BOOK REVIEW

PEDDLING PROTECTIONISM: SMOOT-HAWLEY AND THE GREAT DEPRESSION

DOUGLAS A. IRWIN
PRINCETON AND OXFORD: PRINCETON UNIVERSITY PRESS, 2011, 256 PP.

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The Smoot-Hawley Tariff Act of 1930 could be the best-known piece of Congressional legislation. It also remains among the most controversial; both vilified and embraced by politicians of all stripes to further their cause, whether that be increasingly protectionist trade measures or an expansion of unencumbered free trade. Over the course of four succinct chapters, Dartmouth economics professor Douglas Irwin expertly separates the wheat from the chaff of this oft-misunderstood Act to give life to its evolution, as well as its role in deepening the Great Depression.

Chapter one overviews from whence the Act emerged. Interestingly in the context of American politics, Smoot-Hawley’s origins

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are not found in an economic depression or specific lobbying by special interest groups. Instead the Act emerged during the 1928 election year as a way to appease economically depressed farmers without offering them a direct subsidy. With the Republican establishment opposed to farm subsidies and unwilling to reduce tariffs on manufactured goods, the final solution (however imperfect) was higher tariffs on agricultural goods.

This simple origin quickly ran amok as Congress debated the merits and form of the tariff. Conflicts between groups that would be harmed (manufacturers that would see input costs rise) and helped (primarily producers that would see reduced competition and increased selling prices) by a specific tariff were usually resolved by offering tariffs to both sides.

Perverse incentives in Congress are not new, nor are the means to deal with them. In response to Congressional logrolling, “flexible tariff” authority was slipped into the Act to enable the President to modify rates after it was passed, sometimes by as much as 50 percent. While easily passing through the House, the Act met more resistance in the Senate and it was only with the inclusion of this flexible tariff authority that it was finally presented to President Hoover. Hoover, for his part, was generally disinterested in the Act despite his own misgivings of it (reinforced by a letter from the American Economic Association strongly condemning the bill’s passage), but was content with the authority he would have to adjust the specific duties later by exercising his flexible tariff authority.

No bill in U.S. history was met with as negative a reaction from the public as Smoot-Hawley. Irwin focuses on three reasons. First, the logrolling and vote trading in Congress was more apparent than with prior pieces of legislation, likely due to the visibility created through its lengthy debate in the Senate. Second, with the country in the midst of a boom there was little rationale to change economic policy. Finally, the Smoot-Hawley duties were a sharp increase on top of the already high Fordney-McCumber tariff of 1922.

The final three chapters reassess the effects of the Act. It is here that Irwin’s neutral prose and objectivity is most valuable in determining what role Smoot-Hawley actually had in propagating and
promoting the Great Depression. Notably, short of the uncertainty created by lengthy Congressional debates, the Act served little role in setting the Great Depression in motion.

According to Irwin, the Act would also not have greatly worsened the Depression if not for the accompanying price deflation that defined much of the 1930s. Import prices plunged by 18 percent in 1930, 22 percent in 1931 and another 22 percent in 1932. Since many of the duties were specific and not ad valorem, price declines increased the real size of the duty. By 1932 the average duty rate had increased to 59 percent from about 40 percent at the passing of Smoot-Hawley. Of this increase, only one-third is directly attributable to the Act, with the remaining two-thirds the result of price deflation.

Despite this increase, what role did the Act have on imports? Not much, according to Irwin. Duties applied to only about one-third of imports in 1930. While Smoot-Hawley increased the average tariff rate by 16 percent, this represented only a relatively small increase in the average price of imports (since the specific duties themselves were relatively low), and thus increased the average import price by even less (because two-thirds of imports were not affected). Irwin estimates that Smoot-Hawley is directly responsible for a five percent decrease in total imports.

As someone who enjoys illustrating the ill effects of trade restrictions to his students via the Smoot-Hawley tariff, this conclusion came as a surprise. Irwin is quite clear that imports were more affected by the general economic downturn, and only secondarily by the actual increases to duties. There is a silver lining, however, for those looking to illustrate the negative effects of trade restrictions.

The real damning consequence of Smoot-Hawley came from decreased American exports. Chapter 3 aptly named “foreign retaliation” outlines how the U.S.’s largest trading partners, especially Canada, responded with even harsher restrictions on American imports than the U.S. imposed on theirs. U.S. imports to Canada—its largest trading partner then as now—fell by 50 percent in 1930 alone. European countries largely refrained from large-scale retaliatory tariffs on U.S. goods, though because they accounted for such a small percentage of total trade, they were overshadowed by the reactions of America’s closer neighbors. In
sum, Irwin chastises Smoot-Hawley as the ungainly legislation it was, though not on the grounds on which it was established.

Spending 200 pages talking about the negative effects of this infamous chapter of U.S. history, Irwin closes with a hint of optimism. Similar trade restrictions are unlikely to happen again in America’s future. Indeed, the average duty rate stands today at less than 5 percent, a far cry from the average of nearly 60 percent in 1932. Specifically, Irwin cites the extensive social safety net in place today that removes the necessity of trade restrictions to protect depressed economic classes, as well as the availability of more extensive fiscal and monetary policy tools at the government’s disposal.

This reviewer is skeptical that these alternative measures are any less damaging than another comprehensive tariff act. This quibble aside, *Peddling Protectionism* is a real gem. Irwin does not mince words, and he ably tosses aside misconceptions of Smoot-Hawley (many of which this reviewer had prior to reading the book) and replace them with objective economic analysis. Austrian analysis of America’s Great Depression rests largely on Murray Rothbard’s book of the same name. While Rothbard’s analysis is unparalleled as to the causes of the Depression, one glaring omission is his only tangential discussion on the Smoot-Hawley tariff. While Rothbard is well-equipped to answer the question of “what caused the Great Depression,” supplementing his analysis with Irwin’s views on Smoot-Hawley allows one to begin explaining the complementary question of “what made the Great Depression so great?”

**REFERENCES**