almost singlehandedly, these two men made the term “protectionist” an insult rather than a compliment.

Who were Smoot and Hawley? And why do we still remember what they did more than eighty years later?

Reed Smoot was a Republican Senator from Utah and chairman of the Senate Finance Committee from 1923 to 1933. Willis Hawley was a Republican member of the House of Representatives from Oregon and chairman of the House Ways and Means Committee from 1928 to 1931. These two committees were charged with craft-



Vice President Al Gore shows a picture of Hawley and Smoot during the NAFTA Debate with Ross Perot on CNN's *Larry King Live* in 1993. Source: Photo courtesy of CNN © 1993.

ing tariff legislation, and in 1929 and 1930, Smoot and Hawley were responsible for ushering through Congress the bill that bears their name.¹ President Herbert Hoover signed it into law on June 17, 1930.

We still remember the Smoot-Hawley tariff because it ranks among the most infamous pieces of congressional legislation of the twentieth century. Although imports were not surging into the country or causing any great problem for the economy, Congress raised tariffs on imported goods with the intention of protecting farmers and

¹Because the Constitution provides that revenue measures must originate in the House before going to the Senate, tariff legislation was often named for the Ways and Means Committee chair first and the Senate Finance Committee chair second. This implies that the legislation should be known as the Hawley-Smoot tariff, but Smoot played such a large role in its passage that contemporaries began to refer to it as the Smoot-Hawley tariff.

manufacturers from what little foreign competition they faced. In doing so, they did not follow any economic logic or consider the interests of consumers and exporters who would be harmed by the tariffs. Instead, they engaged in the most blatant form of pork-barrel politics, catering to the demands of special interests that wanted to limit imports. Not surprisingly, several foreign countries retaliated by imposing duties on U.S. exports. These trade restrictions spread just as the world economy was beginning to sink into a depression. The contribution of the Smoot-Hawley tariff to the collapse of trade and the Great Depression of the 1930s has been debated ever since.

As one contemporary observer wrote, the Smoot-Hawley tariff “has doubtless occasioned more comment, more controversy, more vituperation in the national as well as in the international sphere than any other tariff measure in history” (Jones 1934, 1). Most of the commentary has been highly critical. “The most disastrous single mistake any U.S. president has made in international relations was Herbert Hoover’s signing of the Smoot-Hawley Tariff Act into law in June 1930,” Harvard economist Richard Cooper (1987, 291) has argued. “The sharp increase in U.S. tariffs, the apparent indifference of the U.S. authorities to the implications of their actions for foreigners and the foreign retaliation that quickly followed, as threatened, helped convert what would have been otherwise a normal economic downturn into a major world depression.” The noted British civil servant Sir Arthur Salter (1932, 173) went so far as to say that the Smoot-Hawley tariff “was a turning point in world history” for its role in unleashing the protectionism that destroyed world trade in the 1930s. The

distinguished historian Allan Nevins (1950, 142) agreed that the tariff act “marked a great turning point in the history of the time,” calling it an “ill-timed explosion of economic nationalism.”

Others have sought to exonerate Smoot and Hawley, arguing that they were not responsible for the economic disasters of the early 1930s. “That the legend of Smoot-Hawley endures and continues to influence the trade policy debate is a tribute to the public relations skills of partisans and ideologues with an agenda,” writes Alfred Eckes (1995, 139), a former chairman of the U.S. International Trade Commission. Those partisans and ideologues “successfully transformed a molehill into a mountain.” Conservative commentator Pat Buchanan (1998, 247, 250) contends that “not one of the charges against Smoot-Hawley stands up” and the higher tariff “had an imperceptible effect even on trade, let alone on a national economy of which foreign trade was but a tiny fraction.”

But those are minority views. Whether deserved or not, Smoot and Hawley have become synonymous with an avalanche of protectionism that led to the collapse of world trade and the Great Depression. Because of the controversy that surrounded its passage and the catastrophe that followed in its wake, it is easy to resort to hyperbole when discussing the Smoot-Hawley tariff. In a book on American history, humorist Dave Barry (1990, 116) has an extended riff on the Smoot-Hawley tariff as “the most terrible and destructive event in the history of Mankind.”

