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CHAPTER EIGHT

The Hawley-Smoot Tariff and the Great Depression, 1928–1932

In the 1920s, the focus of trade policy shifted from protecting manufacturing to protecting agriculture. Congress struggled to find the right way to assist farmers and relieve farm distress, turning to a tariff revision after President Coolidge vetoed price-support legislation. The resulting Hawley-Smoot tariff of 1930 proved to be the most controversial piece of trade legislation since the Tariff of Abominations in 1828. The subject of heated debate during its difficult passage through Congress, the legislation helped push the average tariff on dutiable imports to near-record levels just as the economy was sliding into the Great Depression. The early 1930s saw an unprecedented contraction of world trade, during which time many other countries retaliated against the United States and significantly increased their own trade barriers. The Hawley-Smoot tariff had far-reaching consequences and it marked the last time that Congress ever set duties in the entire tariff schedule.

THE ORIGINS OF THE HAWLEY-SMOOT TARIFF

As we saw in chapter 7, Congress began paying more attention to agriculture than manufacturing in the 1920s. While the manufacturing sector had been the primary concern of policymakers in the nineteenth century, American industry now dominated world markets, and policymakers shifted their focus to the nation's troubled farm sector. Farmers came under enormous financial difficulty after commodity prices plummeted in 1920–21, which led to a decade of economic hardship. Although Congress tried to establish price supports for certain commodities, President Coolidge twice vetoed such legislation.

The plight of agriculture was an important backdrop to the presidential election of 1928. Both parties pledged to help the ailing farm sector, although they were vague as to precisely what they would do. Democrats promised measures "to establish and maintain the purchasing power of farm products and the complete economic equality of agriculture" through government credit and marketing assistance. Republicans promised to "place the agricultural interests of America on a basis of economic equality with other industries to insure its prosperity and success" and stressed the need for further protection for farmers against foreign competition.[1]

In terms of trade policy, the differences between the parties in 1928 were perhaps as slight as they had ever been. The Democratic presidential candidate, Alfred E. Smith of New York, came from the party's conservative, high-tariff wing. His nomination reflected the growing power of the party's urban North, which wanted to adopt positions closer to those of the Republicans in order to attract the support of business. This northern wing had few complaints about the existing tariff and sought to reassure industry that the party would not slash import duties, as had been done during the Wilson administration. Therefore, while attacking the excessive tariffs for big business, the platform declared that a Democratic tariff would ensure the "maintenance of legitimate business and a high standard of wages for American labor" and the "equitable distribution of the benefits and burdens of the tariff among all." The platform even endorsed the old Republican standard for the tariff, that the "difference between the cost of production at home and abroad, with adequate safeguard for the wage of the American laborer, must be the extreme measure of every tariff rate."[2]

Thus, Democrats no longer put forth tariff reform as a defining issue for the party.[3] During the campaign, Al Smith vowed that his party, "if entrusted with power, will be opposed to any general tariff bill. . . . No revision of any specific schedule will have the approval of the Democratic party which in any way interferes with the American standard of living and level of wages."[4] Party leaders believed that tariff reform was not a winning issue in the North, leaving only the party's Southern wing still devoted to the possibility of lower tariffs.

Meanwhile, the Republican platform reaffirmed the protective tariff as "a fundamental and essential principle of the economic life of this nation" and as "essential for the continued prosperity of the country." The party argued that it was "as vital to American agriculture as it is to American manufacturing." However, the platform continued, "certain provisions of the present law require revision in the light of changes in the world competitive situation. . . . 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."[5]

While the Republican presidential candidate, Herbert Hoover, acknowledged that foreign trade was important for the country's economy, he warned that lower tariffs would lead to more imports and lower wages. In accepting the party's nomination, Hoover declared that "the most urgent economic problem in our nation today is in agriculture. It must be solved if we are to bring prosperity and contentment to one-third of our people directly and all of our people indirectly." He insisted that an "adequate tariff is the foundation of farm relief" and pledged to "use my office and influence to give the farmer the full benefit of our historical tariff policy."[6]

The general economic prosperity of the 1920s, apart from agriculture, allowed the Republicans to crush the Democrats once again in the 1928 election. The Republicans retained control of the presidency and increased their majorities in Congress. House Republicans immediately set to work on a tariff bill even before Hoover's inauguration. In some sense, it was unusual for the Republicans to take up the tariff at this time: the economy was generally doing well, imports were not flooding into the country, and businesses were not agitating for higher tariffs. Yet just as Republicans had modified their 1897 tariff in 1909 to appease progressive reformers, they were now revising their 1922 tariff to appease agricultural interests represented by progressive insurgents from the Midwest. In particular, Senator William Borah (R-ID) had been pressuring party leaders to work toward "tariff equality" for agricultural goods.

THE CONTENTIOUS REVISION OF THE TARIFF

In December 1928, Willis C. Hawley (R-OR), the chairman of the Ways and Means Committee, issued a public notice that hearings on the tariff would be held shortly. In January 1929, the committee began forty-three days and five nights of hearings on the tariff revision. The committee heard statements from 1,100 individuals in what amounted to 10,684 pages of testimony published in eighteen volumes. The tariff was examined paragraph by paragraph, schedule by schedule: chemicals; earthenware; metals; wood; sugar; tobacco; agricultural products; beverages; cotton manufactures; flax, hemp, and jute; wool; silk; rayon; paper and books; and sundries. Often working well into the evening, the committee listened to and questioned producers from around the country who had a stake in each of the nearly three thousand enumerated goods. As in previous revisions, testimony was received primarily from small- and medium-sized producers, almost all of whom argued for maintaining or increasing duties on imports. After the public hearings ended in late February, the majority members of the committee proceeded, as was standard practice, to draft the tariff schedule in private, without consulting the minority members.

In March 1929, President Hoover delivered his inaugural address and called for a special session of Congress to act upon "agricultural relief and limited changes in the tariff."[7] House Speaker Nicholas Longworth (R-OH) expressed the hope that Congress could complete farm relief and tariff legislation within a month or so. With the Democrats having relaxed their traditional anti-tariff position during the election, Longworth remarked that "the line of cleavage between the two great political parties would seem to have crumbled in the past few years almost to questions of detail." Noting that minority leader John Garner (D-TX) was sympathetic to protective tariffs, Longworth anticipated that "we will hear resounding from his party no clarion call that the American consumer shall be permitted to buy in the cheapest market."[8]

In proposing the session, Hoover called for "an effective tariff upon agricultural products that will compensate the farmer's higher costs and higher standards of living." Hoover subsequently sent Congress a message describing his views on the forthcoming legislation. The president and party leaders did not believe that Congress should rewrite the entire 1922 tariff act, but merely raise rates on agricultural goods and adjust a few other duties for goods where "there has been a substantial slackening of activity in the industry during the past few years, and a consequent decrease of employment." Finally, Hoover noted, "In determining changes in our tariff we must not fail to take into account the broad interests of the country as a whole, and such interests include our trade relations with other countries. It is obviously unwise protection which sacrifices a greater amount of employment in exports to gain a less [*sic*] amount of employment from imports."[9]

Of course, by the time this message was sent, the Ways and Means Committee had nearly completed its work on the tariff bill. In early May 1929, Hawley presented the results to the House. In the majority committee report, Republicans stated that the existing tariff "has fully justified its existence in restoring confidence and rehabilitating industry" and "for the great majority of the articles for which it provided protection, it is still efficient and sufficient." However, conditions had changed for some industries, and the legislation was necessary "in order to make the tariff meet modern conditions." Therefore, the bill increased 845 rates and decreased 82 rates in the existing tariff. "The Republican members believe that the readjustments are justified by existing differences in competitive conditions, and necessary for the welfare of all interested in the changes made, and that they will maintain and promote the general welfare." Although the report contended that "the average rate on dutiable imports will not be materially changed" as a result of the readjustment, the Tariff Commission calculated that the average rate on imports would rise from 34.6 percent to 43.1 percent in the House bill. Finally, acknowledging that foreign countries were concerned about the upward tariff revision, the majority stated that "our first duty was to our own people and to maintenance of their prosperity."[10]

In presenting the bill on the House floor, Hawley maintained that "we all enjoy the American standard of living which has been created and is maintained by the protective tariff." When asked what underlying principle guided the rate changes, Hawley replied, "Wherever the evidence indicates and from our information proves that American industry was suffering from a competitive condition to its disadvantage in competition with the foreign producer or with foreign imports, we adjusted that rate to meet the competitive conditions." This meant that, for domestic industries, "whatever rate was necessary for their protection should be written." "There is no intention to prohibit any importations," Hawley insisted. "The intention is that they should not come in to the disadvantage of American producers and laborers."[11]

The committee's minority report, written by Cordell Hull of Tennessee, criticized the excessive or prohibitive tariffs in the Republican approach because they ensured that "the old and worst type of log-rolling and political pressure of conflicting interests will be continued."[12] Hull emphasized that import tariffs would not help the majority of American farmers who depended on export markets: "There is now at least tacit confession by all candid persons that only the minor specialities of agriculture can secure any material tariff benefits."[13] And he attacked the bill, arguing that "existing prohibitive tariffs injure the American farmer first, by increasing his production costs; second, his living costs; third, his transportation costs; fourth, by decreasing his foreign markets and exports; and fifth, by decreasing his property values due to surplus congestion."

Despite the Republican leadership's insistence that the primary goal was to help agriculture, the bill increased duties on manufactured goods as much as it increased duties on agricultural goods. Midwestern Republicans were even more disappointed that the bill did not include an export debenture program. Developed as an alternative to the McNary-Haugen price-support plan, discussed in chapter 7, the debenture scheme was a subsidy designed to help the many export-oriented farmers for whom an import tariff would be meaningless.[14] The Republican leadership strongly opposed the export debenture, which exacerbated sectional tensions within the party. Eastern Republicans supported higher tariffs on industrial goods but believed that imports of raw materials and foodstuffs were harmful because they raised the costs of production for producers and the cost of living for households. For example, Fiorello H. LaGuardia (R-NY) strongly supported tariffs to "protect American labor" but opposed higher tariffs on sugar and butter and denounced a higher duty on potatoes as "nothing but downright larceny."[15] In contrast, insurgents from the Midwest supported "tariff equality" for agriculture—meaning lower tariffs on manufactured products and higher tariffs on agricultural goods—along with an export subsidy for farm goods.

