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FROM SMOOT-HAWLEY TO RECIPROCAL TRADE AGREEMENTS: CHANGING THE COURSE OF U.S. TRADE POLICY IN THE 1930S

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ABSTRACT

Four years after passing the infamous Smoot-Hawley tariff in 1930, Congress enacted the Reciprocal Trade Agreements Act (RTAA), which gave the president the authority to undertake tariff-reduction agreements (without Congressional approval) with foreign countries. The resulting trade agreements reduced U.S. tariffs and culminated in the General Agreement on Tariffs and Trade (GATT) in 1947. Was the Great Depression responsible for bringing about this fundamental shift in U.S. trade policy? This paper analyzes the changes in U.S. trade policy during this period and argues that (i) the Depression as an international phenomenon motivated the unprecedented Congressional delegation of tariff-making powers, (ii) economic changes more the result of World War II than the Depression blunted Republican opposition to the RTAA and ensured its post-war survival.

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1. Introduction

From the Civil War up to the Smoot-Hawley tariff of 1930, Congress retained exclusive authority over U.S. tariffs, which for the most part consisted of a single column schedule of nonnegotiable, nondiscriminatory import duties. Politicians fought over the height of those duties -- the Republicans enacted high protective tariffs (such as Smoot-Hawley) when they were in power, the Democrats enacted more moderate tariffs when they were in power -- but not over the authority of Congress in setting those duties.

Following their electoral sweep in 1932, the Democrats undertook an innovation in trade policymaking by passing the Reciprocal Trade Agreements Act (RTAA) of 1934. By this legislation, Congress granted the president the authority to reach tariff-reduction agreements -- agreements that did not require Congressional approval -- with foreign countries. Republicans opposed this delegation of tariff-making power to the president and for several years threatened to repeal the RTAA. By the late 1940s, however, Republicans generally accepted the status quo of (qualified) executive authority over tariffs, which had fallen from over 50 percent in the early 1930s to about 13 percent. Although Republicans succeeded in halting further trade liberalization through the 1950s, the trade agreements program survived and is the basis for current U.S. commercial policy.

Did the Great Depression bring about this fundamental shift in the conduct of U.S. trade policy? Or was it a natural outcome of an underlying movement toward the delegation of trade policymaking powers to the executive that is evident in earlier years?

Were the trade agreements that resulted from this delegation of authority responsible for the substantial reduction in the average U.S. tariff? Why did the Republicans change their position and not kill the RTAA when they had the chance in 1946? This paper argues that neither political party showed a serious inclination to alter the mechanism of Congressional tariff making until the early 1930s. To judge from the previous historical pattern, the Democratic response to the Smoot-Hawley tariff should have been to repeal it and enact an additional unilateral tariff reduction. This option was considered, but was rejected.

What was different about the early 1930s, and brought about the delegation of powers to the executive instead, was not so much the Great Depression in the United States <u>per se</u>, this paper argues, but the Depression as an <u>international</u> phenomena. The U.S. Depression did foreclose a unilateral tariff reduction as a political option in the short-run, but did not necessitate delegation. Rather, the economic collapse in Europe and elsewhere led to a dramatic rise in foreign trade barriers and discriminatory measures against U.S. goods. This feature of the international economic environment demanded a response different from the autonomously-determined tariffs of previous decades. The Democrats saw reciprocal trade agreements as accomplishing several objectives: it would moderate the tariff code to their liking, make reversal of those lower tariffs difficult should they lose power, and promote economic recovery by reducing foreign tariffs on U.S. exports.

Furthermore, it was not the Great Depression but the changed U.S. position in world affairs after World War II that blunted Republican opposition to the RTAA and ensured its survival. After the war, export-oriented economic interests -- manufacturers and labor in particular -- stood to benefit from an open trade regime and supported the RTAA. As a result, Republicans no longer argued for repeal of the RTAA as much as for making trade agreements conditional on Congressional approval and inclusive of an "escape clause" provision to protect domestic interests harmed by imports. The nascent postwar consensus about America's global leadership responsibilities forced Republicans into accepting the General Agreement on Tariffs and Trade (GATT) in 1947 as a necessary component of Europe's economic recovery and America's national security. Thus, while the Great Depression as an international phenomena helped determine the mechanism (reciprocal trade agreements rather than unilateral action) by which the Democrats reduced tariffs, the U.S. global economic position after World War II ensured that the Republicans would not reverse the tariff reductions once they achieved power.

The RTAA radically changed in the process of U.S. trade policy making, but it actually had relatively minor effects on the U.S. tariff itself. The United States experienced major swings in the average ad valorem tariff (tariff revenue as a share of dutiable imports) during this period -- from 40 percent in 1929 to 59 percent in 1932 to 14 percent in 1948, as illustrated in Figure 1. These swings were produced less by conscious policy decisions to change tariff rates than by import price fluctuations acting on specific duties, which were levied on about two-thirds of dutiable imports and whose ad valorem equivalent was inversely related to prices. The dramatic escalation of the tariff during 1929-32 was due more to plunging import prices rather than higher Smoot-Hawley tariff rates; the subsequent drop in the tariff was overwhelmingly due to higher import prices rather than reciprocal trade agreements with other countries.

This paper is organized as follows. Section 2 sets out the historical pattern of Congressional tariff making in the forty years prior to the Depression, along with the very minor institutional tinkering that took place. Section 3 discusses the Smoot-Hawley tariff of 1930 and its relationship to U.S. trade during the Great Depression. Section 4 examines why the newly-elected Democrats opted for the RTAA in 1934 and how the RTAA was implemented. Section 5 focuses on the continuation of the trade agreements program into the postwar period, the waning Republican opposition to the RTAA, and the emergence of a bipartisan consensus in favor of the new status quo. Section 6 asks whether the Great Depression constituted a "defining moment" for U.S. trade policy and summarizes the paper's main conclusions.

2. Tinkering with Tariffs, 1890-1930

In the decades after the Civil War, the tariff served two primary purposes: it raised revenue for the Federal government and protected certain domestic industries from import competition. The two political parties differed in the emphasis they put on these objectives. The Republicans, drawing their support from manufacturers in the Northeast and Midwest, advocated a high protective tariff. They argued that such tariffs preserved the home market for domestic producers and secured high domestic wages for labor by making foreign producers pay for their market access. The Democrats, drawing their support from farmers in the South, believed the tariff should be designed mainly for revenue purposes with moderate protection given to import-competing interests. They worried that too high a tariff might foster monopolies and excessively burden consumers. Progressive Republicans, often in a coalition with the Democrats, agreed that the tariff should be protective, but also wanted to reform the tariff system of its inequities and limit its costs to consumers.[1]

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[1] As Kenkel (1983, p. 3) put it, "Like the farmers and small-scale manufacturers whom they represented, the middle-western [Republican progressive] congressmen believed in the principle [of protection] but condemned its application by party leaders who, they charged, responded to the demands of the giant enterprises."

The tariff ranked among the most important political issues in the post-bellum United States. In the half century after the Civil War, however, the Republicans completely dominated Congress and the executive. As a result, U.S. tariff rates remained high. From 1867-1912, the Democrats controlled both houses of Congress and the Presidency for just one brief period (1893-95), during which time they passed the Dingley Tariff of 1894 that marginally reduced tariff rates. Less than three years later, the Republicans regained power and pushed tariffs back up again.

In 1913 the Democrats regained control of Congress and the Presidency and promptly passed the Underwood Tariff, the first thoroughgoing downward revision in import duties since the Civil War. Yet this effort was cut short by the outbreak of World War I, when special emergency controls on trade were imposed, and then reversed by the Republicans after the war. Thus, in the brief periods in which they controlled both Congress and the Presidency, the Democrats reduced import tariffs (1894, 1913). When the Republicans regained control of government, they promptly raised import tariffs (1897, 1922), and revised or raised them at other times as well (1883, 1890, 1909, 1930).[2]

Throughout this period, the focal point of U.S. tariff setting was the Congress, which derived its powers from Article I, Section 8 of the Constitution giving it the power to impose and collect import duties and "to regulate Commerce with foreign Nations." For most of this period, the tariff code was a single column list of import duties. Congress treated the determination of import duties on hundreds of individual products as an exclusively domestic concern of its own province. For standard collective action reasons, domestic interests seeking high tariffs for protection against import competition dominated

[2] Taussig (1931) remains the classic reference on U.S. tariff history during this period.

the process by which Congress set the duties, while export interests and consumers were underrepresented in political process.

In serving domestic (special) economic interests, Congress's tariff was set independently of (and generally without regard for) the tariff policies of other countries. Congress was not the best forum in which the foreign policy ramifications of trade policy were given due consideration. The president, whose national constituency and foreign policy responsibilities might be expected to moderate any tariff produced by Congress, was often a minor actor in the tariff-setting exercise. The president could, in principle, negotiate lower U.S. tariffs in conjunction with other countries, but in practice he could not because any tariff treaty would require the approval of two-thirds of the Senate.

