Forrest Capie

The International Depression and Trade Protection in the 1930s

Trade protection seldom if ever disappears, but it reached one of its high points in the two decades between the two World Wars. It had been on the increase in the late nineteenth century when it was one manifestation of the spreading nationalism that characterised the period. The First World War did not resolve the problems of the world economy – indeed in some important respects it aggravated them. New nations were born, old differences remained, and international distrust intensified in the 1920s and 1930s. Rising protectionism accompanied the suspicion and distrust and resulted in the worsening of the intense nationalism that lay behind the First World War. The Americans set the pace with the Fordney-McCumber tariff of 1922 and other countries quickly followed suit. The Americans imposed further “skyscraper” tariffs with the Smoot-Hawley tariff legislation of 1930. When, in 1932, the British abandoned the free trade policies that they had held to for close to a century the curtain had finally come down. Fascism with its emphasis on self-sufficiency and its bilateral trading philosophy emerged in Europe, and as some see it the Second World War was not so much second, as the continuation of the First World War after an interlude full of tension. This unhappy experience of the interwar years with its associated depression made the allied countries determined to lay the foundations for a better, more secure and more prosperous world when the Second World War was over.

Our focus here, however, is on outlining in general what happened to trade protection between the wars. Facts do not tell their own story. “Letting the facts speak for themselves”, is an empty cliché. Facts need to be evaluated in the light of theory. Werner Sombart expressed it neatly when he wrote, “Facts are like beads: they require a string to hold them together, to connect them. But if there is no string, no unifying idea, then even the most distinguished authorities cannot help producing unsatisfactory work.” (1929, p. 5) Many economic historians accept this wholeheartedly and have become accustomed to employing explicit models in their work. Disagreements do arise over this approach but there is no escaping that theory is necessary at some level. In practice it may only be the basic theory that can ever be applied. Basic theory is what is needed to capture the essence of the issue. This paper, while largely descriptive, does nevertheless operate within an implicit theoretical framework and makes some use of explicit theory when it

comes to considering the domestic impact of the tariff in Britain in the 1930s. It is of course vital to hold on to the basic facts; otherwise there is the danger of making remarks such as have appeared in a recent monograph that "The British simply would not accept the free trade doctrine" (Zeiler, p. 24) or "Free trade frightened the British" (p. 39).

In the first section we provide some indication of the types of protectionist measures employed in the period, and indicate how difficult it is to make quantitative estimates of impact. Section II outlines some of the appropriate international context including something of the mood of the time and the spread of protectionist sentiment and policies from the First World War onwards. Britain had been the prime advocate of free trade for close to a century but was not immune to the spreading protectionist forces. Section III indicates briefly how that change in policy came about. Section IV shows what the domestic impact in Britain was, and hints too at some international impact.

I.

On a similar theme on a previous occasion in Germany, when I argued that measuring protection was extremely difficult and, following Viner, that trying to quantify its impact was positively treacherous, Wolfram Fischer took me to task. He cited a number of studies on the impact of tariffs in a number of countries. At different times I have contributed to these calculations (on Europe in the nineteenth century and for Britain between the wars) but remain convinced that quantification is indeed treacherous – necessary perhaps but still treacherous.

Calculating the impact of protection is treacherous but calculating the impact of tariffs may well be the least treacherous part of any such exercise. There were many other protectionist devices that were much more difficult to assess. There were for instance quotas on an extensive range of goods, and while in theory they have a tariff equivalent, in practice many more data are required and a knowledge of parameters such as demand and supply elasticities; and any hope of estimation to any degree of accuracy begins to drift away.

