The petition against the Smoot-Hawley Tariff Bill: what 1,028 economists overlooked
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Abstract
On May 30, 1930, Swathmore economics professor Clair Wilcox presented President Herbert Hoover with a petition, signed by 1,028 U.S. economists, denouncing the proposed Smoot-Hawley Tariff Bill. Citing a panoply of reasons, they strongly urged him to veto the Bill. Hoover ignored their plea, signing the bill into law on June 17, 1930. This paper examines this important rite of passage of the U.S. economics profession. In short, it marked the beginning of a collective conscience among U.S. economists. It will be argued, however, that it also highlights an important intellectual disconnect between the government and the economics profession in favor of the former. More specifically, it will be shown that for untold reasons, the economics profession had overlooked both the underlying rationale of, and the solution of proposed the Smoot-Hawley Tariff Bill. In short, the profession saw it as a tariff act like all others, while the government, notably the Republican Party saw it as a stop-gap measure aimed at dealing with the growing problem of electrification-based over-production and excess capacity that ironically constituted the cornerstone of Paul Douglas’ and other signatories’ thinking and writings at the time.

JEL Codes N12, N42, N62

Keywords Smoot-Hawley Tariff Act, U.S. economists, petition

1. Introduction
As Frank Whitson Fetter pointed out in 1942, the economists’ statement in opposition to the Hawley-Smoot tariff bill was a unique document for a number of reasons (Fetter 1942). For one, no pronouncement by American economists had ever attracted the public attention that this received. More importantly, it signaled the unanimous opposition of economists and the economics profession to the tariff bill pending in Congress. Put differently, the economics profession spoke with one voice. But more importantly, it marked the coming of age of the U.S. economics profession in policy matters, one that would be accentuated with the rise of Keynesian macroeconomics and the various ensuing debates (fiscal versus monetary policy).

The petition has aged well and has gone on to inspire other similar efforts aimed at influencing the trade debate. For example, in 2007 a petition of economists against protectionism was organized by the Club for Growth. According to the Editors of the Econ Journal Watch, it was inspired by the 1930 petition, and like it, gathered 1,028 signatures (Econ Journal Watch, 2007).

In this paper, we argue that while it represented a triumph of sorts for the U.S. economics profession, the petition was fundamentally flawed, owing to a disconnect between the underlying principles of the Bill as seen by the architects and sponsors of the Bill, and the 1,028 originators and signatories. In short, it will be argued that the Smoot-Hawley Tariff Act and, to a lesser degree, the Fordney-McCumber Tariff Act of 1922 represented a new
generation of tariff bill, one whose goals were macroeconomic- and growth-related, and not revenue – and/or sectorally – related as had been the case in the past. Ranking Republican and Chairman of the Senate Finance Committee, Senator Reed Smoot was adamant: rising unemployment owed to rising imports and the introduction of mass production techniques.\footnote{There is no evidence that imports of either manufactures and/or food had increased. It is our belief that Smoot resorted to this tried and true strategy, largely for political effect. Most ranking Republicans alluded to mass production and growing excess capacity.} Higher across-the-board tariffs would secure a larger share of the U.S. domestic market for U.S. firms, thus increasing employment, output, profits and hence overall welfare. Throughout the election campaign and ensuing legislative debate, the Republicans were unwavering: higher tariffs for everyone would bring/restore prosperity.

For reasons that will be discussed, the 1,028 signatories overlooked this, and treated the Bill like any and all others. The ultimate irony, however, lies in the fact that the principles upon which the Bill was based (rising excess capacity due to technological change) were shared by Paul Douglas, Rexford G. Tugwell and to a lesser degree, Irving Fisher, all of whom had written extensively on the effects of mass production on America’s ability to produce wealth.

The paper is organized as follows. To begin with, we present the petition in its entirety, along with the names of its originators. We then examine the underlying rationale for the Bill according to the Republicans. This is then followed by a discussion of what the 1,028 economists thought the Republicans were doing. Lastly, we examine the possible reasons for this disconnect.