There were some pressures to change this otherwise smoothly functioning process of Congressional tariff-making. An ever expanding list of imported goods complicated the task of gathering and processing information on trade matters. Tariff legislation became lengthier and increasingly time-consuming.[3] The end result also left many dissatisfied. Aggrieved interests complained that Congress was not getting or acting upon the right information. Business groups such as the Chamber of Commerce and the National Association of Manufacturers did not want to end protection, but wanted to "take the tariff out of politics" and put the tariff on a more impartial, rational footing, less subject to the whims of special interest politics. Export interests complained that the system was too rigid, not allowing for lower tariffs on intermediate goods or for reciprocal bargaining to

[3] Schattschneider (1935, p. 23) shows that pre-Civil War tariff legislation ran fewer than 20 pages, reached about 100 pages by the turn of the century, and amounted to 200 pages with Smoot-Hawley. Tariff bills typically took 6-12 months to get through Congress around the turn of the century, but took over 18 months in the case of Fordney-McCumber and Smoot-Hawley.

reduce foreign barriers against U.S. exports. To hold off tariff-reform minded progressives who complained that the tariff merely served the interests of big business, Republicans spoke of developing a "scientific" tariff, i.e., one based on certain principles and not one that just reflected special interest coalitions.

Were these pressures pushing the Congress to delegate some powers or adopt some form of reciprocal trade agreements policy in the decades prior to the Great Depression? During this period the political parties in Congress did struggle with two key issues dealing with the process of tariff-making: (1) how to improve or reform the system of formulating the tariff, and (2) how to enable the president to achieve reciprocity (equal market access abroad) in the face of foreign discrimination. But a brief examination of each issue reveals that there was no movement toward RTAA-type legislation prior to the early 1930s.

2.1 The Tariff Commission Movement

Despite the use of independent regulatory commissions in other economic matters, Congress proved reluctant to relinquish its control over the tariff to any other body. Progressive Republicans championed the cause of an independent tariff commission as a move toward a less political tariff, but most Republicans and Democrats questioned the desirability of such a move. Congress resisted not just the delegation of tariff-making powers to a separate agency, but even any reliance on such an agency to provide impartial advice about the tariff or even simply unbiased information about conditions in trade and industry. This opposition was based on the following consideration: If an independent tariff agency was to do more than just collect data and was to actually give advice on the proper height of tariffs, then it would need a criterion by which to determine whether a tariff was too high or too low. The two political parties differed fundamentally as to what the guiding principle in setting tariffs should be. Each party feared that the agency could become stacked with members from the other party or have as its mandate an objectionable criteria for setting tariffs. Furthermore, why bother setting up such an agency when Congress could not commit itself to adhere to a commission's advice?

Nevertheless, some experimentation did take place. In the early 1880s, a Republican Congress created a temporary Tariff Commission to gather business views on the tariff. Although its report was essentially ignored, the Commission made a suggestion that Republicans later embraced: the tariff should be designed to equalize the costs of production between domestic and foreign producers. Advocates of this "scientific" tariff reasoned as follows: because wages in the United States exceeded those abroad, U.S. production costs were higher than foreign costs, and therefore a tariff to equalize these costs would permit domestic and foreign producers to compete on an equal footing, thereby keeping U.S. wages high. How such a calculation could be done for the thousands of items in the tariff code and the dozens of countries from which products came was never worked out. Democrats heatedly denied that this "scientific" principle of tariff design had any merit.

In 1909 President Taft set up a Tariff Board (an executive advisory group, not a creature of Congress) to provide advice on tariff reform. Democrats vociferously opposed creating any permanent tariff bureaucracy on the grounds that it would entrench the system around a bad principle -- that of setting tariffs to equalizing differences in the costs of production of domestic and foreign producers. Congressional Republicans were also suspicious of presidential meddling with the tariff. The Board went defunct in 1912.

Content with the tariff reductions enacted in 1913, President Wilson and many Congressional Democrats continue to oppose the creation of a tariff commission. But

Wilson was eventually persuaded by some cabinet members (and the advice of Harvard economics professor Frank Taussig, who was appointed the first chairman of the Tariff Commission) that an independent, nonpartisan, fact-finding agency could provide useful information on trade conditions at home and abroad, particularly given the wartime disruptions to commerce. Rep. Oscar Underwood (D-AL) saw such an agency as a threat to the low tariffs he had ushered through Congress in 1913, but his resolution to stop the proposal was defeated by a vote of 55-5 (all opposing votes were cast by Democrats).

Title VII of the Revenue Act of 1916 established the U.S. Tariff Commission (USTC). The USTC was created only to provide objective information to the Congress about trade matters and no delegation of Congressional authority was involved. Composed of six members (no more than half from a single political party), the USTC would not be involved in recommending particular tariff rates and hence there was no provision for how the tariff should be set. During its first five years in operation (1917-22), the USTC produced several reports on trade policy and made recommendations on mundane administrative details (such as improving the tariff classification schedule).

Latent Democratic fears about the potential misuse of the USTC were confirmed when the Republicans got their next shot at writing tariff legislation. A long standing concern about the tariff code was that it was too rigid in the face of changing trade conditions. Section 315 of the Fordney-McCumber Tariff of 1922 introduced the so-called "flexible" tariff provision, which authorized the President to increase or decrease a tariff rate by as much as 50 percent whenever he determined, after an investigation by the USTC, that such a change was necessary to equalize differences in the cost of production between the United States and foreign countries. Although this provision was hardly ever employed over the course of the 1920s, when it was used it resulted more frequently in higher than in lower import duties.[4] Democrats were dismayed by the introduction of the "costs of production" principle as bureaucratic objective and by the operation of the "flexible" tariff provision.[5]

To conclude briefly, up to the Great Depression the Congress never seriously considered delegating its tariff-making powers to another agency.

2.2 Tariff Bargaining by the Executive

As a practical matter, the Congressionally-set tariff proved to be non-negotiable. Under his foreign policy powers, the President could always negotiate a tariff reduction treaty with another country. However, the measure would require not just the approval of two-thirds of the Senate, but implicitly require House approval as well because it would involve a revenue matter. Knowing that the executive could not commit to the implementation of any signed agreement, foreign countries were reluctant to negotiate with the United States. Just three major trade agreements -- with Canada (1855-66), Hawaii (1876-1900), and Cuba (1903-34) -- were enacted during this period.

The Tariff Act of 1897 was the first to authorize the President (within two years) to reduce certain import duties (by no more than 20 percent, in agreements lasting no more than five years) in conjunction with countries giving equivalent tariff concessions. Any agreement would still require the approval of both the House and Senate, but by explicitly

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[4] During 1922-29, the USTC conducted some eighty investigations and issued some forty reports. The president raised import duties in 33 of 38 cases. The duty reductions were on such commodities as phenol, live bobwhite quails, cresylic acid, and paintbrush handles. See Kelley (1963), p. 22.

[5] In drafting the Smoot-Hawley tariff of 1930, Democrats and Progressive Republicans formed a coalition to wrest control of the "flexible tariff" from the executive and return it to the Congress. President Hoover threatened to veto any tariff bill with that provision, and in the end the coalition was defeated.

inviting such agreements Congress implied that it would approve them, even promising to consider any agreement without amendment.

As the qualifications suggest, however, the invitation for the president to undertake negotiations was rather tepid and carefully circumscribed. Congress's endorsement of reciprocity ultimately proved empty because treaty opponents ensured that not one of the 11 negotiated agreements even came up for a vote. Furthermore, the tariff act in which this provision appeared was apparently set up as a classic bargaining duty: tariff rates were set 20 percent higher than otherwise to take into account their later reduction under presidential agreements, according to the USTC (1919, pp. 202-3). In the end, the United States had a high bargaining tariff without having approved any of the bargains. The Tariff Act of 1913 also had a provision authorizing the president to undertake tariff negotiations, but no agreements were negotiated.

Congress more frequently embraced a different kind of reciprocity, one to eliminate foreign discrimination against U.S. goods by imposing penalties rather than offering concessions. The McKinley Tariff of 1890, for example, authorized the President to impose penalty duties on the importation of sugar, molasses, coffee, tea, and hides from foreign countries which had "unequal and unreasonable" tariffs on U.S. goods. Reciprocity here was not the mutual reduction of tariffs but the elimination of foreign discrimination. It was to be achieved not through the carrot of bargaining but the stick of retaliation.

In 1909, Congress shifted gears and passed a two-column, "maximum-minimum" tariff schedule. The maximum schedule was designated as the general tariff, but if the president determined that another country's policies did not "unduly discriminate" against U.S. products, he could apply the minimum schedule to that country's goods. In this instance, the president rendered the maximum schedule moot by determining that no foreign country "unduly" discriminated against the United States.