Dissatisfied with the bill, Hoover met with House Republicans to demand that they increase agricultural tariffs and reduce industrial tariffs in line with his campaign pledge. The president also insisted that the bill include the "flexible tariff" authority that would allow him to adjust duties after a Tariff Commission report. As Hoover (1951–52, 1:292–93) wrote in his memoirs,

> I believed that the only way to get the tariff out of Congressional logrolling was through empowering this bipartisan commission to adjust the different rates on dutiable goods upon the basis of differences in cost of production at home and abroad, and to make these readjustments after objective examination and public hearings. . . . Any tariff passed by the logrolling process, inevitable in the Congress, is bound to be very bad in spots. The object of the flexible tariff was to secure, in addition to more equitable rates, a hope that Congressional tariff making could be ended.

The meeting was unsuccessful in that the president's intervention had little apparent effect on the House bill.

Southern Democrats, such as Hull, argued that "this bill sharply raises the question of whether a tariff rate can ever be made too high, and also the question of whether this Government would ever, under any circumstances, reduce any particular number of tariff rates."[16] But the opposition of most Democrats was not based on a demand for lower tariffs, and the old slogan of "a tariff for revenue only" was obsolete. Rather, they wanted a different distribution of the benefits of the tariff. "I believe in the principle of protection," Garner stated. "But I believe protection should be equally distributed; that the farmers of the South and West are as much entitled to the benefits of tariff protection as the manufacturers of New England and Pennsylvania." He complained that "every effort to lower industrial rates to a point of parity with agricultural rates has met the opposition of that small coterie of Republican leaders who have controlled the destinies of this bill" and that "defeat of the export debenture killed the last hope of over 80 percent of American farmers to secure any substantial relief through the tariff."[17]

Democrats complained about the measure, but they did not have the votes to affect the outcome. Given the large Republican majority, House passage of the bill was a foregone conclusion. On May 28, 1929, the House approved the Hawley bill by a vote of 264–147. "Whether it was because of the heat of the day or weariness superinduced by long hours of discussion, the enthusiasm that usually marks the conclusion of labors on a big party measure was lacking in the House chamber on this occasion," the *New York Times* reported. "There was only a feeble cheer on the Republican side as Speaker Longworth announced the passage of the bill, while the Democrats, overwhelmed by superior numbers, moved sullenly in their seats."[18] As usual, the vote ran along party lines: Republicans voted 244–12 in favor, and Democrats voted 134–20 against (along with 1 Farmer-Laborer).

As figure 8.1 shows, the North-South geographic divide that had existed for so long was still readily apparent. Republicans from the Northeast, industrial Midwest, and the far West supported the bill, with only a few "corn belt" and "wheat belt" insurgents from Minnesota, Iowa, South Dakota, and Nebraska dissenting. Democrats from the South uniformly opposed the measure, except those from Louisiana and Florida, where sugar interests were strong. That said, more northern Democrats voted for the bill than Midwestern Republicans voted against it—a revealing indicator of the relative strength of dissent in the two parties.[19]

The bill was then referred to the Senate Finance Committee, chaired by Reed Smoot of Utah. Smoot was widely recognized as an exceptionally capable and indefatigable legislator who was unquestionably the most knowledgeable member of Congress about the details of the tariff schedule. He was also a committed protectionist who, as a matter of principle,

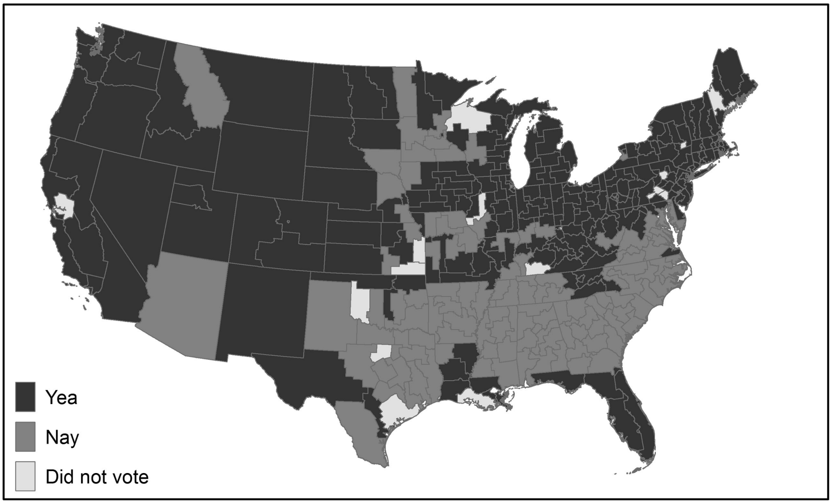

Figure 8.1. House voting on the Hawley tariff bill, May 28, 1930. (Map courtesy Citrin GIS/Applied Spatial Analysis Lab, Dartmouth College.)

opposed almost any reduction in tariff rates.[20] A leader in the Mormon church, Smoot was known as the "apostle of protection" and "the sugar senator" because of his staunch defense of Utah's sugar beet industry. As one senator put it, "Of course the Senator from Utah would say that in some instances the rates are not high enough. I can state the rate which he has in mind, and even if it were double the rate now provided in the bill, it would not be high enough for him. He dreams of sugar, he tastes sugar, he sees sugar morning, evening, and night."[21]

As past experience had demonstrated, the Senate's consideration of the bill promised to be more contentious because of the greater strength of western interests and the inability of the Republican leadership to control the bill once it reached the floor. Angered that the House raised tariffs on industrial goods more than on farm goods, a bipartisan coalition of Midwestern Republicans and Southern Democrats complained that it was contrary to the president's expressed desire for a limited tariff revision that would primarily benefit farmers. Even before the Finance Committee had begun deliberations, senators from the Midwest (representing agricultural interests) and West (representing mining and cattle interests) made their displeasure known. Republican William E. Borah of Idaho proposed that the Finance Committee only be allowed to revise the agricultural schedules, thereby keeping tariffs on industrial goods at their current rates. "The real fight here is between the agricultural interests and the industrial interests," Borah explained. "We feel that we are fighting for equality; that that equality is constantly removed by the fact that duties are substantially increased upon the things we have to buy, even though they may be increased to some extent upon the things we have to sell."[22] The Borah resolution failed by a single vote, with Republicans voting 32–13 against, and Democrats voting 25–7 in favor, but the vote demonstrated the strength of the insurgent agricultural coalition in the Senate and foreshadowed the difficult fight to come.

The Finance Committee then began laborious hearings that lasted from May until September 1929. The committee heard from 1,004 witnesses in testimony that ran 8,618 printed pages in eighteen volumes. (One volume was devoted to protests from foreign countries, an issue that will be considered later.) Once again, representatives of numerous producer interests appeared before the committee to request that higher tariffs be imposed on competing imports. In early September, the committee reported the bill, which increased 177 rates and decreased 254 rates of duty from the House version. In presenting the bill to the Senate, Smoot knew that a big battle was brewing. "The people elected a Republican President and Congress in order that a readjustment of the tariff might be in the hands of the friends of protection," he warned. "If that mandate is rejected and defeated by a group or section of that country, the people will know where to place the blame." He accused Democrats of being "aided by sectional forces boding no good to the country" and "abetted by groups of internationalists who are willing to betray American interest and surrender the spirit of nationalism."[23]

Senator Furnifold Simmons (D-NC) led the Democratic attack, calling the tariff bill "indefensible" and a violation of the campaign pledge to help farmers. "Instead of removing, as promised, the tariff discriminations against agriculture, it greatly increases and extends those discriminations, and . . . for every dollar it gives to the farmer, it takes from him several dollars in the increased cost of his purchases," he exclaimed. Simmons rejected the bill as "unsatisfactory" to farmers because duties were being imposed either in cases where imports were negligible or where producers depended on exports to the world market and imports were irrelevant: "The only way the farmer can secure or hope to secure even approximate equality through tariff legislation is by imposing such duties on his products as will or can be effective and by drastic reduction in the duties imposed upon such industrial products as he does not produce and must of necessity buy for farm, home, and family," Simmons argued.[24]

The Senate then began the long and complicated process of revising the bill. From September 1929 until February 1930, the Senate considered the bill in the "committee of the whole." Unlike the House Ways and Means Committee, the Finance Committee could not control the floor debate on the bill or limit amendments to it. The "committee of the whole" procedure permitted open-ended discussion in which any Senator could offer amendments and request votes on tariffs for specific goods.

The Senate debated the administrative clauses of the tariff bill for several weeks before moving on to the tariff schedules. At this point what came to be called "the coalition"—Democrats and the few insurgent Republicans who broke ranks with their party in the Borah vote—succeeded in reshaping the bill. From late October through mid-November 1929, in a series of roll-call votes, the coalition succeeded in slashing industrial tariffs, often restoring them to the 1922 level. They not only added an export debenture program, but they also eliminated the flexible tariff provision sought by the president and the Republican leadership.

The Old Guard Senators from eastern industrial states watched with dismay as the coalition took control. George Moses (R-NH) blasted Borah and his supporters as the "sons of the wild jackass," an epithet that stuck and became a badge of honor for the insurgents. After a vote to reduce the tariff on pig iron from $1.50 to $0.75 per ton, David Reed (R-PA) attacked the coalition for doing "damage to the stability and the structure of American industry." Reed sighed with exasperation, "The coalition has made up its mind to knock out every increase in the industrial rates, and we might as well go ahead and have done with it. Then the bill will go to conference, and the House and the Senate will never agree, but we will at least be rid of it and can go on with our routine business." Reed also attacked the insurgents for their hostility toward industrial interests: "The attitude of the Western states, the Middle Western states in particular, the corn belt so called, is one of extreme ill-will toward the industrial states of the East, particularly ours [Pennsylvania]. You might almost think that we were at war with each other."[25] Western Senators responded that Reed would have been quite happy to put manganese ore on the free list to help the steel industry without considering the problems it would have caused for mining states.

