

The Smoot-Hawley Tariff Act Revisited

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By

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PREFACE

From its introduction by the Ways and Means Committee in February 1929 to the present, the Smoot-Hawley Tariff Bill of 1929 has been viewed as a standard, run-of-the-mill tariff bill, aimed at furthering the interests of businessmen and politicians alike. In short, the jury took little time to examine the evidence, preferring to make a snap judgement based on precedent.

This book presents new evidence on both the objectives and the drafting of this historic piece of tariff legislation, one that is based on fact, not hearsay nor precedent. In short, it is argued that the Tariff Bill was an ill-conceived-of attempt on the part of the Republican Party to deal with the growing problem of excess rated capacity, itself the result of the massive introduction of electric unit drive in the 1920s. In short, it had its origins in the industrial North-East, not in the Mid-West as previously believed. Politically, another round of tariff hikes was deemed to be a hard sell, given the most recent Fordney-McCumber Tariff Act of 1922. This led the Republicans to devise a clever campaign—call it Plan B—which focused principally on agriculture. Once in office, they reverted to Plan A which consisted of sweeping increases in industrial tariffs aimed at providing capacity-laden U.S. firms with a greater share of the domestic market.

In short, the Smoot-Hawley Tariff Act should be understood as one of a series of government policies—proposed and implemented—aimed at closing a widening output gap, including President Herbert Hoover’s Associative State, President Franklin D. Roosevelt’s National Industrial Recovery Act and National Labor Relations Act, as well as the Technocracy movement, the End Poverty in California (EPIC) movement and the Share-the Wealth movement.

INTRODUCTION

The Smoot-Hawley Tariff Act of 1930 remains one of, if not “the”, most enigmatic pieces of legislation in the 20th century. Held by some to have caused the Great Depression, and others to have worsened it, the Act’s underlying motives continue to be the subject of vigorous debate. For example, Dartmouth College economic historian and trade expert Douglas Irwin pointed to a political ploy on the part of the Republican Party to avert electoral defeat in 1928 by the Mid-West farm lobby.

This book presents an alternative view, based in large measure on recently published work of mine. Developing a line of reasoning first found in Beaudreau (1996), it is argued that the Smoot-Hawley Tariff Act should be understood as the Republican Party’s attempt at closing a widening output gap in the U.S., resulting from the widespread adoption of a new power transmission technology in the form of electric unit drive (EUD). Electric unit drive, by providing the wherewithal to increase machine speed considerably, resulted in productivity gains in the 40-100 percent range. Existing plant and equipment was now vastly more productive as a result of greater machine speeds.

The book consists of six papers, five of which were previously published. In the first, entitled, “The Smoot-Hawley Tariff Act: Reexamining Irwin’s Political Ploy Hypothesis,” I reexamine Dartmouth College economics professor, Douglas Irwin’s political ploy hypothesis. In his 2011 book, “Peddling Protection, Smoot-Hawley and the Great Depression,” he attributed the tariff act to a political/electoral ploy. In essence, the tariff bill was a party initiative aimed at calming what was an increasingly discordant voice within the Republican Party, namely that of Mid-Western Senators and Representatives. In other words, it began its life as an overture to Mid-Western farm interests, which unraveled out of control once it was introduced in Congress. In short, the paper takes issue with this view on factual grounds. First, Irwin presented no supporting evidence. Not one reference to the existence of a “ploy” is presented. Second, an exhaustive survey of newspapers and the Congressional Record was undertaken in search of evidence, but to no avail. Third, a detailed examination of voting

patterns in the 1924 and 1926 elections was carried out with the view of detecting electoral risks. Unfortunately, none were found.

The second paper, “Electrification, Tractorization and Motorization: Reexamining the Origins of the Smoot-Hawley Tariff Act,” presents an alternative narrative, namely of the tariff originating in the industrialized eastern States in response to the growing excess capacity which resulted from the electrification of U.S. industry, by which it should be understood, the shift to electric unit drive which increased machine speeds, thus increasing potential rated capacity. In combination with the shift away from beasts of burden over to tractors and motorized vehicles, this fostered conditions of generalized excess capacity that the Republican Party, with Senator Reed Smoot leading the charge, attempted to deal with by further closing the U.S. market. The idea was as simple as it was naïve: further restrict access to the market, increase U.S. firms’ market share, and close the widening output gap.