2. The Republican Party and the 1,028 economists: a fundamental disconnect

The petition read:

“We are convinced that increased restrictive duties would be mistake. They would operate, in general, to increase the prices which domestic consumers would have to pay. By raising prices they would encourage concerns with higher costs to undertake production, thus compelling the consumer to subsidize waste and inefficiency in industry. At the same time they would force his to pay higher rates of profit to established firms which enjoyed lower production costs. A higher level of duties, such as is contemplated by the Smoot- Hawley bill, would therefore raise the cost of living and injure the great majority of our citizens.

Few people could hope to gain from such a change. Miners, construction, transportation and public utility workers, professional people and those employed in banks, hotels, newspaper offices, in the wholesale and retail trades and scores of other occupations would clearly lose, since they produce no products which could be specially favored by tariff barriers. The vast majority of farmers would also lose. Their cotton, pork, lard and wheat are
export crops and are sold in the world market. They cannot benefit, therefore, from any tariff which is imposed upon basic commodities which they produce.

They would lose through the increased duties on manufactured goods, however, and in a double fashion. First, as consumers, they would have to pay still higher prices for the products, made of textiles, chemicals, iron and steel, which they buy. Second, as producers their ability to sell their products would be further restricted by the barriers placed in the way of foreigners who wished to sell manufactured goods to us.

Our export trade, in general, would suffer. Countries cannot permanently buy from us unless they are permitted to sell to us, and the more we restrict the importation of goods from them by means ever higher tariffs, the more we reduce the possibility of our exporting to them. This applies to such exporting industries as copper, automobiles, agricultural machinery, typewriters and the like fully as much as it does to farming. The difficulties of these industries are likely to be increased still further if we pass a higher tariff.

There are already many evidences that such action would inevitably provoke other countries to pay us back in kind by levying retaliatory duties against our goods. There are few more ironical spectacles than that of the American government as it seeks, on the one hand, to promote exports through the activity of the Bureau of Foreign and Domestic Commerce, while on the other hand, by increasing tariffs it makes exportation ever more difficult.

We do not believe that American manufacturers in general need higher tariffs. The report of the President’s Committee on Recent Economic Changes has shown that industrial efficiency as increased, that costs have fallen, that profits have grown with amazing rapidity since the end of the World War. Already our factories supply our people with over 96 per cent 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.

Many of our citizens have invested their money in foreign enterprises. The Department of Commerce has estimated that such investments entirely aside from war debts amounted to between 12,555,000,000 and 14,555,000,000 on Jan. 1, 1929. These investors, too, would suffer if restrictive duties were to be increased since such action would make it still more difficult for their foreign debtors to pay them the interest due them.

America is now facing the problem of unemployment. The proponents of higher tariffs claim that an increase in rates will give work to the idle. This is not true. We cannot increase employment by restricting trade. American industry in the present crisis might well be spared the burden of adjusting itself to higher schedules of duties. Finally, we would urge our government to consider the bitterness which a policy of higher tariffs would inevitably inject into our international relations. The United States was ably represented at the
world economic conference which was held under the auspices of the League of Nations in 1927. This conference adopted a resolution announcing that the time has come to put an end to the increase in tariffs and move in the opposite direction.

The higher duties proposed in our pending legislation violate the spirit of this agreement and plainly invite other nations to compete with us in raising further barriers to trade. A tariff war does not furnish good soil for the growth of world peace.

*Originators and First Signatories*

Paul H. Douglas, Professor of Industrial Relations, University of Chicago. Irving Fisher, Professor of Economics, Yale University. Frank D. Graham, Professor of Economics, Princeton University. (Trade theorist) Ernest M. Patterson, Professor of Economics, University of Pennsylvania. Henry R. Seager, Professor of Economics, Columbia University. (Student of Patten, UPenn) Frank W. Taussig, Professor of Economics, Harvard University (Trade theorist) Clair Wilcox, Associate Professor of Economics, Swarthmore College."

