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InFocus

Macro comment

When protectionism backfired: The Smoot-Hawley Tariff Act of 1930

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WHEN PROTECTIONISM BACKFIRED: THE SMOOT-HAWLEY TARIFF ACT OF 1930

With the Trump administration implementing wide ranging tariffs on US trading partners, it is useful to revisit the Smoot-Hawley Tariff Act, which was passed in 1930 and which was followed by a collapse in US trade and economic activity. In this issue of *InFocus*, EFG Chief Economist Stefan Gerlach reviews the background of the Act and its consequences.

The Trump administration's trade policies have revived interest in the Smoot-Hawley Tariff Act—arguably the most prominent example of protectionism in US history. Passed in 1930 and named after Senator Reed Smoot, Republican of Utah, and Representative Willis Hawley, Republican of Oregon, the law is widely remembered as a major policy error. It deepened the Great Depression both in the United States and abroad and impaired international trade relations for years to come.

As chairmen of the Senate Finance Committee and the House Ways and Means Committee, respectively, Smoot and Hawley lent their names to a Republican-sponsored tariff bill that raised import duties to historically high levels just as the US economy was collapsing. The bill was highly controversial: Democrats condemned it; economists petitioned Congress to reject it; and foreign governments lodged protests—all to no avail.

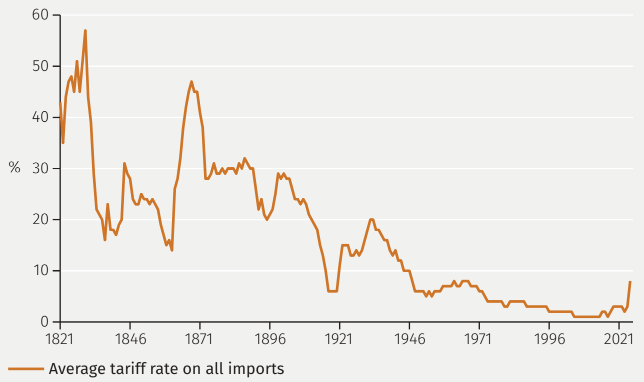
Tariffs can be measured either as the average rate on goods subject to tariffs or as the average rate across all imported goods. Figure 1 uses the latter approach. It shows that while the average tariff rate has gradually declined over the last two centuries, this trend has reversed at several key moments.

Thus, the average tariff surged from 14% to 38% during the Civil War (1861–65), peaked at 45% in 1870, then declined steadily before rising again in the early 1920s, peaking in 1933. It subsequently began a long descent, interrupted only briefly in 2018, before spiking again in 2025. (Note that the 2025 data point reflects the situation prior to the tariff hikes introduced by the Trump administration on 02 April 2025.)

As Figure 1 shows, the US already had a high-tariff regime in place when Smoot-Hawley took effect. The Fordney-McCumber Tariff Act of 1922 had significantly raised duties and triggered retaliatory measures from Europe, but it did not prevent the economic boom that characterised the 1920s.

However, the 1920s were difficult for American farmers, who struggled with overproduction, falling prices and rising competition from a recovering Europe. Throughout the decade, they lobbied for additional protection. When Herbert

1. Average tariff rate on all imports (before 2 April 2025)



Source: Tax Foundation. Data as at 31 March 2025.

Hoover ran for president in 1928 as the Republican nominee, he pledged to raise tariffs on agricultural products.

Once in office, however, lobbying from other sectors—particularly manufacturing—broadened the push for tariff increases. This led to the Smoot-Hawley Tariff Act, which sharply raised import duties across numerous sectors. The bill passed narrowly in the Senate but easily in the House, reflecting strong Republican support, particularly from business and agricultural interests.

The legislation provoked fierce opposition. More than 1,000 economists, including many who were prominent at the time, signed an open letter urging President Hoover to veto the bill. Foreign governments warned of retaliatory measures and Democrats denounced the act as economically reckless. Yet Hoover, under political pressure and determined to honour his campaign commitments, signed it into law in June 1930.

The timing of the Smoot-Hawley Act could hardly have been worse, coming shortly after the 1929 stock market crash that had already triggered a sharp economic downturn. Although economic historians generally agree that the Act did not cause the Great Depression - if anything, the downturn likely increased calls for protectionism - it unquestionably made the crisis harder to manage.

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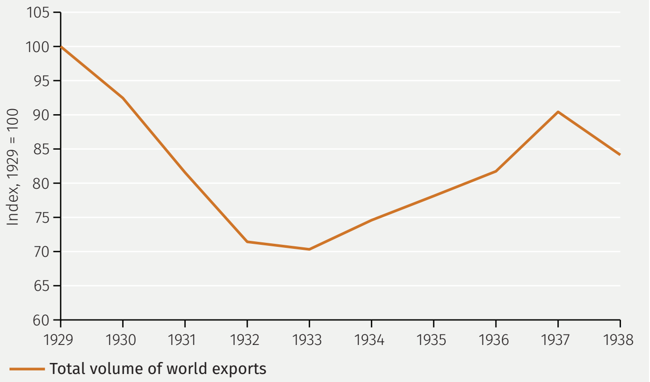
Within two years, its damaging economic effects were undeniable. The spike in US tariffs prompted widespread retaliation from other countries. International cooperation collapsed just as the global economy was plunging and coordination was needed most. World trade volumes fell by nearly one-third (see Figure 2).

2. Total volume of world exports



Source: Our World in Data. Data as at 31 March 2025.

Today, the Smoot-Hawley Tariff Act is viewed as a cautionary tale about the perils of economic nationalism in a globally interconnected world. It marked a retreat into protectionism for the US and a breakdown of global economic diplomacy. For many, it stands as a textbook example of how efforts to shield domestic industries can backfire disastrously when applied without foresight.

Smoot-Hawley was also the last time Congress set specific tariff rates directly. In the decades that followed, trade policy shifted toward executive-led negotiations and multilateral frameworks such as the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO). While the Act deepened the crisis of the 1930s, it also helped shape the post-WWII global economic order's firm rejection of protectionism.

But from today's perspective, the key question is how much macroeconomic damage the Smoot-Hawley Act caused. It increased tariffs at the start of a deep recession that was followed by the Great Depression. There is broad agreement among economic historians that the absence of effective fiscal and monetary policy responses, and not trade policy, was responsible for making the Great Depression truly great.

Nevertheless, the Smoot-Hawley Act came at a real economic cost. It triggered retaliatory tariffs from foreign governments and led to a sharp decline in US real exports. One estimate suggests that this reduction in trade lowered US real GDP by 3.4% between 1929 and 1931.[1] While that accounts for less than a quarter of the total GDP contraction during that period, it remains a meaningful drag on the economy.

That impact was cushioned by the fact that international trade played a far smaller role in the US economy at the time than it does today. In the early 1930s, trade made up roughly 10% of gross national product; today, it accounts for around 25%.

It is still too early to assess the full economic fallout of the Trump administration's tariff measures, as much will depend on the specifics of their implementation and the scale of foreign retaliation. But the risk of serious economic disruption is already evident.

[1] See "Smoot-Hawley Tariff" by Anthony O'Brien, Lehigh University, at the Economic History Associations website at https://eh.net/encyclopedia/smoot-hawley-tariff/

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