There were also invisible barriers to trade on a huge scale. It is seldom easy to agree on what exactly constitutes an invisible barrier never mind measuring it (though again I was once involved in just such an exercise) given that they often take the form of safety or health regulations or some such. These barriers covered the whole spectrum too across industry, agriculture, and services. One example from Britain can suffice to illustrate. In the late 1920s there was an outbreak of a serious cattle disease in England. It was said to have originated in Argentina (the major foreign supplier of beef and competitor for empire suppliers). The strictest hygiene regulations were then imposed on the killing conditions in Argentina such that many producers were deterred from trying to comply and there was a great movement out of pastoral and into arable farming. (That of

course can be achieved almost overnight but it takes some years to move back the other way.)

As a result of these measures Argentine's exports of meat to Britain dropped sharply in the late 1920s. But there were further and considerable knock-on effects of this. When British Empire countries met at Ottawa in the summer of 1932 to consider responses to the world wide depression one outcome was to produce policies which favoured Empire producers ahead of foreign producers. Quotas were then imposed on meat suppliers (meat was incidentally Britain's largest single import next to oil). These quotas were based on the three years immediately before the Ottawa year – the very years when Argentine's (the largest single supplier of meat) exports were at their lowest. Thus Argentina was damaged much further on top of the measures which most believe were based on a spurious reading of the evidence. This is just one illustration from a multitude. Trying to measure this protection is surely impossible and without measurement there can be little assessment of impact.

The principal legacy of the Ottawa meetings was, however, the extensive range of concessions extended to empire countries – imperial preference. The general principle at Ottawa was: Britain first, empire second, foreigners last. The main beneficiaries were of course primary producers which is what most of the empire was (though there were some exceptions such as cars from Canada – moved across the borders from Detroit), but the system angered many trading partners. Not least was the biggest trading partner of all, the U.S. Secretary of State Cordell Hull said the Ottawa Agreements represented, "the greatest injury, in a commercial way, that has been inflicted on this country since I have been in public life" (Quoted by Ikenberry, p. 170). Hull believed that the trading blocs centred on Britain, Germany, and Japan "were the root cause of the instability of the period and the onset of war" (*ibid.*). There is no doubt Ottawa poisoned relations between Britain and America, the two countries who might have been able to redirect commercial policy in the period.

An even more difficult device to measure and to assess the impact of, is that of exchange controls – something that most countries adopted in one form or another in the 1930s. This device was usually presented as a means of curbing excessive capital flows associated with financial crises at the beginning of the decade. Bilateral trading agreements also distorted and damaged trade. These took different forms ranging from barter (e.g. of German coal for Brazilian coffee), through clearing agreements, which some have argued Germany exploited effectively to borrow from poor neighbours, and on to payment agreements of which the Anglo-German agreement of 1934 was generally regarded as the model.

Between 1932 and 1937 Germany signed clearing agreements with every European country except Britain in the far north and Albania in the far south; and there were agreements with other countries farther afield. These agreements covered visible and invisible trade. More than half Germany's foreign trade was covered by such agreements. Germany was able to exploit its position as the major market for many of those countries – especially those of eastern and central Europe. For

example if a country had a current account surplus with Germany then payments out of the clearing fund were greater than those flowing in. But with such a country's currency limited its exporters would have to await payment – in effect Germany borrowing from what were invariably much poorer countries.

It would surely be agreed that the proliferation of all these measures resulted in huge distortions to economies and serious misallocation of resources. In order to get some idea of just one element in all this – the tariff – we could simply look at the ratio of import duties collected to total imports. This is accepted by many in the field as a reasonable proxy for the changing degree of protection arising from this particular instrument. When this is done what unsurprisingly emerges is that for a whole host of countries there was a huge jump in protection in the late 1920s and early 1930s. And that is to judge from just one of the many measures used. In spite of all the difficulties mentioned there is surely still room to form judgements on both the scale and the direction of the impact even if no numbers can be attached.

II.

In the years between the two world wars the international economy was in considerable turmoil. A variety of problems dogged the immediate post-war recovery of many countries and severely hampered the progress of international economic relations. That in turn led to further problems or at minimum exacerbated problems within and between countries. A principal legacy of financing the great war was differential inflation rates and price levels in 1919/20 and hence exchange-rate problems. There had also been soaring domestic and international debt and diminished resources with which to service the debt. Domestic production and international trade patterns were badly disrupted. And added to all this was the burden of reparation payments for some and the difficulties of transfer for others.