All of these measures, however, amounted to half-hearted tinkering and proved to be short-lived. The penalty duties in the McKinley tariff of 1890 were abolished by the Democratic tariff of 1894, reinstituted by the Republicans in 1897, abolished by the Democrats once again in 1913 and not reintroduced by the Republicans in 1922. The 1897 invitation for the President to bargain was absent in the 1909 law, reappeared again in 1913, but was left out of both the 1922 and 1930 tariff acts. Before 1922 "the United States tariff, although negotiable in principle, had not been very negotiable in fact," writes Kelley (1963, p. 27). "After 1922, even the principle of negotiability was discarded." A Republican "scientific" tariff based upon the equalization of costs of production could not be reconciled with a tariff that could be arbitrarily bargained away.

Congress's tight reigns on tariff-making also constrained the President from exercising greater international economic leadership in the interwar period. Although encouraging freer, nondiscriminatory trade policies was one of President Wilson's Fourteen Points promulgated after World War I, he was unable to follow through with any substantive effort in this direction. At international economic gatherings through the 1920s, particularly the 1927 World Economic Conference, the State Department could offer platitudes but not concrete proposals.

Two unheralded but key changes took place during this period that would have important implications for the future course of U.S. trade policy. First, the income tax, which the Democrats had consistently linked to tariff reform, dramatically reduced the dependence of the Federal government on revenues from import duties after 1916. Tariffs generated over 90 percent of Federal revenue prior to the Civil War, and about 50 percent from 1870-1910, but only about 10 percent of Federal revenue in the 1920s. The tariff was now free to be set with objectives other than revenue in mind.

Second, with almost no fanfare the United States announced in 1923 that it would adopt an unconditional most-favored-nation (MFN) policy. Up to that point, the United States had adhered to a conditional MFN policy, in which U.S. tariff concessions to one country would not be extended to others unless a reciprocal reduction was offered. Under an unconditional MFN policy, any negotiated U.S. tariff reduction would be automatically applied to all countries which had an MFN treaty with the United States. The 1923 decision formalized the U.S. commitment to nondiscrimination as a ruling principle in international commerce. At the time this was a minor change in the administration of trade policy. "Because the United States conditional MFN policy resulted in relatively little discrimination," Kelley (1963, p. 35) notes, "the adoption of an unconditional MFN policy in 1923 would not be of such major significance had the United States tariff continued to be virtually non-negotiable." Precisely because the Republicans did not anticipate any major tariff negotiations did they willingly adopt a policy that became the cornerstone of such negotiations.

The following should now be clear: right up to the Smoot-Hawley tariff, Congress was reluctant to delegate <u>any</u> of its tariff-making powers either to an independent agency in order to obtain better information or to the executive in order to reach reciprocal tariff reduction agreements.

3. Smoot-Hawley and the Great Depression

The Smoot-Hawley tariff of 1930 has been popularly portrayed as an aberration, an atrocious piece of tariff legislation whose extremity reflects special interest log-rolling run amok. Taking the previous half century into one's perspective, however, suggests that

Smoot-Hawley was not that much out of the ordinary. Indeed, Smoot-Hawley fits in well with the pre-World War I pattern of Republican control of the tariff described above.

Once the Republicans regained control of Congress and the presidency in the 1920 election, they promptly raised tariffs. Following the Emergency Tariff Act of 1921, the Fordney-McCumber tariff of 1922 formalized and extended the sharp increase in import duties: Republicans aimed not just to reverse the Democratic tariff reduction of 1913 but to raise rates further to insulate domestic industries from postwar competition from Europe. As firms lined up with complaints about import competition and requests for higher tariffs, Rep. Joseph Fordney (R-MI), chairman of the House Ways and Means Committee, reportedly stated that it was his duty to "give the boys what they wanted."[6] Partly as a result, the average tariff (shown on Figure 1) returned to where it had been just prior to the war, but still below where it had been around the turn of the century.

In view of the increasing economic difficulties that afflicted agriculture during the 1920s, it was not unnatural for the Republicans to call for another upward revision of the tariff during the election campaign of 1928. (Recall that several times previously the Republicans had revised their own tariff.) Having secured the presidency once again with even greater Congressional majorities, Republicans began work on the Smoot-Hawley tariff bill in January 1929. When it achieved final passage 18 months later, the vote was predictably partisan: in the House, 92 percent of Republicans favored the measure, 91 percent of Democrats opposed it; in the Senate, 78 percent of Republicans favored the bill, 86 percent of Democrats opposed it.

The Smoot-Hawley tariff was not particularly unusual in the degree to which it

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[6] Quoted in Kenkel (1983), p. 152.

raised import duties. According to the USTC, had the Smoot-Hawley tariff rates been applied to actual imports observed in 1928 it would have pushed the average ad valorem equivalent rate of duty from 34.6 percent (under the Fordney-McCumber tariff) to 42.5 percent, an increase of about 23 percent. This was not as significant a tariff increase as Fordney-McCumber, which the USTC suggested (in a similar fixed import weight calculation) pushed the average tariff rate up 64 percent from the Democratic Underwood tariff of 1913.[7] Smoot-Hawley helped boost the average tariff up to where it had been around the turn of the century.

Yet Smoot-Hawley was unique on several dimensions. The legislation took much longer (from January 1929 to June 1930) to go from House Ways and Means Committee hearings to final Congressional passage than most previous tariff legislation. At almost 200 pages the bill was significantly longer, more complex, and more controversial than its predecessors. President Hoover's promise of "limited tariff revision" to help farmers was compromised by the bill, which overhauled the entire tariff and included much higher duties for manufacturers as well. Public opposition to the bill was much more vocal than previous tariff acts, partly because special interest log-rolling was either more blatant or there was greater sensitivity to such log-rolling.[8] Taussig (1931, p. 499) speaks of Hoover being "besieged" by requests to veto the bill as farmers objected, newspaper editorialists moaned, foreign governments protested, and 1,028 economists signed a petition urging

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[7] See Irwin (1996a).

[8] Schattschneider (1935) remains the classic reference on the politics of the Smoot-Hawley tariff. See also Irwin and Kroszner (1996) for an analysis of log-rolling in Senate roll call votes on individual tariffs, and Callahan, McDonald, and O'Brien (1994) for an analysis of factors determining the final Congressional votes. Eichengreen (1989) provides an excellent general discussion of Smoot-Hawley.

the President not to sign the legislation.

The Smoot-Hawley tariff was not a response to the Great Depression: preparation for tariff revision began in late 1928 in reaction to the severe economic distress faced by farmers, well before the stock market crash or the slide in aggregate output and employment. Instead, Smoot-Hawley became infamous as a result of the economic catastrophes that occurred in its wake. Smoot-Hawley was later blamed for the 40 percent plunge in the volume of U.S. trade in the two years after its imposition, for poisoning international trade relations by triggering a wave of foreign tariffs that put world commerce on a downward spiral, and even for turning a modest recession into the Great Depression.

The Smoot-Hawley tariff, however, was almost surely not responsible for causing the Great Depression. There are no strong theoretical or empirical grounds for maintaining that higher average tariffs lead to business cycle downturns; the larger Fordney-McCumber tariff increase, for example, was followed by an economic recovery.[9] Pushing up the average tariff from 40 to 47 percent, as in the case of Smoot-Hawley we shall see, results in just a 5 to 6 percent increase in the relative price of imports at a time when imports were only 4 percent of GNP. It is not even clear whether the tariff exacerbated or ameliorated the Depression. Two studies of the macroeconomic effects of Smoot-Hawley differ as to the direction of the effect, although they arrive at comparable magnitudes -- which are small, relative to the Depression itself. Crucini and Kahn (1997) argue that

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[9] Dornbusch and Fischer (1986, pp. 468-69) write in the context of Smoot-Hawley that "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."

tariff-induced distortions to capital accumulation and foreign retaliation could have brought about a 2 percent decline in U.S. GNP, while Eichengreen (1989) argues that the Keynesian-type stimulus from Smoot-Hawley dominated any foreign retaliation and could have increased GNP by about 2 percent.

If Smoot-Hawley did not play a major role in promoting or inhibiting the Great Depression, it bears part of the responsibility for the collapse of trade in the early 1930s. Even here, however, Irwin (1996a) finds that declining income rather than the higher tariff accounts for most of the observed 40 percent fall in import volume between 1930 and 1932. The volume of imports fell 15 percent, for example, in the year prior to the imposition of the Smoot-Hawley tariff, a period when real GNP fell 7 percent. But the Depression exacerbated the impact of the tariff through an unusual mechanism: the ad valorem equivalent of specific duties, which were levied on roughly two-thirds of dutiable imports, rose during periods of deflation. The 50 percent fall in import prices between 1929 and 1932, therefore, dramatically raised the real effective tariff.[10] In fact, the deflation-induced increase in the tariff exceeded that of the Smoot-Hawley legislation: Congress pushed up duties about 20 percent, from 40 to 47 percent average ad valorem during 1929-30, while deflation increased the duties an additional 30 percent to a peak of almost 60 percent in 1932, as shown in Figure 1. In all the effective tariff went up nearly 50 percent in the early 1930s, sufficient to raise the relative price of imports by about 15 percent and reduce import volume by about 12-17 percent (ceteris paribus).