Smoot and Hawley have even become cultural icons, their names resonating far beyond the world of policy

wonks. A classic scene from the 1986 movie, *Ferris Buehler's Day Off*, illustrates the extent to which the Smoot-Hawley tariff has become part of the public vocabulary. In the movie, actor Ben Stein plays a high school teacher who drones on in a slow monotone:

In 1930, the Republican-controlled House of Representatives, in an effort to alleviate the effects of the—anyone? anyone?—the Great Depression, passed the—anyone? anyone?—the tariff bill, the Hawley-Smoot Tariff Act which—anyone? raised or lowered?—raised tariffs in an effort to collect more revenue for the federal government. Did it work? Anyone? Anyone know the effects? It did not work, and the United States sank deeper into the Great Depression.

Stein's memorable portrayal of the quintessential boring high school teacher introduced Smoot and Hawley to a new generation of young people.²

To this day, presidents, members of Congress, journalists, and economists speak of the “lessons” of protectionism and Smoot-Hawley. But what are those lessons? One can find those who would argue that the Smoot-Hawley tariff was responsible for the collapse of world trade, or that it had nothing to do with it. One can find claims that the Smoot-Hawley tariff caused the Great Depression, or

² Stein (2007) later noted that the lines from that scene were ad-libbed. Indeed, it is hard to imagine a Hollywood scriptwriter setting out to pen a few sentences about an obscure tariff bill written long ago, whereas Stein—the son of the distinguished economist Herbert Stein—was familiar with the issue and able to tell the basic story off the top of his head.

that it had nothing to do with it. Where does the truth lie and what should we remember about it?

This book examines the Smoot-Hawley tariff and its consequences. Chapter 1 focuses on the long and politically divisive passage of the Smoot-Hawley tariff through Congress. The popular perception is that Congress enacted a higher tariff because it caved in to the demands of special interest groups. In fact, the tariff did not originate in response to demands by politically powerful industries facing competition from imports, but was offered up by Republican politicians who wanted to appease farmers during the presidential election campaign in 1928. The tariff was initiated near a business cycle peak when business was good, not in the midst of the Depression, and it was poorly suited to help farmers, many of whom depended on exports to foreign markets. Of course, the manner in which Congress handled the tariff gave rise to its association with special interest lobbying and logrolling (vote trading among members of Congress), a perception that is wholly accurate.

Chapter 2 addresses the economic effects of the tariff. The popular perception is that the Smoot-Hawley tariff raised import duties to record levels and helped cause the Great Depression. In fact, the legislated tariff increase was much smaller than commonly imagined, although it still managed to erase 15 percent of America's imports of dutiable goods upon impact. For reasons that will be explained, it was the deflation of prices that accompanied the Great Depression that pushed the tariff to near record levels, restricting trade even more. Furthermore, contrary to what Vice President Gore argued during the NAFTA debate, most economic historians do not believe that the Smoot-Hawley tariff played a large role in

the macroeconomic contraction experienced during the Depression. Instead, a series of monetary and financial shocks pushed the economy into a downward spiral, with the tariff playing a secondary role.

Chapter 3 examines at the international reaction to the Smoot-Hawley tariff. The popular perception is that the tariff backfired by triggering retaliation against U.S. exports and the spread of trade blocs that discriminated against the United States, inflicting long-term damage for U.S. commercial and foreign policy interests. In fact, this perception is largely accurate. While countries did not broadcast that they were retaliating against the United States for imposing the tariff, the nature and timing of the measures they took strongly suggest that was the primary motivation. A month after the Smoot-Hawley tariff was imposed, a pro-American Liberal government in Canada lost a general election to the pro-British Conservatives, who erected trade barriers designed to shift Canada's imports from the United States to Britain. Other countries discriminated against U.S. exports as well, and the nation's share of world trade fell sharply. The higher sugar duties even helped spark a revolution in Cuba that overthrew a regime that had been friendly to the United States.

Chapter 4 assesses the aftermath and legacy of the Smoot-Hawley tariff. Smoot-Hawley gave congressional trade policy making a bad name that persists to this day. Those who enacted it promised economic growth and prosperity, but it was followed instead by plummeting exports and depression. The Tariff Act of 1930, the formal name of the Smoot-Hawley tariff, was the last general tariff revision undertaken by Congress. Four years later, Congress ushered in a new era of U.S. trade policy by delegating power to the president to negotiate agreements

with other countries to reduce tariffs. This approach gave us our current system, embodied in the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO). Yet the lessons of Smoot-Hawley continue to be debated whenever trade policy issues rise to the top of the national agenda.