**2.1 Smoot-Hawley: a new generation of tariff policy**

As was the case then, today much controversy continues to surround tariff policy in the Hoover era. The quintessential question is: what prompted the Republican Party to introduce a second upward tariff revision, six years after the prohibitive Fordney-McCumber Tariff Act of 1922. For example, Irwin (2011) attributes the Smoot-Hawley Tariff Bill to a combination of weak agricultural prices and political strategy (e.g. ploy) on the part of the party. Beaudreau (2014) on the other hand points to the growing problem of excess capacity in East-Coast manufacturing, which prompted Reed Smoot and Joseph Grundy, two ranking Republican Party leaders and policy stalwarts, to propose higher tariffs as a means of securing a greater share of the U.S. domestic market for U.S. firms. Higher tariffs on agricultural products, he argued, were thrown in for good political measure, especially in light of the farmer’s plight and former President Calvin Coolidge’s vetoing (2X) of the highly popular McNary-Haugen Farm Relief bill. This section draws extensively on his work, chronicling the debate over the proposed upwards tariff revision.

Beaudreau (2014) puts the genesis of the Bill in the developments in late-1927/early-1928, specifically in growing unemployment. Consider, for example, the following remarks made by Senator Smoot in the Senate, in response to claims by Democrats that unemployment was on the rise in 1927.

“Senator Smoot insisted that the picture drawn by the Democrats on Monday, when the Senate passed the Senate resolution, was much overdrawn. He admitted that some unemployment existed, but insisted that it did not compare with that of 1920 and 1921 when the Republicans came into power after eight years of Democratic administration. As for one reason for a degree of unemployment, Senator Smoot referred to large importations of foreign
merchandise that have been steadily reaching American shores in spite of the Republican protective tariff... These imports have a tendency to supplant large quantities of American goods, despite the tariff, thus slowing down many American industries. There also was an over-supply or over-production in many lines, Senator Smoot contended, and over-production or under-consumption in the textiles industries. A slow-down of many industries helps to increase industrial unemployment, and the result is immediately felt in the lowering of the consuming power of the wage earners. This has brought about what may be called an oversupply or overproduction existing in many lines; and we might add that mass production has cut a great figure in the amount of production in the United States in special lines” (New York Times, March 8, 1928, p.1).

According to him, the U.S. economy in 1928 was characterized by oversupply, the chief culprits being higher imports and mass production. This was a recurrent theme in the debate over the proposed Smoot-Hawley Tariff Bill. For example, at Hearings in the House of Representatives on the proposed tariff bill in February 1929, over-production was a recurrent theme. The New York Times reported: “Most of the petitioners for large basic industries have admitted states of over- production or over-capacity for meeting domestic demand. Some estimated excess facilities at as much as 25 percent” (New York Times, February 17, 1929, p.1).

Calls for higher tariffs on manufactures came from the industrialized North-East. Leading the charge was Joseph A. Grundy, President of the Pennsylvania Manufactures Association and a long- time Republican. Grundy played an instrumental role in Hoover’s victory at the 1928 Republican National Convention in Kansas City. According to Harold U. Faulkner: “The Smoot-Hawley Tariff was an administrative measure put through the party machine and no single person was more active than Joseph R. Grundy, president of The Pennsylvania Manufacturers Association, who became Senator in December 1929” (1950, 342). His political agenda was limited to one item: a general upward tariff revision including manufactures.

Unfortunately, there is no record of the rate hikes Grundy had in mind. Were they to rise by 10 percent, 20 percent, or 100 percent? When the Hawley Tariff Bill was put before the House in early 1998, Grundy was unhappy with the proposed rate revisions. The New York Times reported:

“The dissatisfaction in highly protected industry because the bill does not increase rates on manufactured products is apparent from a statement of Joseph R. Grundy, president of the Pennsylvania Manufacturers' Association. Mr. Grundy had an interview with President Hoover not long ago, and while he would not comment on what took place behind the doors of the President’s office, the impression was created that he had yielded to Mr. Hoover’s desire that he should not insist on higher duties on industrial products than the bill was then expected to provide. Today Mr. Grundy said: ‘The few rises that are in the bill fall short of meeting the requirements, which the past seven years of Pennsylvania’s industries show, along the lines
indicated in the Republican platform adopted at Kansas City’’ (New York Times, May 9, 1929, p.3).