Worse, there was no agreement internationally on what needed to be done to resolve many of the problems. The U.S. has sometimes been found culpable for failing to take up the role of international leader that Britain had held before 1914 but was in no position to continue to carry on with after 1920. The U.S. was regarded as becoming isolationist after WWI and regretting its involvement in what it regarded as a European problem. Whether or not that is fair or too simple, the U.S. did refuse to join the League of Nations which was one kind of signal. She certainly declined to take up the role of international leader. But worst of all from the point of view of international trade was the almost immediate adoption of new protectionist measures. Since in 1920 the U.S. was the biggest, richest, and least war-damaged economy in the world, these were the worst kind of signals to send to a world that urgently needed the opposite by way of example and encouragement.

When President Harding took office in 1921 he asked Congress for emergency tariff legislation. "I believe in the protection of American industry... and it is our purpose to prosper America first." (quoted in Eckes, 1998) In 1921 the U.S. intro-

duced an Emergency Tariff Act, largely as a defensive measure against Europeans who showed signs of increasing protection. The Emergency Act was the forerunner to the Fordney-McCumber legislation that was passed in September 1922. That introduced tariffs that resulted in the average rate on dutiable imports being raised by almost 50 per cent from 26.8 per cent (already high by international standards) to 38.2 per cent or from 9 per cent to 14 per cent on total imports. Attempts at measuring the impact of this addition to the American tariff have proved notoriously difficult (see Falkus). These measures contributed to making it impossible for many debtor countries to earn the dollars they needed to make interest payments on their debt.

Protection quickly developed in another group of countries too – those that were deprived of European manufactures during the war years. They had developed their own substitute products. But when world manufacturing production began to get re-established these countries sought to protect their own new products. Further, the creation of new states in Europe increased the tariff frontiers by some 12,000 miles, as these new countries also sought to protect their own industry. Old countries were not immune. Many raised their tariffs on both industrial and agricultural goods. Primary producers were not to be left out and sought to protect their new industries on the one hand, and on the other their agriculture against the deteriorating terms of trade that it faced. An element in almost all of these cases was that tariffs would provide bargaining power in anticipated trade negotiations.

Such was the move to protection in the decade after the war that there were almost universal increases in tariff levels as the figures in the Table I show:

Table I: Tariff levels in 1913 and 1931

	1913	1931
Germany	16.7	40.7
France	23.6	38.0
Italy	24.8	48.3
Austria	22.8	36.0
Czechoslovakia	22.8	50.0
Hungary	22.8	45.0
Spain	37.0	68.5
United States	41.0	53.0

Source: Liepman, 1938, p. 415; Humphrey, 1955, p. 74.

Reproduced in fuller form in Conybeare, 1987, p. 236

The League of Nations was impotent in the face of such determined action by individual countries. World economic conferences were organised by the League in 1927, 1929, and 1930. These were all quite realistic in their ambitions, aiming to get rid of non-tariff barriers to trade and preventing any further increases in tariff levels. They all failed. Leaders invariably came away from the conferences making high-sounding statements and all in apparent agreement with one another on the

need to bring about increased free trade. But they returned to their countries unable to resist the political pressures that awaited them. In 1933 at yet another world economic conference, held in London, an attempt at a tariff truce was made but failed.

The situation had worsened considerably between 1929 and 1933. In 1929 two Congressmen by the names of Smoot and Hawley channelled the growing pressure for protection in the U.S. and saw through the Bill that took their names, to the Smoot-Hawley Act of 1930. That Act contained the highest rates of duty in American history, though it was based on a relatively small range of goods. In terms of domestic impact this is another example of a case of protection where the assessments made are generally reckoned to have been small though it did contribute to the depression. The domestic impact was certainly of less significance than might have been expected from the attention it attracted at the time and from the amount that has been written about it since.