The next article, “Reexamining the Origins of the Smoot-Hawley Tariff Act,” published in 2017, provides a detailed description of the origins of the tariff bill, focusing on the 1928 Kansas City Republican National Convention. It demonstrates beyond a shadow of a doubt that what the Party had in mind was a generalized tariff revision with an eye to closing the gaping output gap that had been opened up by the new power technology. From Republican National Party Chairman Charles Hughes to Senator Smoot himself, the task before them was simple: close the U.S. market to imports in the hope of increasing U.S. firms’ sales, revenue and profits.

The Republican Party’s intentions were clear to all, except the nation’s economists who in the fall of 1929 signed a petition opposing the tariff bill. In the next article, “The Petition Against Smoot-Hawley: What 1,028 Economists Overlooked,” I show the presence of a disturbing disconnect between what the economics profession understood the bill to be and do, and what it actually sought to do. Lost on the profession was the macro-economic nature of the bill. Rather, they saw it as just another, run-of-the-mill tariff bill aimed at either increasing revenues or favoring inefficient U.S. manufactures.

The ultimate irony, however, was the fact that many of the instigators and signatories to the petition had themselves written extensively about the very problems the proposed tariff bill had set out to address. For example, University of Chicago economics professor Paul Douglas had written extensively about the growing output gap and the need for measures to close it.

The last two articles, “Discriminating Between Tariff-Based Explanations of the Stock Market Boom and Crash” and “Electrification, The Smoot-

Hawley Tariff Act and the Stock Market Boom and Crash: Evidence from Longitudinal Data” provide further evidence by way of the stock market boom and crash. It is shown that the stock market boom and bust of the late 1920s was in large measure the result of good and bad tariff-related news in Congress, with the proverbial last straw coming on the day before the first stock market crash when all hope for the tariff bill was effectively gone as 13 Insurgent Republicans voted with Democrats in the Senate to lower, not raise, tariff rates. Put differently, the stock market boom and bust of the late 1920s can be understood as resulting from a tariff bill-related legislative cycle against a backdrop of growing excess capacity in manufacturing. Using aggregate and firm-level stock price data, good tariff news is shown to increase prices, and bad tariff news, the reverse.

These results not only show that the stock market boom and crash was not a bubble, they also corroborate indirectly the main argument of the book, namely that the Smoot-Hawley Tariff Act was first and foremost about closing what at the time was a widening output gap, one that relied on shutting the U.S. market to imports, a policy that was as bold as it was naïve.

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THE SMOOT-HAWLEY TARIFF ACT: REEXAMINING IRWIN'S POLITICAL PLOY HYPOTHESIS

Abstract

The Smoot-Hawley Tariff Act (SHTA) of 1930 raised U.S. tariffs to unprecedented levels. The economics profession dismissed it as an example of the political process gone amok, of politics sabotaging economics, of the Republican Party hijacking the U.S. political process in search of electoral gain. Recently, Douglas Irwin in “Peddling Protection: The Smoot Hawley Tariff Act,” refined and extended Barry Eichengreen’s electoral strategy hypothesis, according to which the SHTA began its life as a response to Mid-Western agricultural interests. This paper reexamines this hypothesis using both electoral and circumstantial evidence from the Congressional Record and three major newspapers, the New York Times, The Washington Post and the Wall Street Journal, and finds little evidence that Mid-Western agricultural interests were the instigating cause.

2.1 Introduction

From its inception, the Smoot-Hawley Tariff Act (SHTA) earned the unenviable reputation of being a political and economic catastrophe. The economics profession, in general, dismissed it as an example of the political process gone amok, of politics sabotaging economics, of the Republican Party hijacking the political process in search of electoral gain. The most recent installment in this tradition is Douglas Irwin's recent book “Peddling Protection: The Smoot Hawley Tariff Act,” in which he refined and extended the traditional argument, pointing to a Republican Party ploy” to win votes in the Mid-West as the chief cause. This note sets out to re-examine the political ploy hypothesis using electoral and circumstantial evidence from the Congressional Record as well as three newspapers, the New York Times, The Washington Post and the Wall Street Journal. The results show no support for this hypothesis.