The uncertainty surrounding the Senate's deliberations was a moment for presidential leadership. No one had any idea what the White House thought of the insurgent campaign. Did Hoover want the revision confined to the agricultural schedule, or did he approve of the higher rates on industrial goods as well? Yet Hoover never seemed to care about the tariff rates themselves and refused to provide any guidance to Congress, not that his advice would have been welcomed. A White House statement released in late October 1929 read simply, "The President has declined to interfere or express any opinion on the details of rates or any compromise thereof, as it is obvious that, if for no other reason, he could not pretend to have the necessary information in respect to many thousands of commodities which such determination requires."[26]

Then, in early November, Smoot shocked the Senate by conceding defeat. Admitting that his committee had lost control of the bill, he offered to hand it over to the coalition and recess for ten days to allow them to rewrite it as they pleased. To expedite the process, he proposed that the Senate then vote on the coalition's bill without debate, something he could in no way guarantee. He may have been trying to call the coalition's bluff, and in fact Borah and Simmons rejected the offer. The members of the coalition were critics of the proposed legislation, but they did not have a common position on what would constitute a better schedule of duties.[27]

With its work on the tariff unfinished, the Senate adjourned for the year in late November, just weeks after a major crash in the stock market. The Federal Reserve had started raising interest rates in January 1929 in an effort to reign in surging stock prices. This tightening of monetary policy began to slow the economy and eventually produced a sharp fall in asset prices. The stock market collapse in late October signaled uncertainty about the nation's economic outlook. Some observers have linked the stock market crash to Congress's consideration of the tariff, but it is highly unlikely that the congressional debate had any significant impact on financial markets.[28] In fact, the run-up and subsequent crash in stock prices was not broadly based but almost entirely concentrated in public utilities companies, which came from a sector of the economy least affected by import duties. In addition, the Senate's work on the bill was far from over, and no conclusions could be reached about the final outcome.

When Congress reconvened in January 1930, the Senate—still acting as a committee of the whole but now considering the overall bill, not just Finance Committee amendments to the House bill—took further actions to moderate the proposed tariffs. Week after week, the Senate was preoccupied with the laborious process of voting on tariffs for such goods as crude and scrap aluminum, shoes, coal tar dyes, woven silk fabrics, calcium carbide, glass rods, and milk cans. After six days of wearisome debate over sugar, the Senate reduced the tariff on raw sugar from $2.20 per hundredweight, as proposed by the Finance Committee, to the 1922 Fordney-McCumber rate of $1.75 per hundredweight, in contrast to the

House rate of $2.40. The voting margin on many commodities was quite close, indicating the instability of factions seeking support for higher or lower duties on particular goods, yet the insurgent coalition still seemed to have the upper hand.

Finally, in early March 1930, nearly a year after the House had passed the bill, the Senate completed consideration of the bill in a committee of the whole. Whereas the House bill had increased 845 rates and reduce 82 rates from the 1922 tariff, the Senate bill now left 620 rates higher and 202 lower. The legislation then shifted to the Senate proper for further debate before final passage. On the floor, senators could once again offer amendments and request new votes on specific tariff rates, even if precisely the same issue had just been considered and voted on during the committee of the whole. There was no substantive difference between the Senate considering the bill as a committee of the whole and as the Senate proper, but—with a gloomier economic outlook—opponents of the reductions in the industrial tariffs had time to regroup and propose new amendments. A different voting coalition emerged, one based not on agricultural versus industrial interests but on classic vote-trading among unrelated goods.

This new logrolling coalition succeeded in reversing many of the tariff reductions that had been voted upon in the committee of the whole. For example, on March 5, the day after it took the bill from the committee of the whole, the Senate reconsidered the sugar duties. Less than two months after the Senate had voted to restore the 1922 rate on imported sugar, Smoot succeeded in pushing the rate up to $2.50 per hundredweight. Similarly, the Senate reversed previous votes on cement, softwood lumber, and other goods as the insurgent coalition unraveled. In this final stage, the Senate increased 75 duties (on imports valued at $355 million) and decreased 31 duties (on $34 million of imports) from the committee of the whole version.

The March 1930 reversals of the previous actions to moderate the tariff rates gave rise to accusations of vote-trading based on backroom deals and special-interest lobbying. Robert LaFollette (R-WI) characterized the Senate bill as "the product of a series of deals, conceived in secret, but executed in public with a brazen effrontery that is without parallel in the annals of the Senate. . . . it seems to me that a vote for this bill condones the vote-trading deals by which some of the most unjustifiable rates in the bill were obtained. . . . this Congress has demonstrated how tariff legislation should not be made."[29] Statements on the Senate floor pointed to several commodities—sugar, lumber, concrete, and others—as ones that were likely to have been involved in logrolling. Just prior to the vote reconsidering the duty on lumber, for example, David Walsh (D-MA) stated,

> I cannot help but say that things have been happening here in recent weeks that have somewhat shaken my confidence in the judgment of the Senate always being reflected upon conscientious conviction. If logrolling, which is the trading of votes, is not here, then some other invisible influence has brought about a shifting of votes and reversals of judgment that is unparalleled in the history of legislation. There have been some very suspicious circumstances connected with the shifting of votes on many of these items. Indeed, it has been admitted privately that votes have been and will be exchanged on all important items.[30]

The insurgent Republicans were dismayed by these reversals. "The farmer has been betrayed by this bill," LaFollette thundered. "The farmer's back has been made the springboard from which the industrial lobbyists have leaped to new and higher tariff rate levels for the benefit of the special industrial interests they represent. The agricultural tariff granted the farmer, in many instances ineffective, carries with it the obligation to pay higher prices upon almost every article that is used upon the farm." Branding it "the worst tariff bill" in the nation's history, LaFollette argued that the legislation would cost consumers $1 billion in higher prices.[31]

A widely cited study by University of Wisconsin economists John R. Commons, Benjamin H. Hibbard, and Selig Perlman found that many agricultural tariffs would be ineffective in assisting domestic producers. They calculated that the sugar duty cost the American public $289 million in 1928, and the Hawley-Smoot duties would increase this to $384 million per year.[32] Smoot rejected the report, saying that the "eminent economists" had made some "idiotic errors" and that "if they missed the mark half so widely as they missed the mark in sugar, every line of the tract is verbal rubbish." Smoot said that Congress was being asked to accept the advice of the economists "in a matter of which they have not the slightest practical knowledge" whereas "practical sugar men . . . have appeared before the Senate Finance Committee to tell of the absolute necessity of a higher rate on sugar. They have assured us that a higher rate is no threat to the consumer, and that it is no threat to the welfare of Cuba."[33]

On March 24, 1930, ten months after the House passage, the Senate completed its deliberations and passed the bill by a vote of 53–31; Republicans voted 46–5 in favor and Democrats voted 26–7 against.[34] The Senate made 1,253 amendments, either technical or rate changes, to the House version. The floor debate that occurred from September 1929 to February 1930, it was later calculated, took 527 hours and filled 2,638 pages of the *Congressional Record* at a printing cost of $131,000.[35] Several lengthy speeches were given, including Henry Ashurst's (D-AZ) 15 pages on tomatoes and Gerald Nye's (R-ND) 35 pages on lumber.

In April 1930, a House-Senate conference committee began resolving the differences between the two bills. The conference committee generally adopted the higher rates in the original House bill, but differences arose over other provisions. The House included a weak flexible tariff provision but rejected an export debenture. The Senate rejected the flexible tariff provision but included an export debenture. Now President Hoover, who had been largely silent during the Senate consideration of the bill, threatened to veto the bill unless it included a stronger flexible tariff provision and dropped the export debenture; he was apparently uninterested in the height or structure of the tariff rates themselves.[36] The Senate capitulated, dropping the export debenture by the narrow vote of 43–41 and adding the flexible tariff provision after the vice president broke a tie.

On June 13, 1930, the Senate approved the conference report by a vote of 44–42, with Republicans voting 39–11 in favor and Democrats voting 30–5 against. The close margin reflected the loss of support by Republicans from agricultural states who were dismayed that the conference bill contained higher industrial rates than those passed by the Senate. However, the votes of five Democrats were critical to the passage, and specific commodities convinced these Democrats to support the measure: sugar in Louisiana, wool in Wyoming, and fruit in Florida. Although the insurgents got eleven of fifty Republicans to vote against the final bill, they were bitterly dismayed at their failure to have a greater influence on the final legislation.

The next day the House passed the conference bill with few defections from either party. In urging its passage, Hawley stated, "If this bill is enacted into law . . . we will have a renewed era of prosperity such as followed the enactment of every Republican tariff bill, in which all of the people of the United States in every occupation, every industry, and every employment will share as they have always shared, which will increase our wealth, our employment, our comfort, the means of supplying our necessities, that will promote our trade abroad, and keep the name of the United States still before the world as the premier nation of solid finance, fairness, and justice to all the people, and one which for all time intends to provide for its own."[37]

Few members of Congress rejoiced at the passage of the bill. Democrats and insurgent Republicans ramped up their attack as the legislation approached final passage. Senator George Norris (R-NE) called the outcome

> protection run perfectly mad. . . . It is conceived and written in the interest of victorious business organizations who are using their power, which they obtained by the practice, in my judgment, of many unfair and deceitful means, to put through the Congress one of the most selfish and indefensible tariff measures that has ever been considered by the American people. In my judgment, those who are behind it will see that they have used their own power to bring about their own destruction, because, after all, in the long run . . . a tariff bill which builds up a part of our people to the damage and injury of other parts of our people will bring its own ruin."[38]

House Minority leader John Garner lambasted the bill as "violating every precept of common sense, justice, and sound economics. Under the guise of protecting the products of agriculture, the Republican majority in both Houses has inflicted upon the country industrial rates that are indefensible; rates that can only serve to add to the burden the farmers and consumers have carried for years; rates that will tend to reduce, and in fact eliminate, the foreign markets for many of our products, both industrial and agricultural." Garner continued,

> Every attempt to give agriculture the advantage of equal protection has been defeated. Every effort to lower industrial rates to a point of parity with agricultural rates has met with the opposition of that small coterie of Republican leaders who have controlled the destinies of this bill. Those leaders raised a smoke screen under cover of which they manipulated the industrial rates to the highest point in the history of tariff making. They endeavored to camouflage this action by increasing rates on agricultural products of which a surplus is produced and upon which any tariff is inoperative. They flatly refused to accept the export debenture which would have made the tariff operative upon these surplus products of agriculture, and yet they have the audacity to refer to this bill as a measure designed for the relief of agriculture.[39]

Finally, Garner concluded, "The Hawley-Smoot tariff is not the result of the application of economic facts derived from research and investigation. It is not the result of the application of scientific deduction or findings. It is the result of political subserviency to a small but powerful group, financially able to maintain in Washington a large and efficient corps of lobbyists and to control to a great extent the financial affairs as well as the policies of the Republican party."[40]

The bill then went to the White House for the president's approval. Hoover (1951–52, 1:296) later wrote that he was "deluged with a mass of recommendations as to approval or veto from representatives of a diversity of interests." Manufacturers offered tepid support for the legislation, at least for finally resolving uncertainty about Congress's action, if not for the actual outcome. Farm organizations were skeptical of, if not outright hostile to, the bill. Organized labor was largely neutral, although individual unions were not.[41]

But the overall public reaction to Congress's long, drawn-out tariff-making process was largely negative. The president's correspondence secretary informed him that "there has seldom been in this country such a rising tide of protest as has been aroused by the tariff bill."[42] Opposition to the bill was much more vocal than it had been with previous tariff acts, either because the economic rationale for raising tariffs was so weak or because the public saw the blatant role played by special-interest politics during the poorly disguised congressional logrolling. The spectacle of the Senate voting multiple times on tariffs for the same goods, with the outcome shifting depending upon which coalition had the upper hand or which votes were traded among which senators, was widely ridiculed.

