

From Smoot-Hawley to ‘America first’ and ‘strategic sovereignty’

Calls for more protectionism have been on the rise for some time and have surged again with the Covid-19 pandemic. This column, by **Koen Berden, Joseph Francois and Fredrik Erixon for VoxEU**, highlights the negative consequences of protectionism during the Great Depression and draws a comparison with today's crisis



Source: Shutterstock

The Great Depression can teach us a lot about the current crisis

This month marks 90 years since the US signed into law the Smoot-Hawley Tariff Act (SHTA). It was formally called “An Act to provide revenue, to regulate commerce with foreign countries, to encourage the industries of the United States, to protect American labor, and for other purposes”. Proposed by Senator Smoot and Representative Hawley just before the Wall Street crash in 1929, the Act was meant to create jobs and reduce unemployment by keeping imports out – a sentiment that had grown stronger by the time Herbert Hoover signed the act in 1930. Moreover, it was argued that the US government would benefit from additional tariff revenues.

Notwithstanding the intent of the architects, the actual effects were different. The toxic combination of failed monetary policy, a broken gold standard, and increasing protectionism contributed to pushing US unemployment from 8% in 1930 to 16% in 1931 and as high as 25% in 1932-1933. With the collapse of the Credit Anstalt in Austria in 1931, Europe too suffered from

record unemployment, exchange-rate controls and rising protectionism. And failed cooperation on international economic policy only made the Great Depression worse (see Irwin 2019, 2020 and Ahamed 2009).

The example of Great Depression protectionism is instructive for the world today. We are yet again at a point in history when protectionism is on the rise – and when governments are considering (and already pursuing in some cases) ‘beggar-thy-neighbour’ policies in the belief that such measures will boost jobs and growth. “America First” seems to be the guiding ethos of US international economic policy. Europe is debating whether it needs ‘strategic autonomy’ in a post-Covid world, and China is accelerating its own ambition of creating ‘indigenous innovation’ by restricting markets to foreign firms. Many supporters of these concepts are not shy about the essence: shielding domestic economies from imports.

Decades-long waves of trade openings in emerging and developing markets have now come to an end. While there are differences in the scale and scope of new trade restrictions, policy makers seem to have forgotten the lessons offered by protectionism during the Great Depression. In our view, there is clear evidence of significant potential benefits from continued openness. At the same time, the structure of the global economic system, and the underlying national policy machinery that distributes the gains from the system, are under strains that can no longer be ignored. Otherwise the system may again collapse, just like it did 90 years ago.

and yet there are many differences between now and then

But while there are uncomfortable similarities between the trade policy environments of 1930 and 2020, there are also important differences. Today, a greater part of value added (in particular jobs) depends on trade. Back then, many countries were locked into a gold standard that could not handle pressures of both deflation and huge balance-of-payment imbalances. Government expenditures did not have built-in automatic stabilizers to help an economy recover from an economic slump. Unlike today, the business cycle could not be revived by slashing taxes or boosting public spending: business taxes were not particularly high in the first place and there was no system in place for government transfers or creating public jobs. These differences between 1930 and 2020 translate into very real challenges to continued cooperation on international economic policy.

On top of cross-border financial linkages that transmitted contagion in both the Great Depression and Great Recession, we now have far stronger cross-border linkages on the real side of the economy. These follow from the emergence of global supply chains (aka global value chains or GVCs) managed by large global enterprises. The emergence of GVCs has proven a vehicle for increased efficiency and rapid transmission of technical change and has served to more closely link local employment to global production (see for example Cali et al. 2016). Yet, stronger cross-border linkages may both facilitate more rapid transmission of technology driven shocks affecting labour demand (Baldwin 2016, Baldwin 2019), and transmission of economic shocks of one region to employment in other regions (Acemoglu et al. 2016, Acemoglu et al. 2015, Acemoglu et al. 2012). This translates into a very real fear about future conditions of employment. Local dependence on global supply chains has also been important in determining the economic impact of Covid-19 shutdowns, which again serves to highlight how imposed restrictions have impacted GVCs negatively and subsequently exposed countries to cross-border economic policy contagion. Potentially, this has dramatic implications for employment, and it strains the viability of critical supply lines, for example in the case of medical supplies.

The emergence of a truly global economy has brought greater potential for growth and technology transfers, especially when linked to local economies. But it has also brought greater potential for disruption of local labour markets, for the viability of local communities, and even for the viability of national tax regimes. There is evidence of local labour market collapse following rapid economic growth on the other side of the planet (see for example Autor et al. 2013). Tax minimization by firms that rival national economies also means that the viability of public finances is challenged, even when we are not falling into a deep recession/depression (Egger et al. 2010, Egger et al. 2019).

Like in 1930, there are loud calls for more protectionism which, for the most part, draw on ideas and policy initiatives that were conceived long before the pandemic started. Even if these ideas are dressed-up in popular-sounding terminologies – ‘America first’, ‘strategic sovereignty’ or ‘value chain repatriation’ – they all boil down to the same intention: reducing imports and reducing dependency on others in the belief that such actions create more jobs and prosperity. The anniversary of the SHTA should remind us that protectionism can lead to unintended and unwanted outcomes, and that trade restrictions during an economic crisis would make the situation worse rather than better. There are very real challenges posed by the current crisis which need to be confronted directly. Else we may prove Mark Twain correct yet again: “History doesn't repeat itself, but it often rhymes.”

The full original article first appeared on VoxEU [here](#) on 26th June 2020.

Author

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Karol Pogorzelski

Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com