Other leading tariff protagonists included Pennsylvania Governor John S. Fisher and Samuel M. Vauclain, president of the Baldwin Locomotive Works of Philadelphia. On September 5, 1929, in a meeting with President Hoover, Fisher expressed his concerns over increasing pressure to amend the tariff bill.

“Earlier in the day President Hoover heard Representative Albert Johnson of Washington vigorously oppose the Senate Tariff bill, while two others, Governor Fisher of Pennsylvania and John E. Edgerton of New York, president of the National Manufactures Association, voiced protests against administrative features of the bill. Governor Fisher said that the American valuation plan was essential to a sound tariff bill and that protection could not be given to one group alone, but must be extended to the entire country. ‘During the campaign we preached protection for the East, West and all parts of the country,’ Governor Fisher said. ‘We in Pennsylvania are for a tariff that will afford protection for all of our industries. We expect agricultural protection, but we are not going to stand for recognition of any section to the disadvantage of another’” (New York Times, September 6, 1929, p.1).

In his January 1928 address to The Chicago Association of Credit Men, Vauclain pointed out that high wages and high tariffs were essential for the preservation of prosperity in America.

“Wages should not be governed solely by supply and demand, he asserted, but should be placed at a level which would enable workers to buy the necessities of life. It is the wage-earner who constitutes the great majority of our population, he said. These people are the spenders of the nation and upon their ability to spend freely the general business of our country depends. Foreign importations should be avoided by all, he said. We may profit individually by buying foreign goods at less than American manufacturers can produce, but the injurious consequences to general business more than offset the selfish gain, he declares. A protective tariff is necessary if we are to have full dinner pails for our boys during 1928 and the years to come, he insisted” (New York Times, January 24, 1928, p.3).

This brings us to the question of why? Why did the Party see a need to raise tariffs on manufactures. Beaudreau (1996, 2014) attributed the over-production and excess supply referred to by Senator Reed Smoot and other Republicans, to electrification which he shows contributed to tractorization and motorization of the U.S. economy (Bresnahan and Trajtenberg 1995, Helpman and Trajtenberg). Drawing from a number of sources, he presented estimates of excess capacity in manufacturing in the 20-25 percent range. What is particularly noteworthy is the fact that the ensuing tractorization and motorization of the farm and transport sector contributed/exacerbated the agricultural surpluses that followed the end of WWI. Fossil fuels had all but displaced agriculture-based feedstocks (hay and oats) in transport.
America’s new greater capacity to generate wealth and need for more control over the domestic market through the use of tariffs was raised by Secretary of Labor, John J. Davis at the 1928 Kansas City Republican convention. For example, on June 11, he highlighted the successes and impending dangers facing U.S. industry.

“Summing it all up, the protective tariff, limited immigration, exclusion of child labor, general watchfulness of women in industry, the eight-hour day, collective bargaining coupled with conciliation and arbitration of injunction, are the important things in which the American laboring man is very much interested. Industrial competition among the countries of the world has caused fundamental changes in American industry that have vastly increased output and at the same time, relatively decreased the cost of production in practically all lines of endeavor. Thus, in meeting the competition from countries were lower standards of living obtain, the mechanization of industry has been brought about a practical industrial revolution in our country. The American workers are the highest paid in the world; the American standard of living surpasses that of any country; but even with this enviable record of progress, the mechanization of industry and the development of rapid power machinery processes have displaced many veteran workers and others, necessitating their engaging in other activities. To maintain high wages, it is absolutely necessary to have a high protective tariff, a tariff that protects” (Washington Post, June 12, 1928, p.4).

The role of over-production and excess capacity in the thinking of Reed Smoot and hence in the drafting of the SHTA can be seen from the following quote taken from Merton Merrill’s biography:

On his return to Utah in August 1932, in preparation for his final battle in political life, Smoot advised his people that it had been the common attitude in 1930 to attribute the depression to unwise governmental policies, with the Smoot-Hawley act specified. Lest there were some obsessed with heresy, he declared, “To hold the American tariff policy, or any other policy of our government, responsible for this gigantic deflationary move is only to display one’s ignorance of its sweeping universal character.” He found that “The world is paying for its ruthless destruction of life and property in the World War and for its failure to adjust purchasing power to productive capacity during the industrial revolution of the decade following the war.” (Merrill, 1990, 340)

At the Kansas City convention, Ranking Republican Charles E. Hughes praised the merits of an upward tariff revision against a background of greater efficiency, lower costs and greater output.