If the economic contraction was primarily responsible for the precipitous drop in imports, what accounts for the roughly equal drop in export volume between 1930 and

[10] On this point see Crucini (1994) and Irwin (1996b).

1932? (Figure 2 shows that both exports and imports -- as a percent of GNP -- fell sharply in the early 1930s, with little change in the balance of trade.) The symmetric decline in U.S. exports could have been brought about by declining foreign demand due to (1) the inability of foreign countries to earn dollars from exports to the United States; (2) declining foreign incomes due to the Great Depression abroad; (3) higher foreign tariffs and other trade restrictions. Smoot-Hawley has been blamed for bringing on these higher foreign trade barriers and for exacerbating world trade tensions.

Three explanations have been proposed for how U.S. policy relates to higher tariffs abroad: Smoot-Hawley may have (i) spawned direct retaliatory measures against the United States, (ii) signaled a breakdown in policy discipline and triggered tariff increases as other countries followed the U.S. example, (iii) had no impact on foreign tariffs, which increased for the same domestic political economy reasons that U.S. tariffs were raised. To some degree, all three factors were at work. As Jones (1934) has documented, Canada, Spain, and Switzerland provide the clearest examples of countries that retaliated with specific, discriminatory tariffs against U.S. products.[11] The League of Nations (1933, p. 193) stressed the second reason, arguing that Smoot-Hawley "was the signal for an outburst of tariff-making activity in other countries, partly at least by way of reprisals." Finally, Eichengreen (1989) argues that purely domestic considerations would have led to higher tariffs in Britain and elsewhere, even if Congress had not passed Smoot-Hawley. A somewhat impressionistic reading of the evidence (consistent with Eichengreen's 1989 conclusion) suggests that reasons (ii) and (iii) were the most important factors, with reason (iii) probably the dominate one.

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[11] See the detailed study of Canada's reaction to Smoot-Hawley by McDonald, O'Brien, and Callahan (1996).

At any rate, the international economic climate in 1932 was dramatically different from what it had been in 1929. World trade volume fell 26 percent and world industrial production plummeted 32 percent between 1929 and 1932. Widespread protectionism -- in the form of tariffs, import quotas, foreign exchange restrictions, and the like -- materialized overnight.[12] What was the response of the Hoover Administration to these developments? Through 1931 and 1932, the response on the trade policy front was inaction: no solutions were offered, and no major change in course was considered.

4. The Democratic Response: The Reciprocal Trade Agreements Act of 1934

The election of 1930 handed the Democrats control of the House and, with the aid of progressive Republicans, a working majority in the Senate on trade issues. This provided the Democrats with their first chance since the Wilson administration to change the course of U.S. trade policy.

Democrats and progressive Republicans joined forces behind the Collier bill, introduced in January 1932. Disillusioned by the way the "flexible tariff" provision had been employed simply to raise tariffs during the 1920s, Democrats and progressive Republicans sought to deprive the president of the ability to make adjustments in tariff rates and give Congress that authority instead. The bill also authorized the president to undertake negotiations with other countries to reduce tariffs. While this is evidence of Congressional sentiment in favor of tariff bargaining, any agreement would still require Senate approval.

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[12] The figures are from the League of Nations (1934), p. 45. On the spread of protectionism across Europe, see League of Nations (1942) and Liepmann (1938).

The Collier bill passed the House in a partisan vote, 100 percent of Democrats in favor and 94 percent of Republicans against. The Senate later approved the measure by a similarly partisan vote, whereupon it was promptly vetoed by President Hoover in May 1932. In his veto message, Hoover (1977, pp. 205-7) stated that there has "never 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." The tariff was "solely a domestic question" and economic conditions made its maintenance "imperative." An international conference was inappropriate because it might lead to the "abandonment of essential American policies." Hoover also objected to the elimination of presidential authority over the flexible tariff.

Democrats got a better opportunity to put their mark on tariff policy when they were swept into power in the election of 1932. The Democratic platform and Candidate Franklin Roosevelt had criticized the Smoot-Hawley tariff during the election campaign and proposed reciprocal trade agreements with other countries. In view of the high unemployment rate, however, Roosevelt also promised not to strip away protection for American industry. Despite Roosevelt's equivocations over tariff policy, his Secretary of State, Cordell Hull, was staunchly in favor of lower tariffs through international negotiations and was the main force behind the RTAA.

4.1 Formulating the RTAA

Had they came to power in ordinary circumstances, the Democrats might simply have enacted a unilateral tariff reduction as they had done in 1913. Some Democrats proposed just this. In August 1931, for example, Sen. Kenneth McKellar (D-TN) suggested repealing the Smoot-Hawley tariff and enacting an immediate, across-the-board tariff cut of 25 percent. A draft speech for Roosevelt prepared by Cordell Hull in September 1932 contemplated slashing tariffs unilaterally by 10 percent and then negotiating further reductions.[13]

But the economic situation in 1933 differed from that in 1913 on two dimensions and prevented this course of action. First, the U.S. economy was in the depths of the depression. Most Democrats wanted lower tariffs, but in the midst of high unemployment and stagnant output they could not muster the political support to seriously consider a unilateral tariff cut.[14] Second, foreign tariffs escalated sharply during 1930-32 and had been supplemented with quantitative restrictions and exchange controls. Table 1 shows how tariffs in the major U.S. export markets increased during this period. While Smoot-Hawley might have spawned some of those barriers, a repeal of Smoot-Hawley was not going to eliminate them.

Thus, the domestic and foreign economic situation together undercut the case for unilateral action. Many feared that a repeal of Smoot-Hawley would be contractionary unless opportunities were created for increasing U.S. exports. Entrenched foreign trade barriers, it was believed, could be reduced only through negotiation. Some business groups also began to coalesce behind the principle of *reciprocal tariff reductions*. As a result, there was virtually no sentiment in Congress for unilateral tariff reductions and much greater support for reciprocity.

In April 1933, President Roosevelt announced his intention to request negotiating authority from the Congress to undertake tariff reduction agreements with other countries.

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[13] See Tasca (1938), p. 14, and Haggard (1988), p. 106.

[14] Hull (1948, I, p. 358) later wrote that "it would have been folly to go to Congress and ask that the Smoot-Hawley Act be repealed or its rates reduced by Congress."

Secretary of State Hull departed for the London Monetary and Economic Conference in June with the expectation that such negotiating authority would be forthcoming and that he could make substantive tariff-reduction proposals. In London, Hull quickly discovered two things.

First, the administration had decided to postpone its request for negotiating authority to concentrate on the passage of the National Industrial Recovery Act (NIRA) and the Agricultural Adjustment Act (AAA) through Congress. Roosevelt's political advisors feared that adding ambitious trade legislation to the first 100-days agenda might overload Congress and jeopardize the timely passage of the domestic components of the New Deal. As a result, though delegates in London proposed him as chairman of a committee on trade barriers, Hull (1948, I, p. 258) "promptly declined because the American delegation had been stripped of any real authority to function in this field."

Second, there was, at any rate, no support for a multilateral tariff reduction conference among the London participants. As Hull (1948, I, p. 356) put it:

> "In earlier years I had been in favor of any action or agreement that would lower tariff barriers, whether the agreement was multilateral . . . regional . . . [or] bilateral . . . . But during and after the London Conference it was manifest that public support in no country, especially our own, would at that time support a worth-while multilateral undertaking. My associates and I therefore agreed that we should try to secure the enactment of the next best method of reducing trade barriers, that is, by bilateral trade agreements which embraced the most-favored-nation policy in its unconditional form -- meaning a policy of nondiscrimination and equality of treatment."

The Administration finally put forth its proposal in early March 1934. The President requested negotiating authority to reduce U.S. tariffs in trade agreements that would not require Congressional approval. Roosevelt stated "that a full and permanent domestic recovery depends in part upon a revived and strengthened international trade and that American exports cannot be permanently increased without a corresponding increase in imports."[15]

The contrast between the House Ways and Means consideration of the RTAA (the final provisions of which will be discussed shortly) and Smoot-Hawley could not be starker: in 1929 the committee heard 1,131 witness (none from the executive branch) over 43 days generating 11,200 pages of published testimony (plus index) in 18 volumes; in 1934 the committee heard from 17 witnesses (7 from the administration) over 5 days in testimony amounting to 479 pages in 1 volume. While the 173 pages of Smoot-Hawley legislation took 18 months to work its way through Congress, the RTAA's 3 pages took just 4 months.[16] Like Smoot-Hawley, however, passage of the RTAA was almost strictly partisan. The House approved the bill on March 20 with 96 percent of the Democrats voting in favor, 98 percent of Republicans voting against. The Senate approved the measure in early June (with 93 percent of Democrats in favor, 85 percent of Republicans opposed) and Roosevelt signed it on June 12.