2.2 The SHTA as an Electoral Ploy

From the very start, the Smoot-Hawley Tariff Act was derided and decried by analysts and academics. Frank Taussig denounced it, as did E. E. Shattschneider and myriad others (Taussig 1930, Shattschneider 1935). Focusing mostly on the fallout, not to mention to the nuts and bolts of the political process (i.e. log-rolling and pork-barreling), many questions remained unanswered. One such question was the underlying rationale. Specifically, why did the Republican Party, in its 1928 Presidential election campaign, propose another round of tariff hikes, a mere six years after the passage of the record-setting Fordney-McCumber Tariff Act. In his recent book, “Peddling Protection: The Smoot-Hawley Tariff Act and the Great Depression,” Douglas Irwin points to a ploy within the Party to assuage, as it were, Midwestern voters as the root cause.

The gist of Irwin's argument is found on pp. 27-28 of the first chapter. Specifically, in the last paragraph on p. 27, he describes the process of events that resulted in the Smoot-Hawley Tariff Bill.

Meanwhile, the Republicans continued to disappoint farmers by failing to endorse farm subsidies. But to placate Midwestern voters and in light of the McMaster debate, the Party leaders decided that they had to offer relief for America's ailing farms through a tariff revision that would primarily on restricting imports of agricultural goods. The Republican platform, which was drafted by Sen. Reed Smoot, reaffirmed the Party's support for protective tariffs as a “fundamental and essential principle of the economic life of this nation,” and as “essential for the continued prosperity of the country.” (Irwin 2011, 27)

Unfortunately, little supporting evidence is provided. There are no references to internal Party documents, to newspaper reports, to biographical or autobiographical evidence. Was the defeat of the McMaster resolution, which called for lower tariffs on manufactures in order to raise farmer real income, the proverbial straw that broke the camel's back, resulting in yet another round of across the board tariff hikes?

Reading Chapter 1, one gets the impression that the farm/agricultural lobby (especially the Insurgent Republicans) had become a going concern in 1927 and 1928, and as such constituted a new force in U.S. politics in general and within the Republican Party in particular. The fact of the matter, however, is that farm/agricultural rumblings were, throughout the 1910s and 1920s, a constant feature of U.S. politics and a fixture within the Republican Party. This raises the question, why was 1928 any different? After all, the discontent had been there since the Payne-Aldrich Tariff Act of 1909.

Unfortunately, Irwin does not discuss, nor refer to the underlying political economy. On p. 31, he makes passing reference to the Progressive Midwest Republicans but stops short of providing analysis of the underlying political economy. In short, we are asked to take his argument at face value. Again on p. 31, he states that “Together, they (Insurgent Republicans and Democrats) could pose a serious threat to the Old Guard's control of the chamber.” But were the Republicans in danger of losing Senate seats and electoral-college votes in the Mid-West? Were the Democrats under New York Governor Alfred E. Smith poised to make significant gains? Furthermore, if the proposed legislation was indeed a reaction to the defeat of the McMaster Resolution (which called for lower tariffs on manufactures), then why did the Party do the exact opposite and raise tariff rates on both farm products and manufactures?

In this note, we examine the validity of Irwin's Political Ploy hypothesis by (i) evaluating the role of farmers and farmers' concerns within the Party (ii) examining the extent to which the farm vote posed a threat to the electoral successes of the Party and (iii) measuring the extent to which the McNary-Haugen Bill and the McMaster Resolution played a role in framing the tariff plank of the 1928 Kansas City official electoral platform. The Merriam-Webster Dictionary defines a ploy as (i) a tactic intended to embarrass or frustrate an opponent, or (ii) a devised or contrived move, a *strategem*. If the SHTA was indeed a *strategem*, then it would stand to reason that it would be based on a real threat, and secondly, that it would be documentable in the sense that there would be either a paper trail, or a word trail. Our findings show neither the presence of a real threat, nor the existence of a paper or word trail. In short, we find little factual (i.e. non-speculative) support for Irwin's ploy hypothesis.