But there is surely no mistaking the international impact it had. When the leading economy in the world took such action it was seen as another indication of the breakdown in international trading relations. According to one of America's leading international economists, Richard Cooper, "the most dangerous single mistake any American president has made in international relations was Herbert Hoover's signing of the Hawley-Smoot Tariff Act into law in June 1930 ... The seeds of the Second World War both in the Far East and in Europe, were sown by Hoover's signing ...". (p. 291, 292) It certainly seems to have provoked a serious outbreak of retaliation even if the extent is still debated. The Japanese raised their tariffs in response. Italy boycotted U.S. goods and raised their tariffs in 1930 and 1931. The French did likewise. "... the French minister of commerce publicly declared that retaliation was the current basis of French trade policy." (Bailey, 1932, p. 96) In 1930 almost every trading country imposed quotas. Britain too was guilty. Apart from introducing the tariff in 1932 they implemented a number of quotas and other devices and turned increasingly to Empire. Other countries took exception in particular to these British measures and retaliated with similar measures. Germany was particularly aggrieved at the actions of both the Americans and the British and felt that she had been singled out and was being discriminated against in its trade. There were many claims at the time that the unemployment that this brought in Germany at minimum eased the way for Hitler coming to power.

But by 1933 it was too late for another conference to do anything about the deteriorating conditions. World trade had by that time collapsed and many countries were at the bottom of one of the worst economic depressions in their history. World trade fell from a base of 100 in 1929 to a level of 35 in 1933 and even further to 28 in 1935. It barely rose above that for the rest of the decade. Protectionism was responsible in good part for this collapse though of course it was inextricably bound up with the depression to which it had contributed.

By 1935 70 per cent of the world trading system was subject to bilateral balancing of some type of *non-tariff* barriers. When the extent of tariff barriers is added to this the huge scale of protection in the world can be readily appreciated.

III.

The return to protectionist trade policies in Britain after almost a century of commitment to free trade was a major source of concern in the world economy in the middle of the great depression. What led Britain to adopt such a policy, one that had had no place in British economic life for so long? This is a question that has long been debated, with a variety of answers given. These answers chiefly take the following forms. It was a desperate measure in the face of one of the worst economic depressions in history. Some find that too strong and suggest that the forces working for protection had been gaining strength in the 1920s, indeed from as early as the First World War. According to this latter account the return to protection was likely even without the depression of 1929–32. The third explanation emphasises the longer term. It draws on the fact that there are always groups who benefit from protection and where they can acquire power they are likely to encourage protectionism and adopt protectionist measures.

Britain's adoption of free trade, as was noted above, came in the first half of the nineteenth century when Britain was the dominant industrial power. British textile manufacturers were enthusiastic free traders so long as they had a virtual monopoly. That way they could delay the rise of foreign competition. Their views on free trade did not extend to machinery since the free movement of machinery would weaken their monopoly position. For roughly a quarter of a century from the repeal of the Corn Laws in 1846 free trade reigned supreme in Britain.

As the nineteenth century progressed and British dominance was more and more encroached upon, the sound of free traders began to wane and the jingle of protectionists could be heard more frequently. Just as theory predicts, there were increasingly cries from those who suffered competition and a number of organised attempts were made at reversing free trade policy.

It is difficult to prove that a build up of pressure was leading inexorably to the adoption of protection but there is considerable suggestive evidence. So at the outbreak of the First World War Britain remained firmly attached to the free trade doctrine, having come through years of increasing international competition and some industrial recession and growing protectionist pressure without really wavering on the policy.

According to some the implementation of protectionist legislation in 1931/32 should be seen as the culmination of a movement that was gaining strength from at least the 1923 election, an election that was fought on the issue of protection. It takes little effort to push that date back to the First World War. The Safeguarding of Industries Act passed in 1921, which allowed for a long list of items to be given protection even if the value of goods affected was quite low, was a victory for protection. British industries became increasingly protectionist in outlook. In 1923 the Conservatives were seeking re-election, and the election of that year can be said to have been contested very largely on the issue of protection. There was some backing from some of British industry.