“I shall not review at any length the results of the Republican tariff policy. Mr Hoover did that in his speech at Boston. Let me recall to you what he said. “Every argument urged by our opponents against the increased duties in the Republican tariff act has been refuted by actual experience. It was contended that our costs of production would increase. Their prophecy was wrong for
our costs have decreased. They urged that the duties which we proposed would increase the price of manufactured goods; yet prices have steadily decreased. It was urged that, by removing the pressure of competition of foreign goods, our industry would fall in efficiency. The answer to that is found in our vastly increased production per man in every branch of industry, which indeed is the envy of our competitors (New York Times, October 24, 1928, p.5).

The key point is in the last sentence where Hughes invokes the “vastly increased production per man in every branch of industry”. Put differently, higher tariffs, by increasing domestic firms’ market share, would allow firms to “slide” down their new, lower average cost curve. Greater market share would lower costs and ultimately, prices.

This not only confirms Faulkner’s view that the SHTA was an administrative measure put through the party machine, but provides a rationale, namely over-production. Ranking Republicans and party officials were unanimous in their desire to see a major upward revision in tariffs, thus limiting imports and providing the American producer with a larger market. Furthermore, it dovetailed with the long-held Republican belief in the “protective tariff to be a fundamental and essential principle of the economic life of this nation” (New York Times, June 24, 1928, p.13). In the text of the Republican Platform adopted by the Kansas City Convention, the tariff figures prominently, mostly as a tool of stabilization policy and overall economic growth.

“We reaffirm our belief in the protective tariff as a fundamental and essential principle of the economic life of this nation. While certain provisions of the present law require revision in light of changes in the world competitive situation since its enactment, the record of the United States since 1922 clearly shows that the fundamental protective principle of the law has been fully justified. It has stimulated the development of our natural resources, provided fuller employment at higher wages through the promotion of industrial activity, assured thereby the continuance of the farmer’s major market and further raised the standard of living and general comfort and well-being of our people. The great expansion in wealth of our nation during the past fifty years and particularly in the last decade could not have been accomplished without a protective tariff system designed to promote the vital interests of all classes” (New York Times, June 15, 1928, p.8).
Table 1 Kansas City Republican Party tariff positions

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<tr>
<th>Name and Position</th>
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<td>Joseph R. Grundy, President of the Manufacturers Association</td>
<td>“We therefore advocate a general revision of the tariff upward, that every section of the country with all labor in every industry and business may reap the benefit and enjoy profitable prosperity” (New York Times, June 11, 1928, p.1).</td>
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<td>James J. Davis, Secretary of Labor</td>
<td>“An utmost economic call for increased duties and that the present unemployment was due to low tariff schedules which permit cheaply made goods to come in and cripple American industry” (New York Times, June 11, 1928, p.1).</td>
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<td>William M. Butler, Chairman of the Republican National Committee</td>
<td>“…has favored revision of the tariff for some time and while he is not impressing his personality on the platform drafters, it is believed that his views and those of others in the East will be taken into consideration. The compromise suggestion that the farm group offered for increased duties on farm-products and the decreasing of the free list has been met by the manufacturing interests with a willingness to cooperate with the farmers provided the industrial schedules are also considered favorably” (New York Times, June 11, 1928, p.1).</td>
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<td>S.D. Fess, Senator from Ohio</td>
<td>“…even should the convention decide that there should not be a general revision of the tariff favored in the platform, any tinkering with the tariff, such as the change in the farm schedules, inevitably would lead to a general revision.”</td>
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<td>George H. Moses, Permanent Chairman of the Republican National Conference</td>
<td>“In seeking for an economic policy for the United States, we know that our people will not turn to the party which clings to the fetich of free trade. In seeking for a policy to make the tariff effective for every interest in the United States, we know our people will not turn to the party whose strength and weakness alike lie in its sectional character” (Congressional Record, May 29, 1928, p. 10624).</td>
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Table 1 presents a compendium of tariff positions/opinions expressed by leading members of the Republican Party at the Kansas City convention.