2.3 The Role of Farmers and Their Concerns within the Party

The debate over the role of farmers and farmers' concerns within the Party centered on a raucous faction of the Party from the Mid-West known as the Insurgent Republicans. The story of this splinter group is particularly relevant to the question at hand. In short, the Insurgents consisted of Republican senators (and Representatives) who had broken with traditional Republican Party politics, notably with regard to tariff policy. Sometimes referred to as Progressives, they were anti-large business (Trusts), for tariff reductions and an income tax. The heyday of the movement came in the 1912 Presidential election when Theodore Roosevelt, unhappy with Taft's flip-flop on tariff policy (Aldrich-Payne Tariff Act of 1909), formed the

Progressive Party which he led into the 1912 election. Both the Republicans and the Progressives went down to defeat at the hands of Woodrow Wilson.

Defeated, the Progressives continued to exert their voice within the Republican Party. In January 1928, twelve progressives/insurgents broke with the Party and voted for the McMaster Resolution which called for an immediate lowering of the tariff schedules. The twelve senators were John J. Blaine (Wisconsin), William E. Borah (Idaho), Smith W. Brookhart (Iowa), Arthur Capper (Kansas), Lynn Frazier (North Dakota), Robert B. Howell (Nebraska), Robert M. La Follette (Wisconsin), William H. McMaster (South Dakota), Peter Norbeck (South Dakota), George W. Norris (Nebraska), Gerald P. Nye (North Dakota) and William B. Pine (Oklahoma). Interestingly, only three (Frazier, Howell and La Follette) were up for re-election in 1928. In all three cases, they were re-elected handily, with large majorities. Also interesting is the fact that, despite ignoring the progressive/insurgent calls for lower tariffs on manufactures, the Party gained eight seats in the 1928 Senate elections, two of which were in agricultural states (Missouri, West Virginia).

The point is that the opposition that Irwin referred to, and indeed viewed as the cornerstone of the Republican Party 1928 Kansas City electoral platform, had a long history within the Party, and did not represent a new nor a particularly real threat. Why and how the, by then, toothless Insurgents/Progressives would come to dominate the national policy agenda debate is an enigma. After all, they represented small rural states with few voters (as compared with the Eastern states). Unfortunately, Irwin does not address this issue, and we are forced to take his word for it. Let us now examine the electoral evidence in search of possible motives/clues.

2.4 The Farm Vote: A Threat to the Electoral Successes of the Party in 1928?

According to Irwin, sometime between the McMaster Resolution (January 1928) and the Kansas City Convention (June 12-15), the Republican Party decided on placating Western farmers by offering an upward revision of the farm schedule. However, no evidence is presented to substantiate this claim (internal Party documents, newspaper citations, debates from the Congressional Record). This raises the obvious question: was the Party's hold on power threatened? Was "the Old Guard's control of the chamber," threatened? Did they risk losing Senate seats in the Mid-West? Was the Party on the edge of an electoral precipice?

To answer this question, we examined Senate election results for 1924, 1926 and 1928. Clearly, if the Party had lost seats in the Mid-West in 1926,

then there would be every reason to believe that Party officials would have been more attentive to the issues and concerns of the voters in these states. And a desire on their part to reverse the tide, so to speak. And secondly, given that the official Kansas City Party platform called for higher tariffs on manufacturing, did Mid-Western voters de facto punish it by defeating Republicans in 1928?

Table 2.1
U.S. Congressional Election Results, 1924, 1926, 1928

	Year	Republican	Democrat	
Other				
Senate	1924	54	41	1
Senate	1926	48	46	1
Senate	1928	56	39	1
House	1924	247	183	4
House	1926	238	194	3
House	1928	270	164	2

Source: Wikipedia, United States House of Representative and Senate Elections, 1924, 1926, 1928.