This came immediately after one of the worst economic recessions in British history, 1920–21. But the electorate rejected protection and voted in the first ever Labour Government. The Conservatives regained power a year later and thereafter the iron and steel industry persistently sought protection throughout the rest of the 1920s. Most of the NFISM's executive committee and the director, Sir William Larke, were enthusiastic tariff reformers, and in early 1926 they gave their support to a sub-section of the industry, wire, when it made an independent application. But this application was rejected on the same grounds. The main application was renewed in 1927, but again it was turned down by reference to the original decision.

In 1928 the Iron and Steel Confederation tried a slightly different approach by asking the government to set up a committee to investigate competition in the home market. The industry argued that protection would allow them full capacity utilisation and economies of scale such as to allow lower prices. But much of British industry remained understandably sceptical of this argument, and feared that the price of their inputs would in fact rise.

There is no doubt Parliament had become increasingly influenced by businessmen (as opposed to landowners or the professions). According to one account, between 1919 and 1939 on average one-third of the Conservative Party in the Commons were employers or managers. It would be dangerous to draw conclusions too rapidly from a simple count of heads, bearing in mind the diversity of motives that take people into Parliament and conscious too that numbers alone do not accurately reflect the strength of respective groupings. But clearly the larger the numbers were, the greater was the chance that business interests were represented and the higher the probability that business demands would be heard, that numbers could be found for support and so on. Business groups had been accustomed to organising themselves for specific objectives for a long time and had a focus in the Chambers of Commerce.

Business organisations had been formed in the First World War with a view to defending business interests. Many of them were direct descendants of the pre-war tariff movements, but others were the product of new concerns raised by war. In January 1915, soon after the outbreak of war, a Unionist Business Committee was formed in the House of Commons to protect the interest of business in time of war. A high point of business pressure for protection came with the publication of a tariff scheme adopted by the London Chamber of Commerce on 25 May 1916. The Federation of British Industries (FBI) formed in 1916 was protectionist in outlook. In 1916 the British Commonwealth Union was established 'to form a solid business group in Parliament' and a fundamental element of this programme was tariff reform, and it was linked with Empire interests.

The foundations were laid in wartime and in the deep recession of 1921 the Conservatives exploited the collapse in trade for their protectionist ends. A powerful deputation from the National Union of Manufacturers (NUM) visited Baldwin, then President of the Board of Trade, urging prompt action. Baldwin agreed. The Safeguarding of Industries Bill soon followed, being introduced on

2 June 1921. It had no difficulty in its passage through Parliament and became law on 1 October. It was a clear case of the result of pressure.

A powerful pressure group evolved in Britain in the second half of the twenties. It was the Empire Industries Association, founded in 1924. It provided apparent concern for Empire with the need to protect against foreigners, and was thus ideally equipped for the particular problem of the time. It was to play an important part in advancing the protectionist case, and according to some view it gave the decisive thrust to that case.

Others see protection as a crisis measure brought about by the need to respond to the deep economic recession. The recession in Britain was not in fact deep. However, what was striking in 1930 and 1931 was the great rise in unemployment. Unemployment is sometimes, erroneously, used as a measure of economic activity. It is erroneous because while it may on occasions proxy output it certainly does not always do so and it can be affected by a number of other factors. Erroneous or not, as a measure of depression unemployment was still a fact to which politicians had to respond. A favourite response has always been that the blame must lie with foreigners, and demands for protection have arisen in these circumstances. This was the kind of mood that was being exploited by some in 1931.