2.2 What the 1,028 economists thought the Republicans were saying and doing

It is our view that the various rationales invoked in the petition were orthogonal to the concerns raised by Ranking Republicans, and therefore, were orthogonal to the goals and aspirations of the Bill itself. Perhaps the best example of this is found in the last paragraph, where the question of unemployment is raised. Specifically, it states:

“America is now facing the problem of unemployment. The proponents of higher tariffs claim that an increase in rates will give work to the idle. This is not true. We cannot increase employment by restricting trade. American industry in the present crisis might well be spared the burden of adjusting itself to higher schedules of duties.”

As shown, the unemployment that led to the SHTA was in 1927/1928, not in 1930 after the Stock Market Crash. As Reed Smoot had pointed out, the growing unemployment at the time (1927) owed to growing imports and mass production. Hence, rather than being cyclical-based, the unemployment in question was growth-based and was attributed to technological change.
2.3 The question of higher prices

This question illustrates well the disconnect between the Republican Party and the 1,028 signatories, and between the Republican Party and the economics profession in general. In keeping with general trade theory, a tariff in general results in a higher price, as domestic producers increase output along the convex section of their marginal cost curve. The Smoot-Hawley Tariff Bill, by increasing tariffs on virtually all goods, would raise the cost of living.

This stands in stark contrast with opinions expressed by ranking Republicans who argued that higher tariffs, by securing a larger share of the U.S. market for domestic firms, would result in lower prices as firms traveled down their non-convex average cost curve. In many regards, they anticipated, by roughly half a century, the economies of scale, product differentiation literature of the 1980s, where firms operate on the downward sloping section of the average cost curve. Surprisingly, not one of the originators or signatories acknowledged nor understood this argument, preferring to revert to standard trade results.

2.4 The plight of the farmers

The plight of the farmers is a question that is closely tied to the question of tariffs and prices. According to the petition, the Smoot-Hawley Tariff Bill would be harmful to farmers as it would increase the price of manufactures, and not offer any real relief for agricultural markets. Most observers agreed that because the U.S. imported little-to-no hay and cereals (wheat, barley, oats), higher tariffs on agricultural product would have little effect on farm revenue. As such, the debate focused on the question of prices for non-agricultural goods. These included the goods farmers consumed directly as well as the goods which served as inputs into agriculture.

The 1,028 signatories were of the view that the proposed higher tariffs would increase prices of manufactures and farm inputs, which would be prejudicial to farmers. Hence, in keeping with the Hagen-McNary Farm Relief Bill, lower, not higher tariffs would be beneficial to farmers. Not surprising, the Republicans argued the contrary, for the reasons raised above. In short, higher tariffs would be beneficial to farmers as they would result in lower, not higher prices.

2.5 Reciprocity and international relations

One of the more interesting aspects of the SHTA was its insular nature. In short, ranking Republicans had chosen to play a Nash strategy with the Rest of the World (ROW), despite growing unrest abroad over the proposed upward tariff revision. Could they not foresee the consequences of their actions? The 1,028 economists were adamant: yet another round of tariff hikes would most certainly result in a tariff war, especially with Europe. There are, we believe, a number of factors that could explain their seemingly irrational behavior. The first is a combination of a strong desire on the part of the Republican party to act, combined with a dearth of knowledge and policy instruments. They sensed there was a problem, but had no clue as to the cause, nor of what constituted a proven solution. As Reed Smoot pointed out in his biography, the problem was the failure to “adjust purchasing power to capacity.” The second is the past as prologue. The prohibitive tariff hikes contained in the Fordney-McCumber Tariff Act of 1922 were met with little in the way of reactions on the part of European countries. Perhaps this owed to the fact that they had a political debt towards the
U.S. for having helped them defeat Germany in World War I. The third was the changing nature of international trade. The 1910s and 1920s witnessed the emergence of the horizontal multinational firm, mostly American, which localized production facilities in foreign markets, thus rendering them immune to trade sanctions. For example, France could not slap a tariff on General Electric products as most of them were being produced in France or Europe in general. In short, the U.S. exported modernity via foreign direct investment, rendering conventional tariff policy ineffective.