Referring to the 1926 Senate election results reported in Table 2.1, we find that the Republicans had lost seven seats in the Senate. However, not one was in the Mid-West. The losses were in Arizona (Ralph H. Cameron), Kentucky (Richard P. Ernst), Maryland (Ovington E. Weller), Massachusetts (William Butler), New York (James W. Wadsworth Jr.) and Oklahoma (John W. Harreld). Republicans were re-elected in Idaho, Illinois, Indiana (2), Iowa, Kansas, and North Dakota. A similar situation characterized the House where the Party lost fourteen seats in the 1926 election, distributed as follows: Illinois (2), Maryland (1), Missouri (2), Nebraska (1), New Jersey (1), New York (3), Pennsylvania (2), and West Virginia (1). Taken as a whole, the Party's losses were greater in the East than in the Mid-West. If anything, this would suggest that from a strategic or strategizing point of view, the Party should have placated Eastern, not Mid-Western voters.

By proposing higher tariffs on farm products and manufactures, the Republican Party violated the spirit of the McMaster Resolution, which called for lower tariffs on manufactures. The underlying rationale was simple, namely that higher tariffs on imported food would not help Mid-Western farmers whose markets were overseas. Lower tariffs on manufactures would lead to lower prices, thus increasing farmers' real income. Did Mid-Western voters punish the Party at the polls? As it turned

out, the Party did exceedingly well in 1928, gaining eight seats. It won seats in Delaware (John G. Townsend), Illinois (Otis F. Glenn), Maryland (Phillips Lee Goldsborough), Missouri (Roscoe C. Patterson), New Jersey (Hamilton F. Kean), Ohio (Theodore E. Burton), Rhode Island (Felix Hebert) and West Virginia (Henry D. Hatfield). Not one Mid-Western Republican senator was defeated.

2.5 The Role of the McNary-Haugen Farm Relief Bill and the McMaster Resolution in Framing the Kansas City Platform: Evidence from Newspapers and the Congressional Record

Unfortunately, Irwin fails to provide any primary source evidence of the existence of a party ploy aimed at placating Mid-Western voters. No internal party documents, no biographical evidence (e.g. Reed Smoot or other Old-Guard Republicans), no other records are cited in defense of his hypothesis. In this section, we present the results of our search for the presence of circumstantial evidence of a ploy or *stratagem* following the McMaster Resolution which is alleged to be an important part of the story. In short, we looked for evidence of a structured response on the part of Reed Smoot, the Party's chief tariff strategist, to either the vetoing of the McNary-Haugen Farm Relief Bill or the McMaster Resolution. Specifically, we used the *ProQuest Search* tool for four periodicals, including the U.S. Congressional Record, The New York Times, The Washington Post, and The Wall Street Journal. The time period examined was January 1, 1928 to June 12, 1928, the latter corresponding to the opening of the Kansas City convention. Single-entry keyword searches were performed for "McMaster Resolution," "McNary-Haugen," "Reed Smoot," while multiple-entry keyword searches were performed for "McMaster Resolution, McNary-Haugen," "McMaster Resolution, Reed Smoot," "McNary-Haugen, Reed Smoot," and lastly for "McMaster Resolution, McNary-Haugen, Reed Smoot."

The Ploy hypothesis maintains that in the intervening period (roughly five months), the number of references (direct or indirect) by Reed Smoot to either the McMaster Resolution or the McNary-Haugen Farm Relief Bill would have been non-negligible. Clearly, if either of the two Senate events (McMaster Resolution, McNary-Haugen) had factored into the Republican Party tariff strategy, then there would be some evidence to this effect (i.e. either in the Senate itself or in the public domain/collective consciousness).

Table 2.2
ProQuest Historical Keyword Survey Results-January 1, 1928 to June 12, 1928

Keywords	Congressional Wall Post Journal	New York Record Street	Washington Times	
McMaster Resolution, McNary-Haugen	12	12	26	3
Reed Smoot	17	154	211	30
McMaster Resolution, McNary-Haugen	88	30	60	1
McMaster Resolution, Reed Smoot	0	0	5	0
McNary-Haugen, Reed Smoot	2	2	4	0
McMaster Resolution, McNary-Haugen, Reed Smoot	9	3	2	0
McMaster Resolution, McNary-Haugen, Reed Smoot	9	0	0	0

Our findings are presented in Table 2.2, where the first three rows report the results for the single-entry keywords. We see that of the three, the McNary-Haugen Farm Relief Bill was by far the most cited in the popular press, whereas Reed Smoot was the most cited in the Congressional Record. Turning to the multiple-entry keyword searches, we see a dearth of citations. Over a five-month period, there were only two McMaster Resolution-Reed Smoot citations and nine McNary-Haugen-Reed-Smoot citations. It is important to keep in mind that the Congressional Record search tool is based on the “day’s” proceeding and is not topical. As it turns out, none of these citations was relevant—that is, deals with the political ploy referred to by Irwin.