A survey of editorial opinion revealed that 238 out of 324 newspapers did not believe that the Hawley-Smoot tariff was in the nation's best interest.[43] Walter Lippmann, the preeminent columnist of the day, criticized the tariff bill as "a wretched and mischievous product of stupidity and greed."[44] Executives of banks and financial institutions reminded Hoover that the United States was now a creditor nation and that high tariffs prevented other countries from earning the dollars needed to service their war debts. Thomas Lamont of J. P. Morgan, an advisor to Hoover, later recalled, "I almost went down on my knees to beg Herbert Hoover to veto the asinine Hawley-Smoot Tariff. That Act intensified nationalism all over the world."[45] Secretary of State Henry Stimson is said to have "fought like mad" for two days in an attempt to persuade Hoover to veto the measure.[46] Hoover would later be attacked for his lack of leadership on the matter.[47]

One notable response to the tariff bill was a statement signed by 1,028 economists and prominently featured on the front page of the *New York Times* on May 5, 1930. The economists called the higher tariffs "a mistake" and argued that American manufacturers did not need greater tariff protection: "Already our factories supply our people with over 96 percent of the manufactured goods which they consume, and our producers look to foreign markets to absorb the increasing output of their machines. Further barriers to trade will serve them not well, but ill." Higher import barriers would increase the prices paid by consumers, leading to greater profits for low-cost firms and encouraging inefficient production by high-cost firms, and would harm the many workers who did not produce goods that could be protected by tariffs. Exports would suffer because "countries cannot permanently buy from us unless they are permitted to sell to us, and the more we restrict importation of goods from them by means of even higher tariffs, the more we reduce the possibility of exporting to them." Finally, higher tariffs would "inevitably inject . . . bitterness" into international economic relations and "plainly invite other nations to compete with us in raising further barriers to trade."[48]

Despite these criticisms, the president was not predisposed to reject his own party's measure. Given that a Republican Congress had delivered tariff legislation that he had requested, including the flexible tariff provision and dropping the export debenture, it would have been almost impossible for him to justify vetoing the bill. As Hoover described the bill,

> It contains many compromises between sectional interests and between different industries. No tariff bill has ever been enacted or ever will be enacted under the present system that will be perfect. A large portion of the items are always adjusted with good judgment, but it is bound to contain some inequalities and inequitable compromises. There are items upon which duties will prove too high and others upon which duties will prove to be too low. Certainly no President, with his other duties, can pretend to make that exhaustive determination of the complex facts which surround each of those 3,300 items, and which has required the attention of hundreds of men in Congress for nearly a year and a third.[49]

Hoover hailed the flexible tariff provision which could be used to "remedy inequalities" in the tariff and "gives great hope of taking the tariff away from politics, lobbying, and logrolling." But Hoover was anxious to dispose of the whole matter: "It is urgent that the uncertainties in the business world which have been added to by the long-extended debate of the measure should be ended. . . . As I have said, I do not assume the rate structure in this or any other tariff bill is perfect, but I am convinced that the disposal of the whole question is urgent. . . . Nothing would so retard business recovery as continued agitation over the tariff."[50] With that, at 12:59 p.m. on June 17, 1930, Hoover signed the Tariff Act of 1930, and it took effect the next day. With hindsight, Hoover (1951–52, 1:299) wrote that "raising the tariff from its sleep was a political liability despite the virtues of its reform."

THE HAWLEY-SMOOT TARIFF IN PERSPECTIVE

The Hawley-Smoot tariff of 1930 has achieved eternal notoriety as an ill-timed piece of legislation that reflected special-interest logrolling run amok.[51] Although not completely out of the ordinary, the Hawley-Smoot tariff was unusual on several dimensions. The political rationale behind the Fordney-McCumber tariff of 1922 is easy to understand: control of government had shifted to the Republicans, who wanted to reverse the existing low-tariff policy of the Democrats, and the economy was in turmoil from postwar monetary and financial readjustments. The political rationale behind the Hawley-Smoot tariff of 1930 is not as easy to understand because none of these factors was present. The Republicans had been firmly in control of government for many years, and work on the new tariff began prior to the business-cycle peak in August 1929, when the unemployment rate was only about 3 percent. There had been no sudden rise in imports or sharp fall in import prices when plans for the tariff revision were first made. The stock market crash and recession only came well into the Senate's consideration of the bill.

At almost two hundred pages, the Hawley-Smoot bill was also lengthier and more complicated than its predecessors. Figure 8.2 shows how tariff legislation had been getting progressively longer over time, which reflected the increasing complexity of the tariff schedule. The bill specified rates of duty on almost 3,300 enumerated items. The level of detail in the tariff code was mind-numbing. For example, in the final legislation, paragraph 390 of Schedule 3 (Metals, and manufactures of) read: "Bottle caps of metal, collapsible tubes, and sprinkler tops, if not decorated, colored, waxed, lacquered, enameled, lithographed, electroplated, or embossed in color, 30 per centum ad valorem; if decorated, colored, waxed, lacquered, enameled, lithographed, electroplated, or embossed in color, 45 per centum ad valorem." Paragraph 8 of Schedule 1 (Chemicals, oil, and paints) read: "Antimony: Oxide, 2 cents per pound; tartar emetic or potassium-antimony tartrate, 6 cents per pound; sulphides and other antimony salts and compounds, not specifically provided for, 1 cent per pound and 25 per centum ad valorem."[52] The tariff law consisted of nearly two hundred pages of such detail. "The existing minuteness with respect to rates is

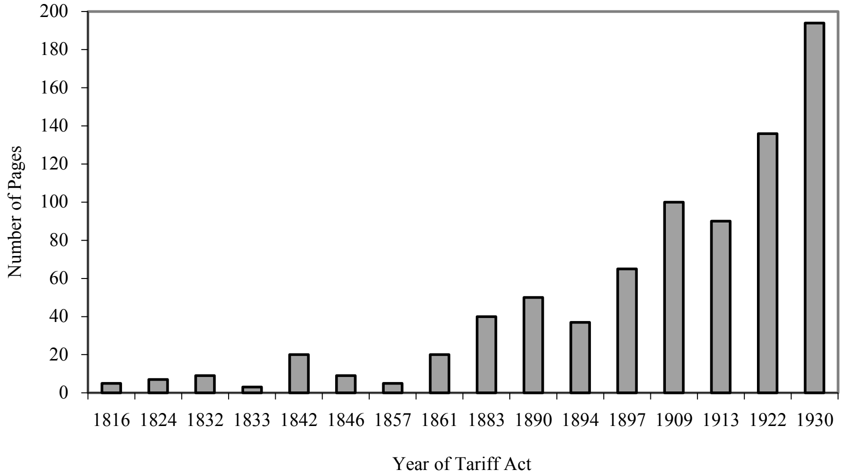

Figure 8.2. Length of tariff legislation, 1816–1930. (Schattschneider 1935, 23.)

partly an absurdity and partly a partisan fraud to cover up what the tariff really is—namely, a mass of private legislation," Senator David Walsh (D-MA) complained.[53]

Out of the 3,295 dutiable items in the tariff code, the final bill made 890 increases, 235 decreases, and left 2,170 duties unchanged from the existing schedule. The changes in the tariff rates bore little relationship to the one-time objective of setting the tariff to equalize the costs of production. Whereas the Tariff Commission purported to show that a 31 percent duty on imported canned tomatoes would equalize the cost of production, Congress put the duty at 50 percent. When the commission found that a duty of 56 cents per bushel on flaxseed would equalize costs, Congress set the tariff at 65 cents.[54] "Despite a pretense in the debates that there was some objective test of national welfare," Fetter (1933, 418) dryly noted, "the record of voting on individual items furnishes much evidence in support of the cynical proposition that sound protection was that which raised the prices of things produced by one's constituents, and unsound protection that which raised the prices of things made by someone's else constituents."

The legislation did not increase duties by an unusually large amount. Using 1928 imports as a base, the Tariff Commission calculated that the average tariff on dutiable imports was 41.14 percent, using the 1930 rates, up from 35.65 percent, using the 1922 rates.[55] Thus, the legislation raised the average tariff on dutiable imports by about six percentage points, about a 15 percent increase in rates. Of course, this is an average; because most of the duties were left unchanged and only a few reduced, those that increased did so much more than this figure suggests. In historical context, however, the Hawley-Smoot increase was not necessarily extreme. The McKinley tariff of 1890 increased tariffs on dutiable imports by about 4 percentage points, a 10 percent increase. It was significantly less than the Fordney-McCumber tariff of 1922, which pushed up the average tariff rate by more than 13 percentage points, a 64 percent increase. Nevertheless, it marked a further addition that came on top of the already high Fordney-McCumber duties.

