

## Producers and the Political Economy of the Smoot-Hawley Tariff

Dr Michael Plouffe  
School of Public Policy  
University College London

[ 1 ]

### The Smoot-Hawley Tariff

- End of WWI reduced demand and prices for agricultural products, leaving many farmers indebted
  - Trade was blamed; Fordney-McCumber Tariff passed in 1922
- Republicans in 1928 campaigned with a protectionist plank
  - Hoover called for special session of Congress immediately after assuming office
- Smoot-Hawley passed Senate on 24 May 1930, having already passed the House

[ 2 ]

## Explaining Smoot-Hawley

- Three political-economy arguments
  - Schattschneider – Logrolling
  - Pastor – Partisan voting
  - Eichengreen – Economic interests/import vulnerability
    - Border agriculture + Light industry

[ 3 ]

## Introducing Producer Heterogeneity

- Producers within and across industries vary widely
  - Productivity is an essential determinant of this variation
- Industry characteristics reveal relative distribution of productive firms
  - Comparative(competitive) advantage is indicative of relatively large mass of productive firms
- Industry demands reflect relative productivity distribution as well

[ 4 ]

## Producer Heterogeneity and the Smoot-Hawley Tariff

	Capital Intensive	Labor Intensive
High Productivity	Large Mass	Small Mass
Low Productivity	Small Mass	Large Mass

	Capital Intensive	Labor Intensive
Pro-Tariff	Dominant	
Anti-Tariff		Dominant

[ 5 ]

## Examining Productivity in Economic History

- Micro-level productivity is difficult to observe in historical data
- Indicators that correlate highly with productivity may be more easily observed
  - Capital/skill intensity, output, etc.
- Automobile manufacturers = Output
- Wheat producers = Mechanization

[ 6 ]

## Cases

- Canonical Expectations

	Capital Intensive	Labor Intensive
Pro-Tariff		Wheat Industry
Anti-Tariff	Automobile Industry	

- Producer-based Divisions

	Capital Intensive	Labor Intensive
Pro-Tariff	Mechanized wheat producers	Traditional wheat producers
Anti-Tariff	Auto leaders	Small auto producers

[ 7 ]

## Automobile Producers and Protection

- The most prominent producers opposed increases in protection
- National Automobile Chamber of Commerce wanted a lower base tariff rate and CVD that would match higher foreign tariff rates
  - Greater effective protection
- Ultimately, big producers were more influential



[ 8 ]

## Agricultural Productivity Heterogeneity

'The tenant system won't work any more. One man on a tractor can take the place of twelve or fourteen families. Pay him a wage and take all the crop. We have to do it. We don't like to do it. But the monster's sick.'

- John Steinbeck (The Grapes of Wrath, p 33)

- Agricultural production underwent tremendous mechanization in the 1920s with introduction of tractors and the combine

[ 9 ]

## Wheat Producers and Protection

- Natural experiment in adoption of tractors/combindes
  - Northern/Southern Plains divide
- In WMC testimony, Northern Plains wheat producers seek increased protection
- Southern Plains agricultural protection demands bypass wheat and focus on other crops
  - Ex: Kansas's association acknowledges that wheat producers exist and goes on to talk about cattle ranchers

[ 10 ]

## Conclusions & Implications

- Nothing new under the sun
  - Producer heterogeneity is not a post-WWII phenomenon
  - Evidence points to inter- and intra-industry producer cleavages
- Looking at economic history allows for examination of major technological changes and their political implications

[ 11 ]