Of the nine three-entry citations reported in Row 7, not one referred to the issues raised in this paper. These findings suggest that while the McMaster Resolution, the McNary-Haugen Farm Relief Bill and Reed Smoot were “cited,” there appears to be no connection between the three. In short, the public record does not indicate that the McMaster Resolution and the defeat of the McNary-Haugen Farm Relief Bill played a role in the framing of the tariff plank of the Republican Party Kansas City platform.

Further evidence comes by way of the official platform adopted on June 13, 1928 at Kansas City, where again there is no mention (direct or indirect)

of either the McMaster Resolution or the McNary-Haugen Farm Relief Bill. Under the “title” of Tariff, the plank read:

We reaffirm our belief in the protective tariff as a fundamental and essential principle of economic life in 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 productive 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 standards of living and general comfort and well-being of our people. The great expansion in the wealth of our Nation during the past 50 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. (Congressional Record, May 29, 1928, 10625)

Finally, in his biography of Senator Reed Smoot, Milton Merrill makes no reference whatsoever to either the McMaster Resolution, the McNary-Haugen Farm Relief Bill, or Irwin's political ploy, but instead invokes “..the standard Republican philosophy of the protective tariff, a principle Smoot accepted with the same unshakeable faith as he displayed for the Book of Mormon” (Merrill 1990, 329). Drawing from the Smoot archives, he provided the following passages:

Adherence to that policy is essential for the continued prosperity of the country. Under it, the standard of living of the American people has been raised to the highest levels ever known.....It is inconceivable that American labor will ever consent to the abolition of protection which would bring the American standard of living down to the level of that in Europe, or that the American farmer could survive if the enormous purchasing power of the people in this country was curtailed and its market at home, if not destroyed, at least seriously impaired. (Merrill, 1990, 329)

These findings would suggest that (i) Irwin overemphasized the threat played by Progressive Midwest Republicans, (ii) ignored the electoral evidence (1924, 1926 and 1928) which shows the absence of any threat, real or imaginary, and (iii) surprisingly, stopped short of providing primary-source evidence (e.g. internal Party documents, biographical evidence) in defense of his ploy hypothesis.

2.6 Summary and Conclusions

In this note, we have re-examined Irwin's political ploy hypothesis according to which the Smoot-Hawley Tariff Bill was a political ploy aimed at placating Mid-Western voters, especially in light of the McMaster Resolution. This was achieved: (i) by examining the role of farmers and farmers' concerns within the Party (ii) by evaluating the extent to which the farm vote posed a threat to the electoral successes of the Party (iii) by estimating the extent to which the McNary-Haugen Bill and the McMaster Resolution played a role in framing the 1928 Kansas City electoral platform. The results showed that (i) the so-called problem of Midwestern voters was neither new nor a real threat to the Party, but rather had a long history going as far back as the 1908 general election; (ii) at no time in the period leading up to the Kansas City Convention were the Party's Senate and House majorities threatened, a fact borne out by the actual results of the 1928 Senate and House races; and (iii) there is no circumstantial evidence in the form of Congressional Record, New York Times, Washington Post, or Wall Street Journal keyword references to a Republican Ploy or *stragem* that came as a response to public reaction to either President Coolidge's veto of the McNary-Haugen Farm Relief Bill or to the McMaster Resolution. While these results do not rule out the presence of a ploy *per se*, they cast a long shadow of doubt on it.