The legislated increase in import duties in 1930 was only partly responsible for the higher tariff during this period. As figure 8.3 shows, the average tariff on dutiable imports increased in 1930, but then rose further in 1931 and again in 1932, when it peaked at 59.1 percent, the second-highest recorded value in history.[56] The severe deflation in import prices accounts for the rise of the average tariff on dutiable imports in 1931 and 1932 because about two-thirds of dutiable imports were subject to specific duties. Import prices fell 18 percent in 1930, 22 percent in 1931, and another 22 percent in 1932 for a cumulative decline of 49 percent after 1929.[57] The impact of deflation on specific duties allowed the average tariff on du-

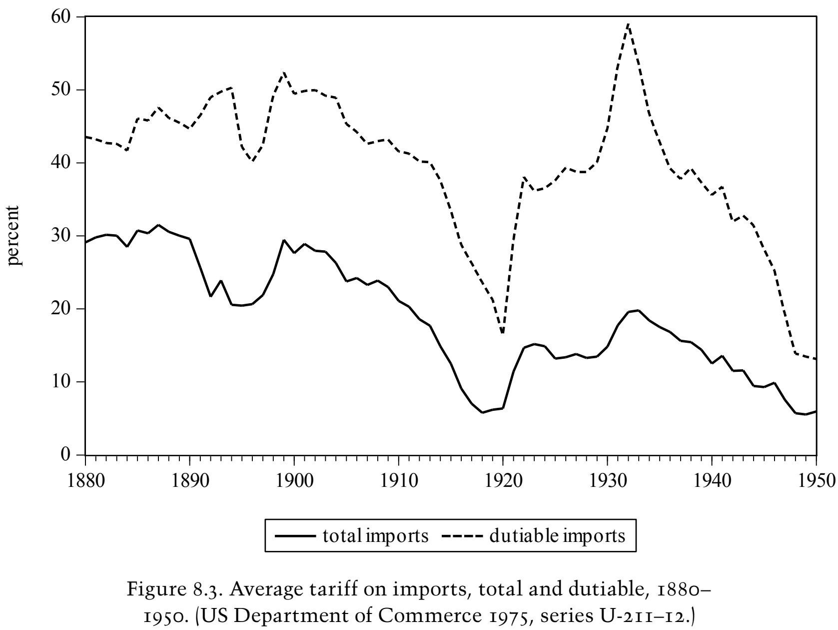

Figure 8.3. Average tariff on imports, total and dutiable, 1880–1950. (US Department of Commerce 1975, series U-211–12.)

tiable imports to creep up to 53 percent in 1931 and to 59 percent in 1932. This deflation-induced increase in the tariff was unrelated to congressional legislation: it began in 1929 and was driven by monetary factors that almost certainly would have occurred even if the bill had not passed.

Looking at the whole period, the combined impact of the higher legislated rates and deflation increased the average tariff on dutiable imports from 40 percent in 1929 to 59 percent in 1932, an increase of 19 percentage points, or about 47 percent. The legislation raised the average tariff by 15 percent, and deflation raised the average tariff by another 30 percent. Thus, about one-third of the increase in the average tariff during this period was because of the legislation and two-thirds because of the deflation.[58]

The complexity of the bill made it unwieldy for Congress to manage, particularly in the Senate, which was widely ridiculed for holding multiple roll-call votes on the rates of duty on dozens of individual commodities and products. It also meant that the legislation took a long time—eighteen months, from January 1929 to June 1930—to work its way from hearings in the House through the Senate and conference committee to the president's desk. The Underwood tariff of 1913 took just eight months of Congress's time, a little bit longer than most tariff legislation in the nineteenth century. But the Fordney-McCumber tariff of 1922 took twenty-one months of Congress's time, indicating the legislation was absorbing more and more of Congress's time. Although logrolling had always been a part of tariff legislation, that seemed to be a growing problem too.

The legislative ordeal generated immense frustration among members of both parties. Congressmen were well aware that the time-consuming process kept them spending day after day debating such arcane matters as the appropriate duty on clothes pins, cordage, silk hats, glass rods, hempseed oil, paper board, and zinc-bearing ores, when they could have been working on other pressing matters. The tortuous path of the legislation made members of Congress painfully aware of the absurdities involved in revising the tariff schedule. As Thaddeus Caraway (D-AR) complained: "The trouble is the system. The instances are many where protection is accorded to those industries that least need it, while others, really deserving, are passed or else not given the protection to which they are entitled. Just look at the schedules in the bill now before the Senate. The rates in that bill bear no appreciable relation to imports, and very frequently they bear little, if any, relation to the earning capacity of the individuals or the corporations seeking higher duties."[59]

Furthermore, the final outcome drew widespread public criticism and satisfied very few of the interested parties. One of the ironies of the Hawley-Smoot tariff is that it did not originate as a result of pressure from manufacturers. Instead, it originated from progressive Republicans who thought a tariff adjustment—in the vain hope of achieving "tariff equality"—would help its agricultural constituents. The tariff revision was offered by politicians rather than demanded by interest groups. However, once the door was open to changing the tariff for some groups, others—namely, small and medium-sized businesses in manufacturing, even if not suffering from increased foreign competition—were only too happy to take advantage of the situation for themselves. The episode illustrates how politicians can use economic interests for their own purposes, not just the other way around.

The pretense of the legislation was that it was designed to help farmers. Yet the problems facing most farmers—low prices and high debts—could not be remedied through higher taxes on imports.[60] Most farmers received few benefits from import restrictions, because the United States was a net exporter of most agricultural goods, aside from wool and sugar. Midwestern farmers produced grains and meat, while Southern farmers produced cotton and tobacco; the country sold half of its cotton, a third of its tobacco, and a fifth of its wheat and flour to foreign markets. "The contention of the supporters of this bill that it is an agricultural measure is ridiculous," insisted John Garner of Texas. "With few exceptions the increases upon agricultural products are inoperative, and practically every increase upon the products of manufactures is operative."[61] By contrast, most agricultural imports were in categories of goods for which there was either no domestic production, such as coffee and tea, or very limited domestic production, such as various tropical fruits. For example, one agricultural producer advocated a tariff of 75 cents per bunch on imported bananas—not because the United States produced bananas but because "the enormous imports of cheap bananas into the United States tend to curtail the domestic consumption of fresh fruits produced in the United States," particularly apples.[62]

Subsequent studies have sought to determine the underlying political and economic factors behind the passage of the Hawley-Smoot bill. In a classic 1935 study, *Politics, Pressures, and the Tariff*, political scientist E. E. Schattschneider attributed the act not to party politics or an ideological attachment to protection, but to the absence of any force that would stop producer groups from demanding and Congress from providing higher duties. Focusing primarily on the public hearings that Congress held, Schattschneider (1935, 285) expected that the economic interests supporting and opposing the tariff would be approximately equal, but found instead that the pressures exerted upon Congress were "extremely unbalanced. . . . The pressures supporting the tariff are made overwhelming by the fact that the opposition is negligible." Schattschneider (1935, 109) described the highly skewed forces confronting Congress this way: "The primary, positive, offensive activity of domestic producers seeking increased duties almost completely dominated the whole process of legislation. The pressures from this quarter were more aggressive, more powerful, and more fruitful by a wide margin of difference than all of the others combined." Opposition to higher tariffs by consumer groups or importers was "usually inconsequential," Schattschneider (114, 141) noted, and "opposition to duties based on a dissent from the philosophy of protection was extremely rare."

Schattschneider (1935, 127–28) explained the imbalance between the forces in favor of higher tariffs and those opposed on the grounds that the "benefits are concentrated while costs are distributed." As he noted, "The benefits of the legislation to an individual producer are obvious while many of the costs are obscure. The benefits, moreover, are directly associated with a single duty, or at most, a few duties, while costs tend to rise from multitudes of them." This explained why Congress heard almost exclusively from businesses, with little participation by labor, consumers, or the broader community in the legislative process.[63] Furthermore, the practice of "reciprocal non-interference" meant that producers would not oppose higher duties for other producers; the unspoken rule was that it is "proper for each to seek duties for himself but improper and unfair to oppose duties sought by others." Schattschneider (283) concluded that protective tariffs were "politically invincible" and that tariff policy was "a dubious economic policy turned into a great political success. The policy has been firmly established in public favor, . . . and nearly all important opposition has, for the time being, disappeared."

Yet because he focused almost exclusively on the public hearings, Schattschneider painted an incomplete—indeed, a misleading—picture of the whole legislative process. It is certainly true that Congress received a very selective view of the range of economic interests affected by tariff legislation at committee hearings, because only a small number of producer interests tended to participate in that venue. But by choosing to focus on the committee hearings and not the debates on the House and Senate floor, he neglected to examine the opposition to the measure by most Democrats in both chambers and by Republicans representing agricultural states. Furthermore, Schattschneider gave the impression that Congress was simply responding to producer interests, whereas, as pointed out earlier, industry had not been clamoring for higher duties in 1928 and 1929. Rather, Republican politicians were offering higher duties to placate agricultural interests and lost control of the process.

THE GREAT DEPRESSION AND THE COLLAPSE OF US TRADE

The United States reached a business-cycle peak in the summer of 1929 as the Senate was holding hearings on the bill. Over the next three and a half years, the United States experienced an unrelenting economic contraction that became known as the Great Depression. Although the economic decline began well before the implementation of the new tariff in June 1930, many observers have linked the Hawley-Smoot tariff to the economic catastrophe that followed in its wake. What is the relationship between the Hawley-Smoot tariff, the collapse of US trade, and the Great Depression more generally?

Between 1929 and 1932, the United States experienced one of the worst peacetime collapses of its trade in history, excluding the embargo of 1808–09. During this period, the value of exports and imports fell nearly 70 percent, partly due to falling prices. In quantity terms, the volume of exports fell 49 percent, and the volume of imports fell 40 percent over those three years. The drop in trade was much greater than the decline in real GDP, which fell 25 percent over that period. By 1932, exports had shrunk to just 2.7 percent of GDP from 5.0 percent in 1929, while imports fell to 2.0 percent of GDP from 3.8 percent of GDP in 1929.[64]

How much did the Hawley-Smoot tariff contribute to this unprecedented decline in trade? As we have seen, the Hawley-Smoot act raised the average tariff rate on dutiable imports by about six percentage points, or 15 percent. There are two reasons why a tariff increase of this magnitude would have a modest effect on imports. First, a 15 percent increase in the price of dutiable imports, in which the average tariff rises from 40 percent to 46 percent, does not translate into a 15 percent increase in the domestic price of imports. An imported good that costs $1 would sell for $1.40 before and $1.46 after the new tariff, an increase of about 4 percent in the price paid by consumers. Second, only one-third of imports in 1929 were subject to duty, partly because high tariffs already discouraged such imports. Still, two-thirds of imports (usually raw materials, such as silk, coffee, and rubber) entered the United States free of duty before the Hawley-Smoot duties took effect.

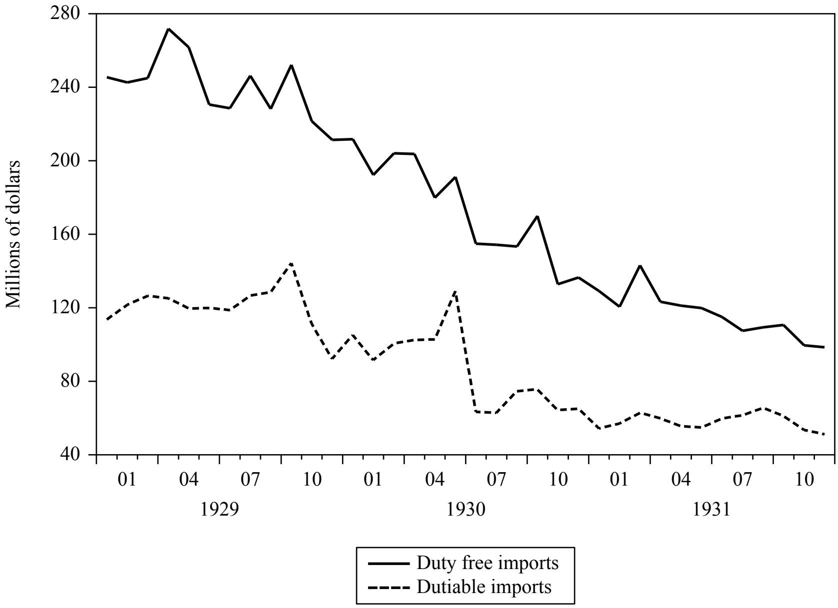

Figure 8.4. Value of imports, dutiable and duty-free, by month, 1929–1931. (*Monthly Summary of Foreign Commerce*, December 1930 and December 1931.)