A National Government, but one dominated by the protectionist Conservatives, came to power in the Autumn of 1931 and immediately found an excuse for introducing very high tariffs. They claimed that the scale of imports in October of that year were such as to constitute dumping and something must be done about them. In fact the evidence was slender to say the least. They compared manufactured imports coming into the ports of London and Harwich in October 1931 and the first few days of November with those of the corresponding period in 1930. There was not much difference for October but the early part of November did show an increase. On the strength of this the Abnormal Importation (Customs Duties) Bill was introduced in Parliament on 16th November and came into force on the 25th November. Duties of 100 per cent were permitted since the Act was designed not to tax but to prevent goods coming in.

There was no good evidence of dumping. There are difficulties in defining and observing dumping. Long-term dumping below the cost of production was unlikely given the risks. Short-term dumping, either of a sporadic or predatory type was always possible and it was this latter that was feared in late 1931. The second point is that while for some items there was a rise in imports at a time when world trade was collapsing, the likelihood is that the explanation lies in importers acting to beat the widely rumoured imposition of a tariff. Furthermore, there was a depreciation of sterling in the months following the severing of the link with gold. A third point is that the pattern of imports was often similar between products where one was expected to be protected and the other was not. In short the supposed abnormal imports did not exist. The operation was simply an excuse to dramatise the Government's concern and pave the way for the introduction of the General Tariff which was implemented in April 1932.

The return to protection in Britain after almost eighty years can therefore be seen as a triumph for the business pressure that had its origins in the years before 1914 and whose real foundations are found in the First World War. Thereafter the pressure built up steadily throughout the twenties. The performance of the economy between 1929 and 1932 was not the real cause. Unemployment was exploited, and spurious dumping concocted to pave the way for the protectionist measures the Conservatives had long favoured.

IV.

Following the war exchange rates were out of alignment after differential price experience in the years 1914–20. And there were problems of war debt and reparations. New nation states were born in the aftermath of the war and more protectionism and nationalism accompanied that. All of these factors meant that trading patterns were greatly changed. Further, since there were great technological advances in the war years it is not reasonable simply to look at pre-war patterns and make comparisons based on these, for the post-war world. Products had changed and comparative advantage had shifted. Many of these problems led directly or indirectly to the great depression that afflicted many countries in the years 1929–33. And all of this makes it that much more difficult to capture the effects of the tariff. For example the basic question: how much were imports reduced by as a result of a tariff, requires a knowledge of price elasticity's. But on what data could these reasonably be estimated given what has been said?

But we turn here to some indication of the impact of the tariff in Britain. The British economy grew faster in the 1930s than at any time in the previous half century. The correct way to measure growth is from one peak in the cycle to the next, in this case from 1929–37. Over that period the economy grew at more than 2 per cent per annum. That was faster than in the 1920s (1924–29) which in turn was better than anything since the 1870s. The depression of 1929–32 in Britain was not severe, not as deep as that of 1920–21, and mild compared with most other countries. That partly accounts for the good performance over the whole cycle. But more important was the very strong upswing of 1932–37, one of the strongest in British economic history. The economy grew by 24 per cent in that short period.

What lay behind this remarkable growth? The tariff and some other protectionist measures were introduced in 1932 and many have been content to argue *post hoc ergo propter hoc*, that it was protection that was responsible. The main objection to this is that a whole host of other factors might equally contend for that position. This was a time when a great deal was heard about managing the economy. A number of policies were introduced and as usual there were some exogenous factors that also operated. Where the whole explanation lies is not easy to determine, and this is not the place to pursue it. Our purpose here is to consider the part that the tariff might have played.

Some early assessments of the tariffs, which relied on rather casual investigations, found favourably. Some attributed the fall in imports directly to the tariff. Khan claimed that imports of manufacturers were reduced by 60 per cent inside eighteen months. Arthur Lewis felt that the tariff was too low to be of much use. Benham, one of the most distinguished contemporary investigators believed that the way in which the tariff assisted recovery was by stimulating investment in iron and steel. This is of particular interest in view of some specific results that we shall turn to in this section. Finally, in a lengthier study Richardson concluded that, "the effects of the general tariff were not very significant" (1967, p. 408).