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ELECTRIFICATION, TRACTORIZATION
AND MOTORIZATION:
REVISITING THE SMOOT-HAWLEY
TARIFF ACT¹

Abstract

The Smoot-Hawley Tariff Act of 1930 has been typically viewed as being the Republican Party's policy response to weak farm prices which—via political log-rolling—snowballed into a full-fledged, across-the-board tariff bill, wreaking havoc at home and abroad (Irwin 2011; Shattschneider 1935; Taussig 1930). Empirical evidence, however, has failed to confirm this hypothesis (Callahan, McDonald and O'Brien 1994; Destler 1986; Pastor 1980). Rather, voting patterns in the Senate have been consistent with the party platform hypothesis. This paper presents an alternative account of the origins of the Smoot-Hawley Tariff Bill of 1929, which is in keeping with the party platform hypothesis and whose results are consistent with the log-rolling hypothesis. Specifically, I argue that the demand for protection on the part of U.S. farmers and manufacturers in the late 1920s and the subsequent supply of protection by the Republican Party were the direct result of a general-purpose technology shock (Bresnahan and Helpman 1995)—namely, electrification whose diffusion throughout the 1920s led to significant excess capacity in manufacturing and agriculture. In manufacturing, more productive firms became increasingly constrained on product markets. The resulting tractorization of U.S. agriculture and the motorization (trucks and automobiles) of transportation throughout the 1920s wreaked havoc on an already weakened agricultural sector (owing to lower post-war exports) by decreasing the demand by 48,294,887 grain- and hay-equivalent acres. The proposed tariff bill sought to increase domestic firms' market share in these industries by reducing imports.

¹ Beaudreau, Bernard C. "Electrification, Tractorization and Motorization: Revisiting the Smoot-Hawley Tariff Act." *Journal of Economic Issues* 48 (4), (2014) 1039-1071.

3.1 Introduction

For over three-quarters of a century, the Smoot-Hawley Tariff Act (SHTA) and the political process that bore it have been studied in both economics and political science. Frank Taussig (1930), E.E. Shattschneider (1989), Barry Eichengreen (1989), and Douglas Irwin (2011) have argued that the SHTA was the result of pressure-group politics—specifically, pressure group politics gone amok. In *Peddling Protection: Smoot-Hawley and the Great Depression*, Douglas Irwin argues that SHTA began its life as a Republican party “electoral strategy,” designed to win the farm vote during the 1928 elections. Robert Pastor (1980), I.M. Destler (1986) and Colleen Callahan, Judith A. McDonald and Anthony Patrick O’Brien (1994), all have argued that tariff legislation in the 1920s was the result of party politics, particularly of the GOP’s historical penchant for protectionism.

These hypotheses are flawed in a number of ways. The log-rolling, pressure-group politics hypothesis, while attractive, has been rejected in virtually all empirical work. The party platform hypothesis, on the other hand, is incomplete. To argue that a “historical penchant for protection” was at the heart of the Smoot-Hawley Tariff Act is unconvincing as it raises more questions than it answers. Why raise rates again? After all, the Fordney-McCumber Tariff Act of 1922 had already raised them considerably, thus more than adequately addressing farmers’ concerns. In this paper, I propose an alternative hypothesis, which refines the “party platform” hypothesis, and is consistent with the predictions of the log-rolling hypothesis (i.e. across-the-board tariff hikes) without having recourse to pressure-group politics.

I argue that the demand of farmers and manufacturers for increased tariff protection in the late 1920s was not groundless, but rather the result of important structural changes in the U.S. economy. A major general-purpose technology shock (Bresnahan and Trajtenberg 1995; Helpman and Trajtenberg 1996) was electrification, whose adoption by manufacturing firms throughout the 1920s led to significant excess supply/capacity in both manufacturing and agriculture. In manufacturing, electrification resulted in widespread excess capacity as firms found it increasingly difficult to find new outlets for their products (Bell 1940; Moulton 1935; Nourse 1934; Tugwell 1927). Second, an important byproduct of electrification was the increased availability of affordable prime movers in the form of tractors, trucks, and automobiles (White 1990). The ensuing tractorization of U.S. agriculture and motorization (trucks and automobiles) of transportation wreaked havoc on the agricultural sector as fossil fuels totally displaced hay and oats (carbohydrates) as the prime movers of U.S. agriculture and

transportation, reducing the overall demand by 10 to 15 percent (Bureau of the Census 1933). By 1928, following a decade of substantial investments in mass-production techniques and in new motorized rolling stock (tractors, trucks, and automobiles), the economy experienced widespread excess supply. Utah Senator Reed Smoot, Chairman of the Senate Finance Committee, Joseph A. Grundy, President of the Pennsylvania Manufacturers Association, and other high-ranking Republicans responded with another round of tariff hikes, aimed at further decreasing imports and increasing the domestic market share. Analytically, this paper contributes by focusing on technology shocks—and their diffusion—as a determinant of the demand for tariff protection. Until now, only sectoral and macroeconomic causes have been examined analytically.