The impact of the higher duties on imports can be seen in figure 8.4, which presents monthly data on imports of dutiable goods and duty-free goods. A sharp drop in the value of dutiable imports is clearly evident in July 1930. Dutiable imports fell 34 percent in the three months after its imposition compared to the three months prior to its imposition (excluding June when imports surged as merchants sought to clear goods through customs before the higher tariffs took effect). Duty-free imports fell 14 percent over the same period. Taking duty-free imports as a control group, this comparison suggests that the Hawley-Smoot act reduced dutiable imports by about 20 percent. Since dutiable imports comprised one-third of total imports, this would imply that total imports fell about 7 percent as a result of the higher tariffs.[65] Thus, the tariff had a substantial impact on dutiable imports but a modest effect on overall imports.

This decline is relatively small in comparison to the subsequent collapse in trade. The volume of imports fell 41 percent between the second quarter of 1930 and its trough in the third quarter of 1932. The most important factor behind this collapse was the steady decline in real GDP, which fell 30 percent on a quarterly basis during this period.[66] Indeed, the volume of imports had already fallen 15 percent in the year prior to the imposition of the Hawley-Smoot tariff (1929:Q2–1930:Q2), a period when real GDP declined 7 percent.

As a rough calculation, higher tariffs account for about half the 41 percent decline in import volume from 1929–32. Depending on the assumption about the elasticity of import demand, the higher Hawley-Smoot duties probably accounted for about 7 percentage points of the decline, and the deflation-induced increase in duties accounted for about 15 percentage points. Thus, the combined impact of the higher tariff rates and deflation-induced increase in duties explains a significant part of the decline in imports, but far from the entire collapse.

What about the even greater drop in exports between 1929 and 1932? The declining foreign demand for US goods was due to several factors, including declining foreign incomes due to the Great Depression abroad; higher foreign tariffs, trade preferences, and other trade restrictions aimed directly or indirectly at the United States; the depreciation of the British pound against the dollar in late 1931 until early 1933; and other factors that are difficult to quantify with precision.

Turning to the Great Depression more generally, there is little doubt that it was one of the greatest economic calamities in US history. The period from mid-1929 until early 1933 was marked by severe deflation, falling output, and rising unemployment. From August 1929 to March 1933, industrial production fell 55 percent, the wholesale price index slid 37 percent, and farm prices plunged 64 percent. On a quarterly basis, real GDP declined 36 percent between the business-cycle peak in the third quarter of 1929 and its trough in the first quarter of 1933; on an annual basis, real GDP fell 25 percent between 1929 and 1932. The unemployment rate is estimated to have reached 24.9 percent in 1932, up from 4.6 percent in 1929. Even after the economy turned the corner in 1933 and began to grow, the recovery was incomplete and sputtered at various times; for example, the economy suffered another severe recession in 1937–38. As late as 1939 the unemployment rate was still more than 17 percent, or 12 percent if those working in temporary government relief programs are included.[67]

As we have seen, the Hawley-Smoot tariff itself was not a response to the Great Depression. Preparation for tariff revision began in late 1928, well before the stock market crash, the slide in industrial production, and the increase in unemployment. Although the economic decline following the business-cycle peak in August 1929 probably made the Senate more favorable to the tariff legislation in early 1930, the recession was still relatively mild at this point. The slump intensified after a banking panic in late 1930, a tightening of monetary and financial conditions in late 1931, and a continued economic slide through much of 1932, and it culminated in a severe banking crisis in early 1933.

Because the Depression followed so closely on the heels of the tariff increase, many people at the time believed that the Hawley-Smoot tariff was responsible for the economic disaster. However, as in the case of previous downturns, the consensus among economic historians is that monetary and financial factors were the dominant cause of the Great Depression. Friedman and Schwartz (1963) contend that a banking panic in October 1930 led to a large, unanticipated fall in the money supply that turned what had been a fairly normal recession into the Great Depression. The panic led the public to withdraw currency from the banking system because there was no deposit insurance; if a bank failed, depositors would lose all of their money. The loss of deposits forced banks to curtail lending, which reduced investment spending, and contributed to the decline in the money supply, which led to deflation and reinforced all these problems. With deflation, real interest rates soared, and investment collapsed. Falling prices also increased the real burden of debt, making it harder for borrowers to repay banks, which in turn increased the fragility of the financial system. Many economists blame the Federal Reserve for not taking more aggressive action to stop the bank failures and the decline in the money supply, actions that could have prevented the Depression.[68]

At the global level, most countries were on the gold standard at this time, which was another source of deflationary pressure. An increase in the demand for gold by central banks in the late 1920s, with no commensurate increase in the supply, produced a tightening of monetary conditions that reduce the world price level.[69] The gold standard linked the world's leading economies through a regime of fixed exchange rates, which enabled the rapid transmission of monetary shocks and financial disturbances from one country to another. For example, after Britain abandoned the gold standard in September 1931, the United States rapidly began to lose gold reserves. The Federal Reserve responded by sharply raising interest rates to prevent the gold outflow and maintain the value of the dollar against other currencies. In doing so, the Federal Reserve chose to maintain the gold peg rather than help the domestic economy, tightening monetary policy when the economy was very weak. This led to more deflation and bank failures and simply intensified the Depression.

Given the overriding importance of monetary and financial factors in bringing about the Great Depression, the Hawley-Smoot tariff almost surely played a relatively small role in the economic crisis. In 1929, dutiable imports constituted just 1.4 percent of GDP. It is hard to believe that an increase in the average tariff from 40 percent to 46 percent on those imports could lead to an economic collapse on the scale of the Great Depression. As we have seen in earlier chapters, there are no strong theoretical or empirical grounds for concluding that higher tariffs are driving factors in business-cycle fluctuations. For example, the much larger Fordney-McCumber tariff increase in 1922 was followed by an economic recovery, itself the result of other factors.

And yet there are several channels by which the tariff might have ameliorated or exacerbated the Depression. Dornbusch and Fischer (1986, 468–69) suggest that a tariff might have helped the economy, because "from either a Keynesian or a monetarist perspective, the tariff by itself would have been an expansionary impulse in the absence of retaliation. In the Keynesian view, the reduction in imports diverts demand to domestic goods; in the monetarist view the gold inflow increases the domestic money stock if not sterilized."

From a Keynesian perspective, a tariff shifts domestic expenditure from foreign goods to domestic goods. If the tariff reduces spending on imports, without adversely affecting exports, then net exports increase and expand aggregate demand for domestic goods.[70] However, there is no evidence that the Keynesian mechanism was operative at this time. If it had been, imports would have declined more than exports, and real net exports would have contributed to economic growth. In fact, the opposite was the case: exports fell even more than imports, and real net exports were a drag on the economy, providing no stimulus to aggregate demand.[71]

From a monetarist perspective, an increase in the tariff could lead to a larger surplus in the balance of trade, because imports would fall with no immediate change in exports. The incipient trade surplus would generate an inflow of gold and an expansion of the money supply, unless the central bank sterilizes the gold inflow by taking offsetting policy actions to leave monetary conditions unchanged. This monetary expansion would give the economy a short-run boost but eventually lead to higher prices and return the balance of trade to its original position. However, in the two months immediately following the imposition of the Hawley-Smoot tariff, the United States actually exported large amounts of gold. This gold outflow was sterilized by the Federal Reserve so that it had no effect on monetary conditions. Subsequent gold inflows were relatively small, yet the money supply declined due to the onset of the first banking crisis, which sharply reduced the ratio of deposits to currency. Even if the Hawley-Smoot tariff led to some gold inflows after it was imposed, which is not clear, that would have been completely swamped by other factors.

Furthermore, the Federal Reserve's policy of sterilizing gold inflows and outflows meant that any such gold inflows would not have led to monetary expansion.[72] Thus, neither the Keynesian nor the monetarist channels through which the tariff might have provided a short-run stimulus to the economy was operational during this period. Even if they had worked, their effects would have been an extremely small offset to the enormous monetary and financial shocks of the period.

There are other mechanisms by which the Hawley-Smoot tariff might have exacerbated the Great Depression. In a standard trade framework, the higher tariff would have reduced America's real income by eliminating some of the static gains from trade. Yet the static welfare losses associated with Hawley-Smoot tariff were probably very small, certainly in comparison to the magnitude of the Depression.[73] Crucini and Kahn (1996; 2007) argue that the adverse macroeconomic effects of trade policy can be much larger once one allows for trade in intermediate inputs and takes into account the dynamics of capital accumulation and labor supply that result from a permanent change in the tariff, as well as foreign retaliation. In their simulation, the higher tariff could have brought about a 2 percent decline in GDP, which is significant but still very far from the observed 25 percent decline in real GDP.

Of course, some economists believe the Hawley-Smoot tariff played a significant role in the onset of the Depression. Meltzer (1976, 469–70) contends that it "worked to convert a sizeable recession into a severe depression" by attracting gold from other countries, thereby contributing to the deflationary impulse sent around the world. Meltzer also suggests that the Hawley-Smoot tariff and foreign retaliation were particularly detrimental to agricultural exports, thereby reducing farm prices and leading to bank failures in farm states in 1930 and 1931. Yet farm prices started falling a year before the enactment of the tariff, and their downward trend seemed unaffected by it. The rate of farm foreclosure was no higher in 1930 or 1931 than it had been in the late 1920s; only as the severity of the Depression intensified in 1932 and 1933 did it reach the incredible rates of 28 and 39 percent.[74] And although the banking panics were concentrated in agricultural regions, such as the Midwest farm states and the cotton South, historians have shown that these banking problems were due to bad management practices and not declining exports. Finally, there was another factor at work: a severe drought in the late summer of 1930 that devastated the south-central United States.