Cordell Hull (1948, I, p. 357) later recalled that "in both House and Senate we were aided by the severe reaction of public opinion against the Smoot-Hawley Act." The notion that the passage of the RTAA constituted a repudiation of Smoot-Hawley by Congress persists to this day. But the passage of the RTAA did not reflect a change in the underlying tariff preferences of individual politicians, just a change in the partisan composition of Congress, namely the Democratic majority. By examining the votes of all members of Congress who voted on both Smoot-Hawley and the RTAA, Schnietz (1994) clearly demonstrates that Congress did not "learn" that the Smoot-Hawley tariff was bad.

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[15] Quoted in Tasca (1938), p. 300, which reproduces the text of the President's message.

[16] Schneitz (1994) and Congressional Record, June 14, 1930, p. 10761.

The learning hypothesis implies that members who voted for Smoot-Hawley later regretted its harmful consequences and voted for the RTAA. But only six of the 178 House members who voted on both measures demonstrate this type of learning, and all were Democrats. No House Republican who voted for Smoot-Hawley also voted in favor of the RTAA.[17] Whether the electorate "learned" to prefer the tariff views of the Democrats is doubtful because Smoot-Hawley played an insignificant role in the Democrats's electoral success in 1930 and 1932.

The RTAA, which was technically an amendment to Smoot-Hawley, had the following provisions:

o the president was authorized to enter into tariff agreements with foreign countries;

o the president could proclaim an increase or a decrease in import duties by no more than 50 percent, but could not transfer any article between the dutiable and free lists;

o the proclaimed duties would apply to imports from all countries on an unconditional MFN basis;

o the president's authority to enter into foreign trade agreements would expire in three years;

o any agreement could be terminated after three years with 6 months notice, otherwise it would survive indefinitely.[18]

The most important change from previous legislation was that Congress waived its

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[17] Of the 47 Senators who voted on both bills, only 2 Democrats and 1 Republican "learned."

[18] The complete text of the RTAA is in Tasca (1938), pp. 306-8.

approval of the agreements. Congress also explicitly endorsed the unconditional MFN clause, under which tariff reductions negotiated with one country would be automatically extended to others.

On the House floor a key amendment was offered to the President's proposal that served to ensure ongoing Congressional influence over trade policy. While the President had proposed (with the concurrence of the Ways and Means Committee) no time limit to the negotiating authority, the House instead chose to limit the authority to three years, after which it would automatically terminate without renewal by Congress. This feature of the RTAA strengthened Congress's hand because the threat of non-renewal of negotiating authority would keep the executive branch politically sensitive to the legislature's concerns. Had this provision not been added, a two-thirds majority of both Houses of Congress would have been required to override a presidential veto of a bill striping away his negotiating authority.

Unlike Smoot-Hawley, Congress's consideration of the RTAA attracted virtually no participation by interest groups.[19] Haggard (1988, p. 112) reasons that "in contrast to 1930 . . . when interest groups were the main protagonists and specific tariff rates the issue, the most important issues at stake in 1934 were institutional, centering on the transfer of authority from Congress to the executive." The RTAA was simply enabling legislation, and no one knew how the authority would be used, how successful the negotiations would be, or how extensive the agreements might be. When the RTAA was passed, Congress could not anticipate how important the legislation would become or even whether it would be sustained by future Congresses. In view of the many short-lived trade

[19] For this reason, Pastor (1980, p. 91) writes that it is "not surprising that there are few interest group political analyses of the 1934 Trade Act."

policy experiments of the past three decades, it was not obvious that the RTAA would necessarily bring a lasting, durable change in U.S. trade policymaking. Perhaps this accounts for the minimal participation of interest groups, even among export associations, in the RTAA's passage.

Bailey, Goldstein, and Weingast (1996) and Schnietz (1994) interprete the RTAA as being an institutional mechanism cleverly designed by the Democrats to lock-in their preferred tariff level.[20] By making reciprocal tariffs reductions via the RTAA rather than a treaty, only half of Congress (rather than two-thirds) was needed to enact lower tariffs. If the RTAA succeeded in reducing tariffs, it also would constrain future (Republican) politicians from easily reversing the policy since it was made in the context of a foreign trade agreement. With hindsight this interpretation rings true, but the RTAA's success was not guaranteed. The RTAA could easily have been reversed by the Republicans had they been returned to power, and until the early 1940s they explicitly vowed in their party platform to halt and perhaps reverse any tariff changes brought about by the RTAA. (Section 5 will discuss the emergence of the postwar consensus in favor of RTAA.)

4.2 Implementing the RTAA

During the first year of the RTAA, Secretary of State Hull's most important battles were conducted within the administration. According to Hull (1948, I, p. 370), "the greatest threat to the trade agreements program came not from foreign countries, not from the Republicans, not from certain manufacturers or growers, but from within the Roosevelt administration itself, in the person of George N. Peck, former chief of the AAA," who in 1934 became the President's foreign trade adviser (operating outside the State

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[20] See also Nelson (1989) for an excellent discussion of the domestic political sources of the changes in U.S. trade policy during this period.

Department). Peck was not alone within the administration in viewing lower tariffs as conflicting with New Deal programs aiming to promote domestic economic recovery by raising prices. In fact, the NIRA and AAA gave the president the authority to block imports that interfered with this objective.[21]

The State Department consolidated its control over trade policy after Peck resigned in November 1935. That State, rather than other agencies such as the Commerce Department, was the locus of the trade negotiations proved to be important. Led by a staunch supporter of freer trade, Hull's State Department was more insulated from domestic economic interests than other agencies, and was able to focus on the diplomatic and economic benefits of trade agreements.[22]

An interagency committee (dominated by the State Department but also including the USTC and the Departments of Agriculture, Commerce, and Treasury) oversaw the trade agreements program. Once the committee announced its intent to negotiate with a particular country, time was set aside to receive public comment, usually from exporters wishing for certain foreign tariffs to be reduced or domestic producers worried about U.S. tariff cuts on certain commodities. In the negotiations the United States would not offer an across-the-board horizontal tariff reductions, but specific tariff cuts on a product-by-product basis. This selective approach was to be pursued, according to the RTAA, "in accordance with the characteristics and needs of the various branches of American production." To mitigate the problem of "free riding" by other countries, tariffs would be

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[21] Peck was also a sharp critic of unconditional MFN, which he called "unilateral economic disarmament" for fear it would lead to free riding by other countries.

[22] Haggard (1988, p. 93) notes that "giving the State Department a central role in trade policy introduced a broader international economic and political considerations onto the policy agenda while providing a strong institutional base for free-traders."

reduced only on commodities in which the negotiating country was a "principal supplier."

The United States had mixed results in bringing other countries to the bargaining table during the 1930s. Table 1 lists the largest U.S. export markets prior to the Depression. By 1936 agreements had been reached with only three of those countries: Canada (America's largest trading partner), France, and the Netherlands. Germany had requested negotiations, but the United States refused because of its discriminatory trade practices (such as barter arrangements with southeastern Europe). Japan, Argentina, and Australia expressed no interest in negotiating, and talks with Italy broke down.

The United States also approached Britain, the second largest foreign market for U.S. goods, in search of a trade agreement. Britain was unenthusiastic; it had just established a higher tariff with colonial preferences, and the United States took just 6 percent of British exports. As war approached in Europe, however, Britain saw diplomatic advantages to signing an agreement. The result, in Rooth's (1993, p. 303) words, was "a limited and unspectacular treaty, produced by difficult and protracted negotiations." Furthermore, it was in effect for less than a year before Britain entered World War II in late 1939.

By 1940, the United States had signed agreements with 21 nations that accounted for over 60 percent of U.S. trade. (Table 2 lists the countries with whom the United States signed trade agreements.) How extensively did these trade agreements reduce the average U.S. tariff? As reported in Tasca (1938, pp. 188ff), the USTC calculated the duties that would have been collected in 1934 had the tariff resulting from the first 13 country agreements implemented by 1936 been in effect. This fixed weight measure indicates a decline in the average ad valorem tariff from 46.7 percent to 40.7 percent, a 13 percent drop, not much more than half of the Smoot-Hawley increase. The extent of the tariff reductions varied substantially across commodities. By far the largest cuts were concentrated in the "spirits, wines, and other beverages" category of the tariff schedule, with almost no reductions in textile tariffs.

Another calculation over a slightly longer time period yields a tariff reduction on the same order of magnitude. As measured by the ratio of tariff revenue to dutiable imports, the average ad valorem tariff declined from 46.7 percent in 1934 to 37.3 percent in 1939. This amounts to a 20 percent reduction in the average tariff, pushing it just below its pre-Smoot-Hawley level of 40.1 percent in 1929. Only part of this reduction is due to the RTAA. Import prices rose 11 percent between 1934 and 1939 and reduced the ad valorem equivalent of the specific duties that had been nominally fixed in the Smoot-Hawley tariff. Using Irwin's (1996b) estimate of the elasticity of average tariff with respect to import prices of -0.64, higher import prices reduced the tariff reduced by 7.1 percent (or 3.3 percentage points). This calculation implies that the RTAA reduced the tariff by 12.8 percent, quite close to the USTC's estimate of 13 precent. As a result, negotiated tariff reductions (as opposed to higher import prices) accounted for two-thirds of the overall tariff cut during 1934-39.