The paper is organized as follows. I begin by examining the role of electrification in manufacturing and the impact of tractorization and motorization on agriculture. Then, I discuss the role of excess capacity in the framing of the Smoot-Hawley Tariff Bill, paying particular attention to the underlying political economy. Finally, I present supporting evidence of the electrification, tractorization, and motorization (hereafter ETM) hypothesis using various data sources, including primary source newspaper references.

3.2 The Demand for Protection

The literature on endogenous tariff protection combines elements of trade theory, macroeconomics, and public choice theory. Early contributions include: (i) Wolfgang Mayer's (1984) model where tariffs are set by a national popular referendum, and in which median voter results determine actual tariff levels; and (ii) William Brock and Stephen Magee's (1979) voting model where politicians bid for votes by offering tariff protection up to the point at which the marginal gains equal marginal costs. These models are *de facto* formalizations of E.E. Schattschneider's (1935) classic analysis of the Smoot-Hawley Tariff Act, based in large measure on public good theory of interest groups. Other noteworthy contributions include the works of James Cassing, Timothy McKeown and Jack Ochs (1986), John A.C. Coneybeare (1991), W. Max Corden (1987), E.J. Ray (1987), J.M. Hansen (1990), A.K. Bohara and W.H. Kaempfer (1991), and Kyle Bagwell and Robert W. Staiger (2003), who find support for countercyclical movements in protection levels.

I extend the analysis by examining the case of technology shocks as a potential determinant of the demand for tariff protection and, more specifically, of the fallout (diffusion) from technology shocks as a

determinant of the demand for tariff protection. That is, irrespective of the business cycle, technology shocks can affect the demand for tariff protection. For example, by increasing potential capacity, a massive paradigm-technology shock can prompt calls for higher tariffs toward a higher equilibrium growth path in spite of already high growth rates. Paradoxically, calls for higher tariffs can occur in a period of above-average growth.

I argue that a Solow-like technology shock in the form of factory electrification lies at the root of the demand for protection, which ultimately led to the Smoot-Hawley Tariff Bill of 1929. Specifically, the ensuing excess capacity of manufacturing as a result of factory electrification, and the ensuing excess supply in agriculture as a result of the tractorization of farming and the motorization of transportation (trucks and automobiles), prompted farmers and manufacturers to call for higher tariffs. The underlying idea for this call was that higher tariffs would increase domestic output by reducing imports, thus leading to greater employment, profits, and earnings.²¹ In short, higher tariffs would ensure a smooth transition to a new, higher equilibrium growth path. I begin my analysis by examining the electrification of the U.S. economy and its myriad ramifications.²

3.3 Electrification and Its Ramifications

It is widely recognized that electrification stands as one of the greatest technology shocks of the modern era (David 1990; Gordon 2004).³ More versatile in its applications than steam (reciprocating and turbines), electric power revolutionized material processes and life in general (Beaudreau 1996; Hounshell 1984; Nye 1990). Virtually every industry was affected: from the extractive industries to manufacturing and services. According to Nathan Rosenberg:

The speed with which electricity was adopted may be readily indicated. Electric motors accounted for less than 5 percent of total installed horsepower in American manufacturing in 1899. The growth in the first years of the twentieth century was such that by 1909, their share of manufacturing horsepower was 25 percent. Ten years later the share rose to 55 percent and by 1929 electric motors completely dominate the manufacturing sector by providing over 80 percent of total installed

² The U.S. Department of State, in describing “the Booming 1920s,” notes: “Accordingly, Republican policies were intended to create the most favorable conditions for U.S. industry. The tariff acts of 1922 and 1930 brought tariffs to new heights, guaranteeing U.S. manufacturers in one field after another a monopoly of the domestic market.” (www.countrystudies/united-states/history-90.htm).