The Hawley-Smoot tariff might have adversely affected the economy in other ways during this period. One contention is that Congress's lengthy consideration of the tariff bill contributed to business uncertainty, thereby leading to the postponement of investment and the slide into recession. While the collapse in investment was a major contributor to the economic decline in the early 1930s, the resolution of uncertainty about the tariff after June 1930 does not appear to have helped the economy at all.[75] Another argument is that, by restricting the exports of European and Latin American countries to the United States, the tariff made it more difficult for those countries to earn dollars and service their debts. This may have disrupted the international financial system and might have forced foreign countries to default on their World War I loans, but any such effects were extremely small.[76]

In sum, the consensus among most economists is that the Hawley-Smoot tariff played a relatively small role in either exacerbating or ameliorating the Great Depression. The effect of the tariff was almost certainly minimal in comparison to the powerful deflationary forces at work through the monetary and financial system. When compared to a decline in the money supply by one-third, even a substantial change in tariff policy is unlikely to have had any significant macroeconomic effects, particularly when dutiable imports were just 1.4 percent of GDP.

FOREIGN RETALIATION AND THE DESTRUCTION OF THE WORLD TRADING SYSTEM

While it was not responsible for the Great Depression, the Hawley-Smoot tariff contributed to the severe deterioration in trade relations in the early 1930s. The tariff hike came at a critical moment for the world economy and helped undermine fragile multilateral efforts to limit the spread of trade barriers. After the World Economic Conference of 1927, the League of Nations sought to hold regular meetings to encourage the expansion of trade and limit the use of protectionist measures. The League tried to negotiate a tariff truce in 1930 and 1931, but the US action and other policy developments helped discourage these efforts. Even though it was not a member of the League, the United States may have made it easier for other countries to raise their own import duties and impose their own trade restrictions. "The Hawley-Smoot tariff in the United States was the signal for an outburst of tariff-making activity in other countries, partly at least by way of reprisals," the League of Nations (1932, 193) reported at the time. "Extensive increases in duties were made almost immediately by Canada, Cuba, Mexico, France, Italy, [and] Spain."

As the Hawley-Smoot bill was being debated in Congress, foreign governments warned that it would have adverse consequences for world trade, and US trade in particular, should it be enacted. Near the end of its consideration of the bill, the Senate passed a resolution (with the votes of Democrats and progressive Republicans) requesting that the Hoover administration report all of the foreign protests filed with the State Department. As of September 1929, there were fifty-nine protests from twenty-three countries, mainly in Western Europe. Another forty-two foreign governments filed protests after that date.[77]

In ushering the tariff legislation through Congress, the Republican leadership never seriously acknowledged the possibility that foreign governments might take action against US exports. Smoot and other Republicans believed that "the tariff is a domestic matter, and an American tariff must be framed and put into force by the American Congress and administration. No foreign country has a right to interfere."[78] While true enough, that missed the point: other countries were not interfering in the legislative process, but simply warning that they might take countermeasures if the legislation were enacted. Although eastern Republicans voted against an export debenture for agricultural goods on the grounds that foreign countries would simply negate the subsidy with countervailing duties, they seemed to ignore the possibility that foreign countries would retaliate against the higher tariffs by raising their duties on American exports. While there are twenty pages of debate in the *Congressional Record* on the duty to be imposed on imported tomatoes, there is very little consideration of the international response to the higher tariffs. Any mention by Democrats of possible foreign retaliation was dismissed by Republicans as hypothetical.

In fact, several countries did retaliate. Canada's reaction was by far the most significant. Canada was the most important foreign market for US goods, taking nearly 20 percent of US exports in 1929. About 43 percent of Canada's exports were sent to the United States; this dependence made it quite sensitive to changes in its access to the US market. The Liberal government of Prime Minister Mackenzie King, which traditionally had pursued pro-American, low-tariff policies, expressed its concern to the Hoover administration about the pending tariff legislation on several occasions as the bill worked its way through Congress.

After the tariff passed, the King government immediately reduced duties on 270 goods imported from the British Empire and imposed countervailing duties on sixteen American products that comprised nearly a third of US exports to Canada. These goods included potatoes, soups, livestock, fresh meats, butter and eggs, wheat and wheat flour, oats and oatmeal, and cast iron pipe—most of them agricultural products that the new US tariff was supposedly designed to help. Cordell Hull (1948, 1:355) used a simple example to illustrate how the Hawley-Smoot tariff backfired against the United States. After the US tariff on imported eggs rose from 8 cents to 10 cents a dozen, Canada followed by raising its tariff on imported eggs from 3 cents to 10 cents a dozen to match the US rate. While US imports of eggs from Canada fell from 13,299 dozen in 1929 to 7,939 dozen in 1932, American exports of eggs to Canada dropped from 919,543 dozen to 13,662 dozen over the same period.

Of even greater significance, Canadian backlash against the Hawley-Smoot duties contributed to the election of the pro-British, high-tariff Conservative party in the general election of July 1930. The opposition Conservatives had attacked the initial retaliation as inadequate and hoped to capitalize on the Canadian electorate's anger about the US action, particularly in regions producing goods exported to the United States. The anti-American message found fertile ground. "By arousing nationalistic sentiments and contempt for the United States in Canada," Kottman (1975, 633) observed, "the Smoot-Hawley Tariff provided a climate in which the [Conservatives'] ultra-protectionist rhetoric had greater appeal than the [Liberals'] endorsement of expanded imperial trade." The Conservatives won the election, and swing votes in Quebec and the Prairie Provinces, whose exports were particularly harmed by the US tariff, influenced the outcome.[79]

In September 1930, the new Conservative government passed an emergency tariff that substantially increased import duties on goods such as textiles, agricultural implements, electrical equipment, meats, and many others, most of which came from the United States. Officials did not use the word *retaliation* to describe the action, but the message was clear. "Despite Canadian denials of reciprocal action aimed at the United States in the new Dominion tariff schedules," the *New York Times* reported, "the impression appeared to be rather general tonight that Canada had made the only answer possible to the American tariff bill, and in a form which might affect an international trade situation that has already shown alarming symptoms."[80] One estimate suggests that US exports to Canada fell 21 percent as a result of the higher Canadian tariffs, enough to wipe out 4 percent of total exports.[81] As reported earlier, the Hawley-Smoot tariff reduced total imports by about 7 percent, but if exports fell by 4 percent as a result of Canada's reaction alone, the retaliatory offset to exports almost matches half the impact of the tariff on imports. And if other countries retaliated as well, it is easy to see why exports declined as much as imports after 1930.

In Europe, the reaction to the American tariff "was disapproval—immediate, undisguised, and unanimous," as Bidwell (1930, 130) reported. The European press and public opinion, industry and agricultural groups, government officials, and business leaders were appalled by the action. In their view, the world's largest creditor nation, with a substantial trade surplus, was needlessly restricting the exports of countries that were desperately trying to pay off their burdensome World War I debts. The world's leading economic power—a country that had enjoyed robust economic growth through the 1920s while Europe struggled with postwar reconstruction—had just significantly increased its tariffs for no justifiable reason after having already raised duties in 1922. And the United States had not only refused to join the League of Nations, but it was now undermining the League's efforts to negotiate a multilateral tariff truce.[82] These were some of the reasons behind the European resentment that greeted the US action.

Although the new tariff was a diplomatic affront, the overall economic effect of the duties on Europe was limited, because only 6 percent of European exports were destined for the United States. Still, this figure grossly understates the potential impact. In economic terms, European exports to the United States were crucial in earning the scarce dollars that Europe needed to pay debts and finance imports. These exports often consisted of highly specialized manufactured goods in key industries. Because American manufacturers were so efficient at mass production and protected by high tariffs, European exporters faced significant obstacles in selling in the United States. Only European producers of high-priced specialty goods could overcome the high import duties and maintain a position in the market. Yet in some cases, the new duties were designed to squeeze out even these goods, which were minor from the standpoint of the American economy but critical for European manufacturers.

Unlike Canada, however, Britain, France, Germany, and other European countries generally refrained from retaliating directly against the United States. Often they were prevented from doing so by commercial treaties that guaranteed MFN treatment for American goods, although there were many subtle ways of discriminating against US goods. However, several smaller European countries took direct action against the United States, including Spain, Italy, Switzerland, and Portugal. Spain passed a new tariff in July 1930 that withdrew MFN treatment for American goods, allowing it to discriminate against the United States. It took aim at several leading US exports to the country, notably automobiles, sewing machines, and razor blades. American car exports to Spain dropped 94 percent in three years, while British, German, and Canadian vehicles were unaffected by the duties and saw their sales surge.[83] Italy also targeted imports of automobiles, farm equipment, and radios, all goods imported from the United States. Outraged by the higher tariff on watches, various groups in Switzerland organized a boycott of American goods. Still, the combined impact of these measures against US exports was probably slight.

The Hawley-Smoot tariff had ramifications in other countries. The higher tariff on imported sugar had a devastating impact on Cuba, whose economy was largely driven by sugar exports to the United States. Dye and Sicotte (2003) estimate that one-third to one-half of the decline in Cuba's export earnings after 1930 was caused by the new duties. According to their calculations, the sugar tariff erased 10 percent of Cuba's national income between 1929 and 1933, amounting to more than a third of the overall decline in Cuba's GDP over that period. Cubans felt betrayed by the higher duties, and the country's severe economic problems led to the overthrow of the pro-American government in the revolution of 1933. The revolution fundamentally changed the country's politics, and the country began to distance itself from the United States.

Of course, as the Great Depression spread around the world, purely domestic considerations probably would have led to higher tariffs in other countries even if Congress had not passed the Hawley-Smoot tariff. However, because the United States was one of the first to raise its tariffs as the Depression intensified, it signaled a breakdown in policy discipline and a wave of tariff increases in other countries soon followed, even if they were not directed specifically against the United States.

The Hawley-Smoot tariff was a damaging development from the standpoint of the world economy and contributed to the global rise in protectionist sentiment in the early 1930s. However, the real collapse of the world trading system began with the failure of a major Austrian bank in June 1931. While this banking crisis was more a symptom rather than a cause of the difficulties in the world economy, which had already suffered from nearly two years of recession and deflation, it sparked a chain reaction that had enormous consequences for trade policy. The Austrian bank failure produced a financial panic and a currency crisis that spread to neighboring countries. The crisis forced Germany to impose exchange controls in July 1931 to prevent the outflow of gold and stop the downward pressure on the mark in foreign exchange markets. Facing a rapid loss of gold and foreign exchange reserves, other central European countries followed Germany by imposing strict controls on foreign exchange transactions that impeded trade and capital flows alike.