What was the impact of this tariff cut on U.S. imports, the pattern of U.S. trade, and on the economic recovery from the Depression? If lower tariffs were fully passed through to import prices, the tariff reduction attributable to the RTAA would have reduced the relative price of imports by 4 percent, sufficient to increase the volume of imports about 3.3 percent (given Irwin's 1996a estimate of the price elasticity of import demand of -0.8). The actual volume of imports rose 25 percent during 1934-39, so the RTAA apparently made just a modest contribution to the recovery of trade after 1933. There is some evidence in Tasca (1938, pp. 265ff) and elsewhere that the pattern of U.S. trade shifted toward countries with whom trade agreements had been signed. There is no evidence that trade was a particularly strong component of the economic recovery. The contribution of net exports to real economic growth after 1933, for example, was often negative.

5. Perpetuating the RTAA: Political Consensus and the Post-War Order

Republicans voted overwhelmingly against the RTAA in 1934. Fearing the unraveling of protective tariffs and the loss of Congressional control over trade policy, Republicans raised economic and constitutional questions about the RTAA. They complained that any move to reduce tariffs would jeopardize the ongoing recovery from the Depression. They also charged that the RTAA involved an unconstitutional delegation of legislative taxation powers to the executive. Sen. Arthur Vandenberg (R-MI) called the RTAA "fascist" for giving the president the ability to tax imports. The Republican platform of 1936 vowed to "repeal the present reciprocal trade agreement law," deeming it "destructive" for "flooding our markets with foreign commodities" and "dangerous" for entailing secret negotiations without legislative approval. Republicans voted overwhelmingly against renewing the RTAA in 1937.[23]

By 1940, however, the Republican position had softened. That year's platform, which endorsed "genuine" reciprocity agreements, did not call for the repeal of the RTAA. Rather, it was condemned for operating "without adequate hearings, with undue haste, without proper consideration of our domestic producers, and without congressional

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[23] New York Times, January 3, 1934, p. 8. Isaacs (1948), pp. 258-59.

approval."[24] Still, Republicans voted overwhelmingly against the 1940 renewal, with 96 percent of House and 100 percent of Senate Republicans against it. In a show of wartime unity, a majority of Republicans supported a two-year renewal of the RTAA in 1943, but World War II had effectively brought the trade agreements program to a standstill. During 1940-43, new agreements with Argentina, Mexico, Iran, Peru, and Uruguay (and supplementary agreements with Canada and Cuba) were signed, and during 1943-45 a single accord (with Iceland) was reached. These agreements did not entail significant tariff reductions and none had a major impact on trade.

The biggest question facing the RTAA in 1945 was its postwar survival. The president's negotiating authority, necessary to complete the ambitious postwar plans for international commercial policies, expired in mid-1945. In addition, the 50 percent maximum reduction in tariffs specified in the original 1934 act had been made on over 40 percent of dutiable imports (USTC 1948, Pt. 2, p. 14). President Roosevelt sought the authority to reduce tariffs another 50 percent over the next three years. Republicans again tried to restrict the president's powers.[25] Pastor (1980, p. 95) notes that the House leadership helped defeat "twelve different amendments which would have given Congress veto power, reduced or eliminated the new authority, or help several special interests." In the House, the final vote was again largely along party lines: 95 percent of Democrats favored renewal while 81 percent of Republicans were opposed. In the Senate, the 88

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[24] Quoted in Isaacs (1948), p. 267.

[25] The Republican platform of 1944 announced that they would cooperate in "removal unnecessary and destructive barriers to international trade," but that it wanted to "maintain [a] fair protective tariff . . . so that the standard of living of our people shall not be impaired" and that the tariff should be modified "only by reciprocal bilateral trade agreements approved by Congress." Quoted in Isaacs (1948), pp. 274-75.

percent of Democrats in favor were joined by a surprising 43 percent of Republicans. Irwin and Kroszner (1997) find that this Republican support came from Senators in states with an above average export-orientation of producers. A bipartisan bloc in favor of the RTAA was beginning to emerge.

Unlike plans for the international monetary system, postwar international trade arrangements materialized slowly. The United States aimed to convert the piecemeal, bilateral RTAA approach into a broader, multilateral process. In November 1945, the State Department circulated the document "Proposals for Expansion of World Trade and Employment," which envisioned an International Trade Organization (ITO) having wide-ranging authority over global commerce, including trade policy, cartels, commodity agreements, employment, economic development, and international investment. Negotiations to finalize the ITO charter took another 2-1/2 years, and while the United Nations eventually approved the charter in 1948, it proved stillborn due to lack of U.S. support. (In 1950, the Truman Administration finally decided that the ITO would not be submitted for Congressional approval.)

The commercial policy articles of the ITO charter, however, were negotiated and finalized in Geneva from April-October 1947 and resulted in a General Agreement on Tariffs and Trade (GATT). The GATT set out the principles governing the trade policy of signatory countries, including first and foremost unconditional MFN treatment for all GATT signatories. The agreement also embodied tariff reductions negotiated by the 23 participating countries. The tariff negotiations were conducted on a bilateral, product-by-product basis (using the principal supplier rule). The lower negotiated rates were then generalized to other participants via the MFN clause and considered bound at those rates. In the case of the United States, these tariff reductions became effective on January 1, 1948 and did not require Congressional approval.

How extensive were the tariff reductions introduced by the first GATT negotiating round at Geneva? The USTC (1948, p. 19) calculated that had the Geneva duties been in effect in 1947, the average ad valorem rate on dutiable imports would have been 15.3, instead of the actual 19.4, amounting to a 21.1 percent tariff reduction. But higher import prices brought an additional reduction by lowering the ad valorem equivalent of specific duties. Import prices rose 10.5 percent between 1947 and 1948, which would have reduced the tariff by about 7.0 percent, according to Irwin's (1996b) calculations. So in this one pivotal year, fully a third of the total U.S. tariff reduction -- from 19.4 percent in 1947 to 13.9 percent in 1948 -- was due to higher import prices.

Remarkably, the immediate postwar trade liberalization of the United States effectively ends with the Geneva agreement in 1947. The Geneva negotiations were followed up by negotiating rounds at Annecy (1949), Torquay (1950-51), and Geneva (1955-56), which resulted in additional members to the GATT club but negligible tariff reductions (about 2.5 percent in each round, on average). The Dillon Round (1961-62) also accomplished little. Not until the Kennedy Round, initiated in 1962 (but not completed until 1967) owing to U.S. concerns about the impact of the European Economic Community on its exports, was there another significant reduction in U.S. tariffs through multilateral negotiations.[26]

But the U.S. tariff wall had been breached: the average ad valorem tariff, which

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[26] According to Koch (1969, pp. 82, 84), "an important factor [behind the passivity during the late 1940s and through the 1950s] was the growing protectionism in the United States. . . . there was a feeling that the United States had given away concessions without any real corresponding benefit, as the European countries were slow in eliminating their discrimination against dollar goods" and had failed to dismantle their colonial preferences as well. Also see Irwin (1995) for a discussion of the early GATT rounds.

stood at 59 percent in 1932, was just 12 percent by 1954. The average tariff had been reduced by 80 percent. Yet only about 29 percent of this reduction can be attributed to lower tariff rates arising from negotiated trade agreements. The silent and gradual erosion of specific duties (last set in nominal terms by the Smoot-Hawley duties in 1930) by inflation was the overwhelming source of the reduction in tariffs. This finding does not imply that the RTAA and subsequent GATT agreements were irrelevant. Although U.S. tariffs would have declined significantly in the absence of any trade agreements, the RTAA-GATT mechanism raised the cost of possible Congressional action to unravel these de facto reductions.

The RTAA mechanism formally bound the tariffs at lower levels against the temptation to raise them. But what really ensured the sanctity of the lower tariffs was that Republicans, even after having won control of Congress in the 1946 election, now accepted the trade agreements program and allowed the Geneva negotiations that created the GATT to continue. Early in 1947, Rep. Thomas Jenkins (R-OH) of the Ways and Means Committee introduced a resolution to halt the Geneva negotiations until the USTC had studied the impact of lower tariffs on U.S. industry. Two senior Republican Senators (including Sen. Arthur Vandenberg, who had earlier called the RTAA "fascist") reached an agreement with the State Department in which the Jenkins resolution would be killed in exchange for an "escape clause" that would establish procedures allowing domestic industries to obtain relief from import competition. President Truman issued an executive order stating that in all future trade agreements, the United States could withdraw or modify concessions "if, as a result of unforeseen developments and of the concession granted by the United States on any article in the trade agreement, such article is being imported in such increased quantities and under such conditions as to cause, or threaten, serious injury to domestic producers of like or similar articles. . . "[27] This language was included as Article XIX of the GATT. Republicans accommodated, to a limited extent, special interests adversely affected by lower tariffs, but also implicitly accepted the past and future tariff reductions as a fait accompli.