One development in trade theory in the 1960s / 70s offered an explicit formulation of what had been implicitly appreciated by producers and economists alike, on the impact of tariffs and that was what was called effective protection. We use that here before referring to some different approaches to investigations of the impact of tariffs at this time.

Effective protection has become a useful way of looking at the impact of tariffs both within an economy and when making international comparisons. It is particularly useful for looking at the likely impact of protection on resource flows – those industries getting the greatest amount of effective protection should attract more resources than those beneath them in the list. It is important to be clear that there are many problems in the calculation of effective rates. There are problems relating to the assumptions and there are problems of data. However, if effective rates can be provided for a reasonable coverage of British industry and ranked in order of the effective protection given, it becomes possible to talk in general terms about the likely impact. Effective rates calculated for British industry for this period allow something to be said about the likely impact of the tariff and its contribution to economic growth.

The effective rates of protection range in the main between 40 and 60 per cent and that is not surprising since they are typically of the order of twice the size of the nominal tariff. But although that is the range there are some that lie well outside the range and those are of particular interest because of the nature of the industries involved.

One case that is of considerable interest is the construction sector. It was the biggest sector of all, and almost twice the size of the next largest sector, iron and steel manufacturing. Much of the credit for the beginning of recovery in the early 1930s has been given to construction, particularly residential building. (A huge proportion of interwar semi-detached houses date from 1932 as does a great deal of commercial property.) For example Benham writing some few years after the depression, and later Richardson in one of the most thorough historical studies, have credited the building industry with the crucial contribution to the recovery. Most historians of the period since then have not disputed this judgement.

The great expansion in building rested on a large number of factors on both the demand and supply side. There were demographic factors that meant a growing population of house buying age and this coupled with rising real incomes for the

great bulk of the population. Real wages had in fact risen quite steeply through the depression years since money wages were relatively sticky but prices fell quite sharply. Supporting the demand side there was an important institutional factor and that was the availability of finance from the building societies at relatively modest interest rates. Mortgage finance was a growing area in the inter-war years and building societies prospered enormously. Thus there is no difficulty in accepting that the size of construction was such as to make whatever happened there important. There will always be questions raised about precise timing, but the evidence is persuasive that this sector did provide the initial boost to recovery, and thereafter it contributed greatly to the strong upswing in the rest of the decade.

Having said all that what is of interest is that the effective rate of protection for this sector is negative. This is not a controversial result. It comes about because the final product is not tradable but many of the inputs into building were tradable. So the final product, housing, had no tariff on it but importable inputs which made up 42 per cent of the final product had tariffs on them – slates, glass, woodwork, metal door and window frames and even bricks – at rates that ranged from 15 per cent to 33.3 per cent.

The building industry was therefore taxed in a greater way than others, put at a disadvantage in relation to the rest of industry. Even if refinements are made to the effective protection result there is little prospect of the construction sector coming off the bottom of the list. In other words resources would have been pulled away from this sector and attracted to others. The point to stress is that while acknowledging that this industry contributed greatly to economic recovery it has to be accepted that the tariff diminished its contribution.

A similar point has to be made about the iron and steel industry. It comes out second to bottom in the rankings of effective protection. This industry again partly by virtue of its size is one that reputedly gave great stimulus to recovery. The nature of the industry makes the calculation of the effective rate more difficult than many others. The industry was made up of two main parts. There was what was called the “heavy” part that produced pig-iron, semi-finished products and the simpler rolled products. And there was the “light” part where re-rolling and finishing was carried out along with the production of more specialised goods. It is the fact that the raw material passes through so many stages before it reaches its final form that means it is difficult to define the industry. Some firms covered most processes.