Financial pressure then spread to Britain. After intervening to support the pound on foreign exchange markets, Britain relented in September 1931 by abandoning the gold standard and allowing the pound to depreciate against other currencies. The depreciation of sterling meant that British exports were significantly more price-competitive on world markets, while imports were more expensive. Other countries whose currency was tied to the pound sterling, including Denmark, Finland, India, Norway, and Sweden, also left the gold standard and allowed their currencies to depreciate. Japan followed in December 1931.

While there were sound reasons for Britain's decision, it also contributed to the breakdown of international trade relations. First, the British action triggered a defensive reaction by countries that remained on the gold standard. These countries responded by imposing higher trade barriers against countries whose currency had depreciated. A month after the British decision, France imposed a 15 percent surcharge on British goods to offset the depreciation of sterling. In early 1932, the Netherlands, which traditionally had a policy of free trade, increased duties by 25 percent, partly to offset the competitive advantage gained by sterling area producers. Second, the British move stopped the speculative attack on the pound but put other countries under financial pressure and led them to impose exchange controls. In September–October 1931, Uruguay, Colombia, Greece, Czechoslovakia, Iceland, Boliva, Yugoslavia, Austria, Argentina, Belgium, Norway, and Denmark all imposed exchange controls to prevent a loss of gold and foreign exchange reserves.[84] Many countries that remained on the gold standard also imposed import quotas; by 1936, nearly two-thirds of French imports were covered by quantitative restrictions.

Exchange controls turned out to be among the most restrictive trade practices of the 1930s. Governments began regulating access to foreign exchange not only to prevent capital flight but also to curtail spending on imports. In essence, governments determined what and how much would be imported. Exchange controls enabled government officials to slash spending on imports: imports in exchange-control countries were 23 percent lower than in non–exchange control countries, conditional on the change in their GDP in the early 1930s.[85] Foreign exchange controls were supplemented with higher tariffs and quotas to further limit spending on imports and reduce the drain on the balance of payments.

As a result, the multilateral system of world trade began to implode as countries with balance-of-payments problems resorted to bilateral clearing arrangements, exchange controls, import quotas, licensing systems, and much higher tariffs in a fruitless attempt to insulate their economies from the worldwide economic collapse. Indeed, the disintegration of the gold standard in late 1931 created many more problems for trade policy around the world than the Hawley-Smoot tariff had in mid-1930. As the League of Nations (1933, 16–17) reported,

> In the sixteen months after September 1, 1931, general tariff increases had been imposed in twenty-three countries, in three of them twice during the period—with only one case of a general tariff reduction. Customs duties had been increased on individual items or groups of commodities by fifty countries. . . . Import quotas, prohibitions, licensing systems and similar quantitative restrictions, with even more frequent changes in several important cases, had been imposed by thirty-two countries. . . . This bare list is utterly inadequate to portray the harassing complexity of the emergency restrictions that were superimposed upon an already fettered world trade after the period of exchange instability was inaugurated by the abandonment of the gold standard by the United Kingdom in September 1931. By the middle of 1932, it was obvious that the international trading mechanism was in real danger of being smashed as completely as the international monetary system had [been].

As other countries sank deeper into the Depression, they imposed more restrictions on imports in an effort to stimulate their domestic economies. As more countries raised trade barriers, they provided an excuse for others to follow. Because a reduction in one country's imports amounted to a reduction in another country's exports, these "beggar thy neighbor" policies were a futile attempt to stimulate growth. No country could insulate itself from the effects of the depression via increased trade barriers.

To compound these problems, Britain followed the devaluation of the pound by abandoning its traditional policy of free trade. A month after Britain left the gold standard, a general election returned a National Government dominated by the Conservative party, which had traditionally favored protection and imperial preferences. In November 1931, the new Parliament enacted the Abnormal Importations Act, which gave the Board of Trade administrative discretion to increase tariffs by up to 100 percent on goods it deemed fit. In February 1932, Parliament approved the Import Duties Act of 1932, which imposed a general tariff of 10 percent on all imports. This marked an end to Britain's long-standing policy of open trade. Whereas 70 percent of US exports entered Britain duty-free in 1930, only 20 percent did by the end of 1931.[86]

Even worse, from the US perspective, Britain began to retreat into an imperial economic bloc by establishing tariff preferences for trade among the former British colonies, principally Australia, Canada, New Zealand, and South Africa. These countries had long sought preferential access for their exports of agricultural goods and raw materials in Britain, offering preferences for British manufactures in exchange. Britain was never previously in a position to offer tariff preferences to others because since the mid-nineteenth century it had generally adhered to a policy of nondiscriminatory free trade. But now, having imposed a 10 percent general tariff, the country was in a position to do so.

At a conference in Ottawa in July–August 1932, Britain agreed to establish such imperial preferences. Although this trade bloc was not created in direct retaliation against the United States, it was a product of the international climate that the Hawley-Smoot tariff helped foster. "Unquestionably the American Congress had precipitated the tariff responses in both Canada and the United Kingdom," Kottman (1968, 37) concluded. "Shortly before the Ottawa Conference, the American chargé in the Canadian capital reported a 'quiet but definite undercurrent of antagonism and bitterness towards the United States trade policy' whenever comments were made of the impending gathering." Furthermore, this official noted, "most of the people I have talked to have not failed to refer to our tariff and to accuse it of starting the world movement toward restriction of trade." Indeed, Canada's prime minister defended the Ottawa agreements before Parliament by stating that the country needed to secure preferences on its exports to Britain to make up for the lost markets in the United States.

These preferences discriminated against the United States in two of its largest export markets, Canada and Britain, which together took more than a third of US exports. By 1937, about half of British exports to and imports from the Commonwealth enjoyed preferences of about 20 percent, on average. This put American exporters at a significant competitive disadvantage in selling into these markets and led to a decline in the US share of Canadian and British imports.[87] As we will see, the United States spent the next two decades trying to dismantle this discriminatory trade bloc that put its exporters at such a significant disadvantage in major foreign markets.

The British imperial system was not the only preferential trade bloc that emerged at this time that was detrimental to American commercial interests. In 1931, Germany began licensing imports and sought preferential trade agreements with countries in south Eastern Europe. In Asia, Japan created what it called the "Great East Asia Co-Prosperity Sphere" in which it used its political and military influence for economic gain, such as the exclusive control of raw materials and natural resources.

Thus, the entire multilateral system of world trade was shattered by events of the early 1930s. Trade was burdened not just with higher tariffs, but a proliferation of import-licensing requirements, quotas and quantitative restrictions, foreign exchange controls, bilateral and preferential trade agreements, bulk trading and barter arrangements, and so on.[88] These policies severely impeded world trade, the volume of which fell by 26 percent between 1929 and 1933. Nearly half of this decline was due to higher tariffs and non-tariff barriers, according to Madsen (2001), many of which discriminated against the United States.

As a result, the trade policy environment around the world was dramatically different in 1932 than it had been just three years earlier. The problem was not just increased worldwide protectionism and discrimination aimed at the United States in particular, but that these trade barriers and preferential policies were not relaxed when the economic recovery finally came later in the decade. Most of the trade restrictions remained in place; thus, despite the recovery of world production by the late 1930s, world trade had failed to reach its 1929 peak by the end of the decade.

The Hoover administration never responded to these developments. The president blamed the Depression on Europe, not on domestic monetary policy or financial instability, and insisted that high tariffs were needed to protect the American economy from imports. Congressional Republicans expressed no regrets about having enacted higher duties on imports, which they said were needed now more than ever. Smoot (1931, 173–74) insisted that "in this hour of national distress protection is imperative." Without the tariff, "America would have become a dumping ground for all the surplus products of the world." Smoot denied that the United States started the worldwide movement toward higher trade barriers: "It is difficult to understand why anyone should try to fasten responsibility for the general movement toward higher protective duties upon the United States. Many nations revised their tariffs before Congress passed the Smoot-Hawley bill in June 1930, and many have increased their duties since. Each country has been prompted by economic considerations of its own."

Although Republicans tried to defend their policies against Democratic attacks, the economic slump diminished the electoral prospects of incumbents. Not surprisingly, Democrats won control of the House in the midterm election in 1930. With the aid of progressive Republicans, Democrats also achieved a working majority in the Senate on trade issues. With Hoover still in the White House, however, divided government from 1931 until 1933 ensured that there would be no major policy changes.

The widespread perception that the Hawley-Smoot tariff was at least partly responsible for the economic disaster of the period helped rejuvenate the dormant low-tariff wing of the Democratic party. In August 1931, Sen. Kenneth McKellar (D-TN) proposed repealing the Hawley-Smoot tariff and enacting an immediate, across-the-board tariff cut of 25 percent. Although most Democrats thought that the tariff increase had been unwise, this idea was a political nonstarter. Even they could not muster any political support for a unilateral tariff reduction when the country was experiencing rising unemployment and falling output.

Instead, Democrats and progressive Republicans sought a different approach. Disillusioned by the way the "flexible tariff" provision had been employed to raise tariffs during the 1920s, they rallied behind a proposal from James Collier (D-MS), the chairman of the Ways and Means Committee, to wrest from the president the ability to adjust tariff rates and give Congress that authority instead. The bill would also create an office of consumers' council, so that consumer interests, and not just those of producers, would be represented when tariff changes were contemplated. Finally, in view of the deterioration in international trade relations, the bill invited the president to confer with other countries to improve the trade situation, although it did not authorize the reduction of any tariffs in such negotiations.[89]

Congress passed the Collier bill in early 1932, but the president vetoed it. In his veto message, Hoover objected to the elimination of presidential authority over the flexible tariff, arguing that the provision was "the proper way to eliminate excessive duties and any injustices in the tariff and to provide flexibility to changed economic conditions." Because of the depreciation of foreign currencies and lower foreign prices, Hoover argued that "there never has been a time in the history of the United States when tariff protection was more essential to the welfare of the American people than at present" and that it was "imperative that the American protective policy be maintained."

Hoover also dismissed the call for international negotiations, arguing that tariff policy was "solely a domestic question." He worried that such a conference "would surrender our own control of an important part of our domestic affairs to the influence of other nations or alternatively would lead us into futilities in international negotiations." Instead, he offered this challenge: "If the Congress proposes to make such a radical change in our historic policies by international negotiation affecting the whole of American tariffs, then it is the duty of the Congress to state so frankly and indicate the extent to which it is prepared to go."[90] As the United States approached the 1932 presidential election, the economy remained stuck in the Depression and the future of trade policy was highly uncertain.