Thus, in their one big opportunity to halt the continuation of the trade agreements program into the postwar period, the Republicans balked. Yet although the Geneva negotiations were allowed to proceed unchallenged, the Republicans did bring a screeching halt to further tariff reductions or additional trade agreements. The Republican Congress extended Presidential negotiating authority in 1948 for just one year. Included in the renewal was the "peril point" provision, which required the USTC to calculate the protection necessary to prevent serious injury to domestic producers (although the President was not required to act on this information, if tariffs were cut below this level he would have to provide Congress with an explanation). In 1949, a new Democratic Congress repealed the previous extension with its peril point provision and enacted a new (retroactive) three-year extension of negotiating authority. Like the prewar pattern, these Congressional votes were largely partisan, although an increasing number of Republicans were supporting the Democrats.

By the early 1950s, the partisan division over trade policy had largely evaporated.[28] A Democratic Congress in 1951 extended RTAA authority for two years, but accepted the

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[27] Quoted in Leddy and Norwood (1963), p. 127. The escape clause was used sparingly between 1947 and 1951. Twenty one applications for import relief were received, resulting in just two tariff increases (women's fur felt hats and hat bodies, and hatters's fur) because most applications were dismissed after preliminary investigations. Ibid., p. 128.

[28] Watson (1956) analyzes Congressional voting on trade bills during this period and finds that regional patterns replaced partisan ones.

Republican idea of peril points and required the USTC to investigate injury complaints caused by concessions in trade agreements. A Republican Congress in 1953 extended negotiating authority, but just for a single year in exchange for President Eisenhower's pledge not to pursue further trade agreements.[29] These votes were largely bipartisan: both parties endorsed the principle of executive leadership on trade matters by continuing to extend presidential negotiating authority, although now always with safeguards for domestic import-competing producers. Neither party seriously considered reversing the existing tariff reductions, but they were also content to bring a pause to further trade liberalization.[30]

Why did the 80 percent tariff reduction over two decades, which would have been unthinkable in the mid-1930s, survive so easily in the postwar period? Several reasons can be given.

Public opinion was not hostile to new approach to trade policy. In May 1945, a survey by the American Institute of Public Opinion found that when informed voters were asked whether the trade agreements program should be continued, 75 percent answered yes, 7 percent answered no, and 18 percent were uncertain. Asked whether it was good to reduce U.S. tariffs under the trade agreements program, 57 percent said yes, 20

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[29] Meeting with Congressional leaders shortly after his election, however, President Eisenhower found that some Republicans "even hoped we could restore the Smoot-Hawley Tariff Act, a move which I knew would be ruinous." Eisenhower (1963), p. 195.

[30] Congress was also suspicious of the GATT. In every renewal of negotiating authority during the 1950s (1951, 1953, 1954, 1955, 1958), Congress included the following disclaimer: "The enactment of this Act shall not be construed to determine or indicate the approval or disapproval by the Congress of the Executive Agreement known as the General Agreement on Tariffs and Trade." Quoted in Kelley (1963), p. 107.

percent said no, and 23 percent were uncertain.[31] Despite the usual caveats that come to mind when considering public opinion polling, virtually all polls during the late 1940s and early 1950s show a clear majority in favor of lower tariffs in the context of reciprocal trade agreements.

Such favorable public sentiment reflected the fact that powerful economic interests -- both business and labor groups -- had swung behind the RTAA. This was not altogether evident from looking at the pro-protection share of oral and written testimony at congressional hearings, which remained roughly constant at 80 percent through late 1940s through 1950s, according to Verdier (1994, p. 210). But the many, narrow industry interests against lower tariffs (such as milk, mushroom, and wool producers) belied the widespread support for lower tariffs among much larger organizations. In 1945, major labor organizations, such as the Congress of Industrial Organizations (representing over 6 million workers), the United Automobile and Aircraft Workers, the Textile Workers's Union of America, and the Amalgamated Clothing Workers of America, supported extension of the RTAA. Business groups did as well, including the Chamber of Commerce, the American Farm Bureau, and the American Bankers Association. With European and Asian economies devastated by war, these groups were poised to benefit from greater exports and thus supported an open world trading system.

And although European and Japanese industries began to recover soon after the end of the war, trade liberalization entailed very small economic costs in terms of labor displacement due to import competition. Imports as a percent of GNP in the United States rose from 2.3 percent in 1946 to 3.1 percent in 1950, and remained at this level through

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[31] See Bauer, Pool, and Dexter (1963), pp. 81ff.

the 1950s. During the high tariff period of the 1920s, by contrast, imports had been at 4-1/2 percent of GNP. Meanwhile, exports accounted for 4-1/2 percent of GNP throughout 1950s. On mercantilist grounds, politicians found freer trade to be a "winning" policy.

In addition, as the Cold War intensified, support for freer trade with Western Europe and other allies dovetailed with the U.S. national security agenda. Lower tariffs and open markets, like military aid and the Marshall Plan, were linked to American national security and the containment of communism. The change of heart of Arthur Vandenburg epitomized the Republican shift: once the high tariff isolationist of the 1930s who called the RTAA "fascist," he became the anticommunist internationalist of the 1940s who accepted lower tariffs as part of the fight for democracy and economic recovery in Europe.[32] Along with changes in underlying economic interests, foreign policy considerations muted postwar Republican opposition to the RTAA.

It would be completely misleading to conclude that Congress, through its repeated delegation of trade powers to the president, abdicated any role in the formation of trade policy. Although Congress never again wrote the tariff code that set rates of import duty, they influenced the agenda by keeping the president on a short negotiating-authority leash and enacting various forms of procedural escape clauses that were expanded over the postwar period.

6. Conclusions

Did the Great Depression constitute a "defining moment" for U.S. trade policy? In

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[32] Verdier (1994, p. 204) notes that "Economic isolationism was discredited and fell into such disarray that the Republicans -- prudently, it turned out -- decided to eschew a frontal attack on the RTA during the renewal of 1948 and confine their attacks instead to procedural matters (peril points and the independent Tariff Commission)."

view of the sharp and lasting policy changes brought about during the 1930s, the answer appears to be "yes." In 1930, the Congress was firmly in control of the tariff; after 1934, the executive largely dominated tariff-making. In the early 1930s, the average tariff was over 50 percent; by 1939 it was below 40 percent and by 1949 it was below 15 percent.

While the Great Depression did play a role in bringing about these changes, a closer study of U.S. trade policy during this period qualifies this conclusion. The international nature of the Great Depression gave rise to higher foreign trade barriers against U.S. exports, which in turn prompted the executive delgation feature of the RTAA. Had the Depression been confined to the United States and foreign tariffs remained low, there may have been no need for an RTAA. Once the political prerequisite of a domestic economic recovery had been established, the Democrats could have repealed Smoot-Hawley and enacted additional unilateral tariff cuts (much as they had done after the 1892 and 1912 elections). They did not do so after 1932 in part because the higher foreign barriers gave the United States a greater incentive to abandon its independent tariff policy and engage in bargaining.[33]

Although the RTAA was born during the depression, it was not institutionalized until the late 1940s. During World War II the Republican position evolved from outright opposition to the RTAA to making agreements conditional on Congressional approval and inclusive of safeguards to protect import-competing domestic interests. It was not the Great Depression per se but the new economic and political position of the United States in the world resulting from the war that made a return to Smoot-Hawley virtually

[33] Lake (1998) discusses the international constraints on U.S. tariff policy during this period, and Hillman and Moser (1996) develop a model in which greater political support for trade liberalization can arise from reciprocal negotiations than from unilateral actions.

unthinkable. This facilitated the emergence of a bipartisan consensus in support of the executive trade agreements framework.

Finally, and remarkably, the changes in trade policy-making brought about by the RTAA had only modest effects on the level of U.S. tariffs. Three-quarters of the post-Smoot-Hawley tariff reduction was accomplished through higher import prices that eroded specific duties last set in 1930. This reduction would have occurred even in the absence of the RTAA as long as the specific duties in the Smoot-Hawley tariff remained unchanged.

Table 1: Average Tariff of Major U.S. Trade Partners, Selected Years

Country	Share of U.S. Exports in 1928	1913	1928	1932	1949	RTAA Country by 1939
Canada	18.2	26.1	23.3	27.4	15.7	✓
United Kingdom	16.5	4.3	9.9	23.1	35.7	✓
Germany	9.1	6.3	7.9	23.8	7.3	--
Japan	5.6	9.3	5.5	5.4	3.2	--
France	4.7	9.2	8.7	17.5	10.9	✓
Argentina	3.5	17.6	18.8	28.8	23.6	--
Italy	3.2	7.4	6.7	23.5	7.9	--
Netherlands	2.8	0.4	2.1	4.7	4.8	✓
Australia	2.7	17.9	22.4	41.2	18.6	--

Note on sources: Figures are not comparable across countries. For Canada, figures are average tariff applied to U.S. imports (tariff revenue divided by dutiable imports from the United States) from Canada Year Book (various issues). For other countries, average tariff is defined as tariff revenue divided by total imports from Mitchell (1983), (1992), (1995). U.S. export data from Department of Commerce, Foreign Trade and Navigation of the United States, 1928 (Washington: U.S.G.P.O., 1929).