It was mostly those firms engaged in the “heavy” part who actively sought the tariff and those in the “light” who were opposed to it. The heavy part was dominant in every way and these were successful in obtaining high tariffs. The light part resisted the tariff of 33.3 per cent on their raw materials and semi-finished products even though they were given a 20 percent tariff on their finished product. This was one of these rare occasions in tariff history when the tariff placed on the input was greater than that on the final product. The end result is an effective rate of protection that is very low.

Here then is an industry which was given little protection – least of all by far in the manufacturing sector – and yet this industry is credited with having made the greatest contribution of all manufacturing industries to the recovery. Accepting that it did make such a contribution we are nevertheless forced to conclude that it was handicapped by the tariff. We would have to look elsewhere for the reasons – possibly to the rationalisation of the industry. The tariff would have resulted in resources being drawn away from iron and steel.

These two sectors – construction and iron and steel – which come at the bottom of the rankings of effective protection made up almost 40 per cent of total industrial output. These are the two sectors that are said to have contributed most to the very strong surge in economic activity from 1932–37. They were both considerably handicapped by the tariff and on this basis we would have to conclude that the contribution of the tariff to economic revival was minimal.

Britain had returned to a gold standard in 1925 and remained on that standard until September 1931. The debate on protection had taken place in the context of a fixed exchange rate regime. International trade theory deals with the differential impacts that can be expected from tariffs under fixed and floating exchange rates regimes. The basic position is that the tariff can be effective under fixed rates, though the extent will be affected by the impact on money supply and the general price level changes. But tariffs will be ineffective and possibly perverse under floating rates.

Britain left the Gold Standard in September 1931 and shortly thereafter implemented protectionist policies. It was at this stage that Keynes gave up his advocacy of the tariff. On leaving the gold standard Britain did not however permit completely free floating. It was at this time that the Exchange Equalisation Account was established and the exchange rate entered a period of dirty floating. Under fixed exchange rates a tariff diverts demand to home goods and domestic output can thus be encouraged, and incomes raised. But under a floating rate there is ultimately no change. Within a simple macroeconomic framework with floating rates, the tariff would bring about a rightward shift in the IS curve and a rise in interest rates. That would induce a capital inflow and so lead to an appreciation in the exchange rate. This then diverts demand from home goods back to imports and that process continues until interest rates are back at their initial point. Therefore there should be no expectation of protection contributing to economic growth. In fact Mundell went further than this in showing that under floating rates a new tariff was likely to be contractionary – it would actually reduce national output and income.

An aspect that must be taken account of is the impact British protectionism had on the rest of the world. The impact on the world economy has already been alluded to above. Britain was still the major trading country in the world economy and when it took the measures there were all manner of responses around the world. To isolate the domestic impact of tariffs in Britain is to ignore this and the ramifications that it had for world trade. The reverberations that undoubtedly swept around the world and back to Britain can only have damaged British external trade and hence economic growth.

This paper has suggested that a large move towards protectionist policies was underway from at least the First World War onwards and that that process accelerated rapidly in the 1920s such that by the time of the great depression the world had the highest levels of protection. It may be difficult to assess accurately the extent of the increase that took place or to be precise about the actual scale of protection in any one year but when all the measures employed are considered it can hardly be disputed that the world was in one of its most severe protectionist phases. As ever, there were many factors at work but the protectionist devices must take a large part of the blame for the poor economic performance in the world economy in the 1930s. The damage to the world economy is reflected in the collapse in world trade between 1929 and 1937. Of course falling incomes had a major part to play in that but incomes were generally rising after 1932 while trade continued to fall for several years. There will continue to be debate over the contribution, if any, of protection to the domestic economic recovery in the different countries but there is a lot of evidence to suggest that in some that contribution was tiny and in some cases perverse. There is no doubt that protection reduced imports – that is what it is good at – but that can be the problem for the world at large. Richard Cooper may have overstated the significance of the Smoot-Hawley tariff but when that is put in the wider context of the protectionist movement there is a clear case for saying that protection was amongst the most damaging aspects of international relations in the interwar period.

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