3. Connections/disconnections

Thus far, we have shown the existence of a fundamental disconnect between the Republican Party and the economics profession. One could go as far as to argue that the two were speaking a different language, a different economics language. However, we maintain that this is not a completely accurate characterization of the state of the economics profession in the 1920s, and of the very thoughts/beliefs of many of the signatories. In this section, we show that paradoxically, many of the latter held views/positions similar to the Republican Party. For example, the chief author of the petition, University of Chicago professor Paul Douglas also maintained that the U.S. economy in the 1920s was characterized by significant excess capacity.

3.1 Paul Douglas and excess capacity

The chief author and instigator of the petition, Paul Douglas was a professor of industrial relations at the University of Chicago. Throughout his career, he devoted much time and effort to the question of wages and productivity, specifically to the relationship between the two. In short, he felt that while productivity had increased markedly in the 1920s, wages had lagged behind, making for a disequilibrium. For example, in a paper entitled: “The Modern Technique of Mass Production and Its Relation to Wages,” published in 1927, he referred to the 29 percent increase in the volume of physical production from 1919 to 1926.

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Douglas was primarily concerned with the widening wage-productivity gap, specifically with the apparent failure of wages to track productivity. These concerns are also found in the writings of another signatory of the petition, Columbia university economics professor Rexford G. Tugwell, who like Douglas described the “revolution underway in U.S. industry.” Foremost among the “technical causes” of increased productivity, he argued, was “the bringing into use of new and better power resources more suited to our technique, more flexible and less wasteful; and continued progress in the technique of generating and applying power” (Tugwell 1927, 180) – in short, the electrification of U.S. industry.

“The electrification of industry has now progressed to the extent of between 55 and 60 per cent completion. So widespread an adoption of this new flexible means of moving things cannot have taken place without numerous secondary results in lowered costs, improvements in quality, and a heightened morale among workers. For the new power is not only cheaper to use; it is also cleaner, more silent and handier. On the whole, the electrification of industry must be set down as the greatest single cause of the new industrial revolution” (Tugwell 1927, 182).

3.2 Irving Fisher and electrification

Irving Fisher, like Paul Douglas and Rexford Tugwell, felt that changes in technique had served to increase vastly America’s capacity to produce, echoing the views of the ranking members of the Republican Party. On the day after the crash (October 24, 1929), he declared:

“The stock market rose after the war above the pre-war level by 50-100 percent because of war inflation and that since, it has doubled because of increasing prosperity from less unstable money, new mergers, new scientific management and the new policy of waste saving.”

![Chart 15](chart.png)

*Source: Fisher (1930).*
In *The Stock Market Crash and After*, published in 1930, he was more explicit:

“But after 1919, something happened. The implications of which are not yet sufficiently gauged. It was of enough significance to cause President Hoover’s Committee on Recent Economic Changes to remark that ‘acceleration rather than structural change is the key to an understanding of our recent economic developments.’ The committee added: ‘But the breadth and the tempo of recent developments gives them new importance.’ What happened was indicated by the fact that in the United States, 8.3 million workers produced in 1925 one quarter more than 9 million workers turned out in 1919. The new indexes of the Federal Reserve Board measuring production record this gratifying advance which reflects an increase in the American standard of living... The general volume of production had increased between 1919 and 1927 by 46.5 percent; primary power by 22 percent, and primary power per wage earner by 30.9 percent (between 1919 and 1925), and productivity per wage worker by 53.5 percent between 1919 and 1927” (Fisher, 1930, 120).

However, unlike Tugwell and Douglas, he stopped short of invoking this manifold increase in productivity as the cause of the structural weakness in the 1927-1928 period.