Table 2: Reciprocal Trade Agreements, 1934 - 1939

<u>1934</u>

Cuba

<u>1935</u>

Belgium, Haiti, Sweden

<u>1936</u>

Brazil, Colombia, Canada, Finland
France, Guatemala, Honduras
The Netherlands, Nicaragua, Switzerland

<u>1937</u>

Costa Rica, El Salvador

<u>1938</u>

Czechoslovakia, Ecuador

<u>1939</u>

United Kingdom

Note: Year is when treaty became effective.

Figure 1

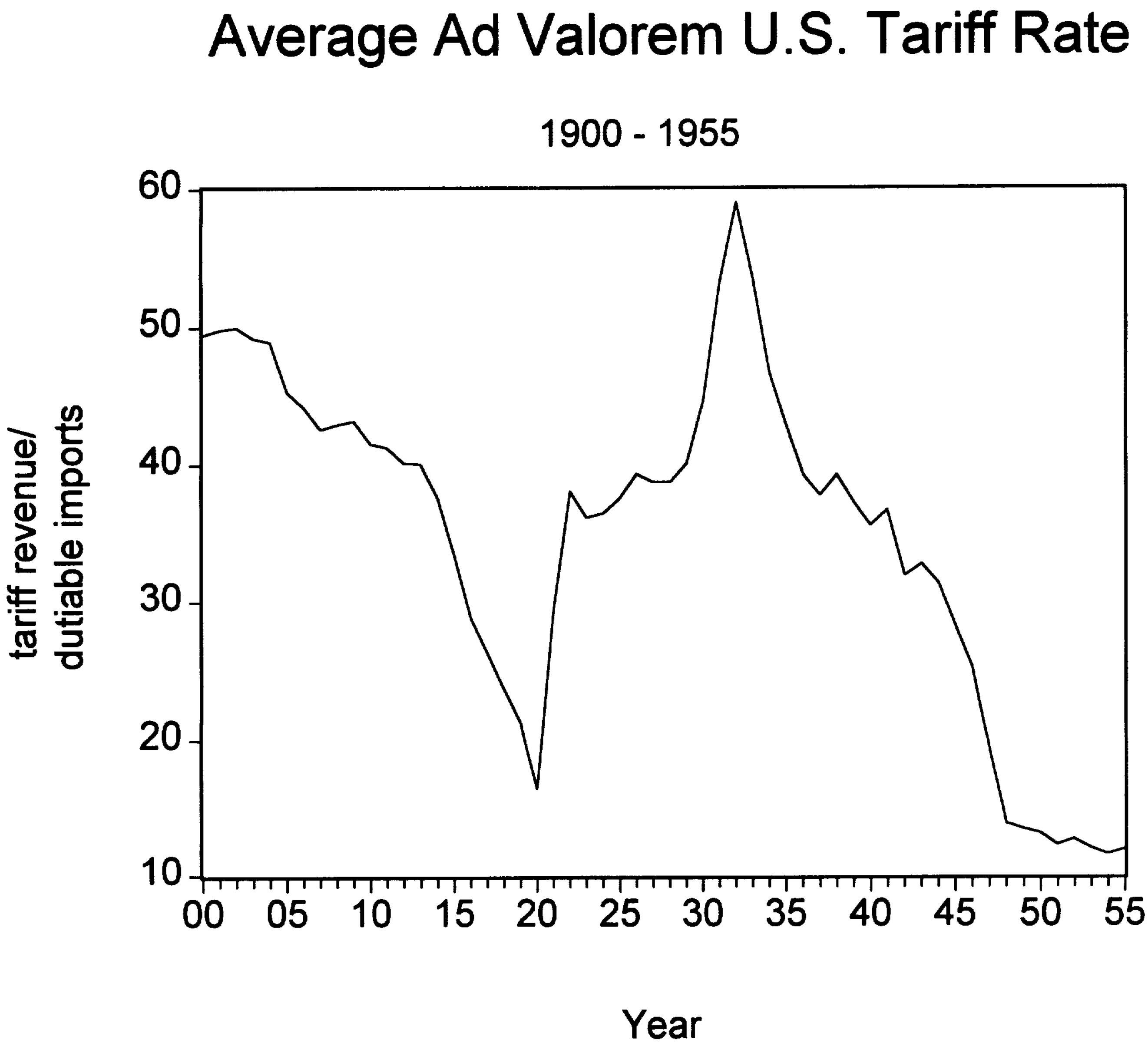
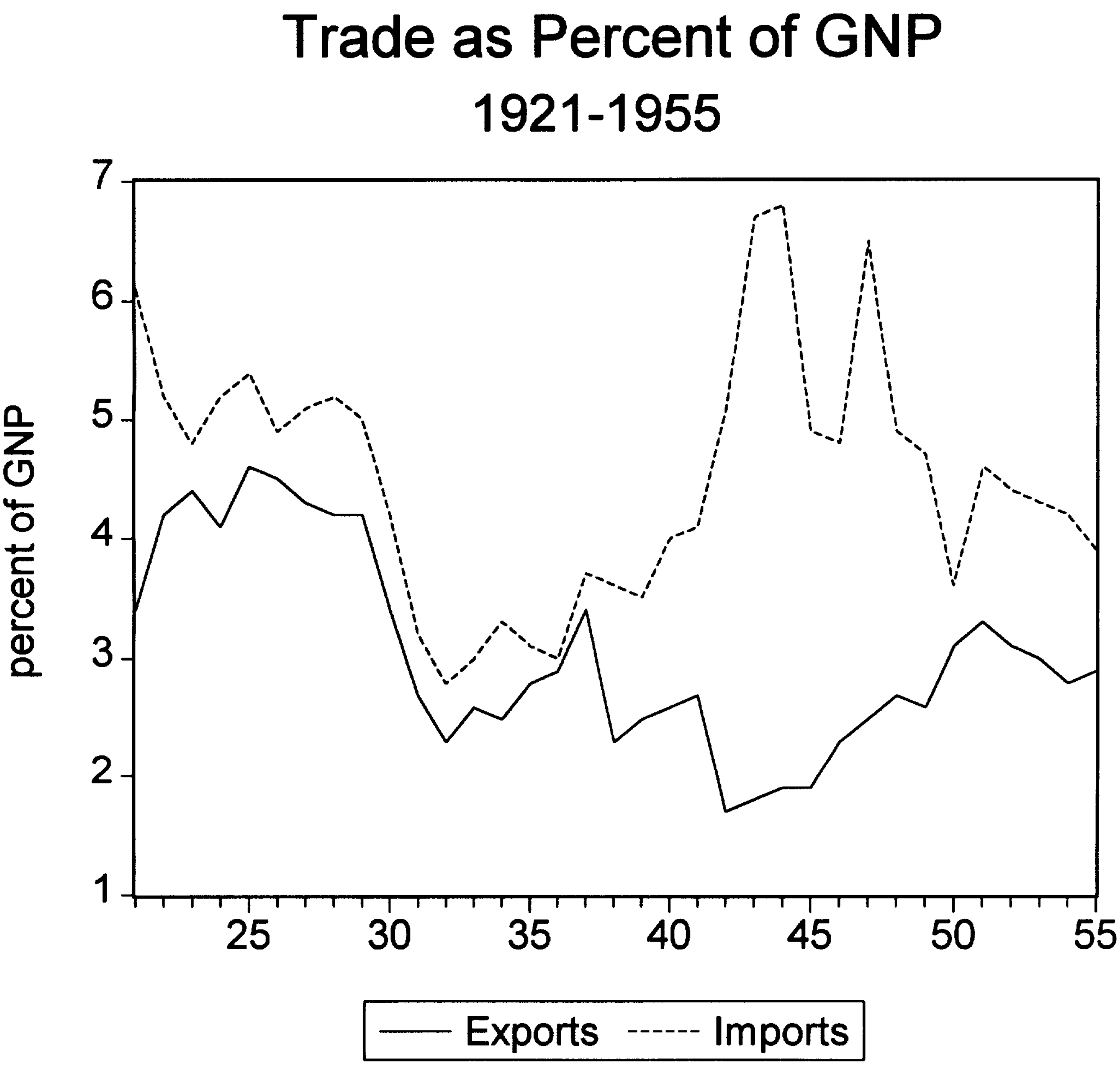

Average Ad Valorem U.S. Tariff Rate
1900 - 1955
tariff revenue/
dutiable imports
60
50
40
30
20
10
00
05
10
15
20
25
30
35
40
45
50
55
Year

Figure 2


Trade as Percent of GNP
1921-1955
percent of GNP
7
6
5
4
3
2
1
25
30
35
40
45
50
55
Exports
Imports

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