### 3.3 How did they miss it?

Our findings raise an important question, namely how and why did 1,028 leading U.S. economists misunderstand and misinterpret the well-known and well-publicized intentions of the Republican Party in its proposed Smoot-Hawley Tariff Bill? As we have shown, many of its guiding principles can be found in the writings of the petition’s instigators and signatories. We submit two reasons, namely incomplete information and the state of flux in which economics as a whole found itself in, in the 1920s. By incomplete information, it should be understood the failure of the instigators to fully comprehend and appreciate the economic reasoning/logic behind the Bill. For example, if Paul Douglas had followed the electoral and legislative debate over the proposed tariff bill, from late 1927 on, he would have discovered a set of principles that were largely consistent with his own work at the time. Ibid for Rexford G. Tugwell.

Second, the idea/theory that the U.S. economy was “operating” significantly below capacity in the 1920s was a new one. Most subscribed to Say’s Law, according to which supply creates its own demand. Hence, the many references to unused capacity and mass production-based unemployment were orthogonal to the dominant ideology at the time. Combined with what was an incomplete knowledge and appreciation of the Bill’s stated goals, it comes as little surprise that 1,028 leading U.S. economists misunderstood and misinterpreted the intentions of the Republican Party in its quest to raise tariffs in 1928.

### 4. A more appropriate petition

With the benefit of hindsight, it is clear that the 1,028 instigators and signatories to the petition had failed to appreciate the subtleties of the act, making for a situation in which its bases
were orthogonal to those of the actual petition. This then raises the following counterfactual, namely had this not been the case (i.e. had they been aware of the intentions and underlying principles), what would their petition have resembled. To this end, we drafted what we believe would have been a more appropriate petition, which follows:

“Owing to the genius of its entrepreneurs, engineers and scientists, the U.S. has benefited from a manifold increase in its ability to generate wealth and so increase the standard of living. Unfortunately, for reasons that are not fully understood at the present moment, markets (income and expenditure) have not followed suit, resulting in a situation of generalized excess capacity, especially in manufacturing and agriculture.

The Republican Party is currently proposing yet another upward tariff revision in the hope of securing a greater share of the domestic market for U.S. firms, arguing that higher utilization rates will decrease prices and hence benefit consumers. Unfortunately, such a policy, while appealing to the layman, is based on faulty logic and cannot bring long-run prosperity to the U.S. Its basic flaw is to assume that our trading partners will not react. While Europe did not react to Fordney-McCumber Tariff Act of 1922, owing no doubt to the goodwill from our involvement in the Great War, we believe that it will react, closing markets to U.S. exports. U.S. firms will be no further ahead, as imports and exports contract.

Beggar-thy-neighbor policies have failed and will continue to fail in the long run, and the proposed Smoot-Hawley Tariff Bill is an example of such a policy. We believe that the Republican Party should examine other options to firm up markets, thus allowing the country to exploit its newly-found potential.”

5. Conclusions

In this paper, we have argued that the Smoot-Hawley Tariff Act of 1930 represented a new generation of tariff bill, one whose objectives were macroeconomic and growth enhancing in scope. Throughout its electoral and legislative history, the Bill sought to correct the growing disparity between America’s ability to produce wealth and its ability to take goods off of the market. According to its architects, it would raise firms’ sales, profits and dividends. Moreover, it would do so at significantly lower prices as firms would “slide down” their new downward sloping average cost curves. While farmers’ incomes would be no higher, their real incomes would stand to rise as the price of manufactures and farming inputs would fall as a result.

As we have shown, the 1,028 originators and signatories of the petition overlooked most – if not all – of this. To them, the Smoot-Hawley Tariff Bill was just another of a long-line of tariff bills with sectoral or revenue-based goals/ambitions. Ironically, many of those who opposed the bill ultimately shared its underlying principles. This led us to the conclusion that the 1,028 economists had overlooked the essence of the debate leading up to and including the final passage of the Bill.
In short, the Smoot-Hawley episode is a case in which the thinking, or policy making, was ahead of the theory. The issues that Reed Smoot and other members of the Republican Party were grappling with were absent from mainstream economics, making for the disconnect identified here. As it turned out, this disconnect would go on to characterize the second policy attempt at closing the gap between actual and potential GDP, namely the National Industrial Recovery Act. And once again, the profession condemned the Act.

References


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