2. The International Economy (Group 2)

Critical Questions - How does international trade impact the economy? How does government debt impact an economy? What is Inflation? What is a tariff? Why would people support tariffs? Who would be against them?

How did changes in the international economy contribute to the Great Depression

Source 8: Encyclopedia Entry by Anthony O'Brien, Lehigh University
(http://eh.net/encyclopedia/smoot-hawley-tariff/ Accessed February 3, 2014)

The Smoot-Hawley Tariff grew out of the campaign promises of Herbert Hoover during the 1928 presidential election. Hoover, the Republican candidate, had pledged to help farmers by raising tariffs on imports of farm products. Although the 1920s were generally a period of prosperity in the United States, this was not true of agriculture; average farm incomes actually declined between 1920 and 1929. During the campaign Hoover had focused on plans to raise tariffs on farm products, but the tariff plank in the 1928 Republican Party platform had actually referred to the potential of more far-reaching increases:

"[W]e realize that there are certain industries which cannot now successfully compete with foreign producers because of lower foreign wages and a lower cost of living abroad, and we pledge the next Republican Congress to an examination and where necessary a revision of market, may maintain its standard of living, and may count upon steady employment in its accustomed field." - 1928 Republican Party Platform

Source 9: A French military officer (Ferdinand Foch) with sword showing "Terms" of past-World War I reparations to German military officer, possibly William II. (1923 Library of Congress, Prints and Photographs Division)

Source 11: Selected Quotes from John Maynard Keynes's *The Economic Consequences of the Peace, 1919*

"Lenin is said to have declared that the best way to destroy the Capitalist System was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate arbitrarily; and, while the process impoverishes many, it actually enriches some... Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."

"The inflationism of the currency systems of Europe has proceeded to extraordinary lengths. The various belligerent Governments, unable, or too timid or too short-sighted to secure from loans or taxes the resources they required, have printed notes for the balance."

"In Germany the total expenditure of the Empire, the Federal States, and the Communes in 1919–20 is estimated at 25 milliards of marks, of which not above 10 milliards are covered by previously existing taxation. This is without allowing anything for the payment of the indemnity. In Russia, Poland, Hungary, or Austria such a thing as a budget cannot be seriously considered to exist at all."

"Thus the menace of inflationism described above is not merely a product of the war, of which peace begins the cure. It is a continuing phenomenon of which the end is not yet in sight."

Source 12: Herbert Hoover, Radio address at Fortress Monroe, Virginia October 18, 1931

"The depression has been deepened by events from abroad which are beyond the control either of our citizens or our government." —Herbert HooveR

Source 13: New York Times Front Page, May 5, 1930

1,028 Economists Ask Hoover To Veto Pending Tariff Bill
Special to The New York Times.
New York Times 1857-Current; May 5, 1930; ProQuest Historical Newspapers The New York Times (1851 - 2003)
pg. 1

1,028 Economists Ask Hoover To Veto Pending Tariff Bill

Professors in 179 Colleges and Other Leaders Assail Rise in Rates as Harmful to Country and Sure to Bring Reprisals.

Special to The New York Times.

WASHINGTON, May 4.—Vigorous opposition to passage of the Hawley-Smoot tariff bill is voiced by 1,028 economists, members of the American Economic Association, in a statement presented to President Hoover, Senator Smoot and Representative Hawley by Dr. Claire Wilcox, associate professor of economics at Swarthmore College, and made public here today. They urge the President to veto the measure if Congress passes it.

Economists from forty-six States and 179 colleges, among them Irving Fisher of Yale, Frank W. Taussig of Harvard, Frank A. Fetter of Princeton, Wesley C. Mitchell of Columbia, J. Laurence Laughlin of the University of Chicago and Willford I. King of New York University join in the statement.

Arguing against increased tariff rates they declare that the pending bill will raise the cost of living and injure the "majority of our citizens," that under it the vast majority of farmers would lose and that American export trade in general would suffer.

Asserting that America now faces the problem of unemployment, the economists challenge the contention of high tariff proponents that higher rates will give work to the idle. Employment, they state, cannot be increased by restricting trade, and American industry, in "the present crisis, might be spared the burden of adjusting itself to higher schedules of duties."

They urge the administration to give regard to that "bitterness which a policy of higher tariffs would inevitably inject into our international relations."

The text of the statement is:

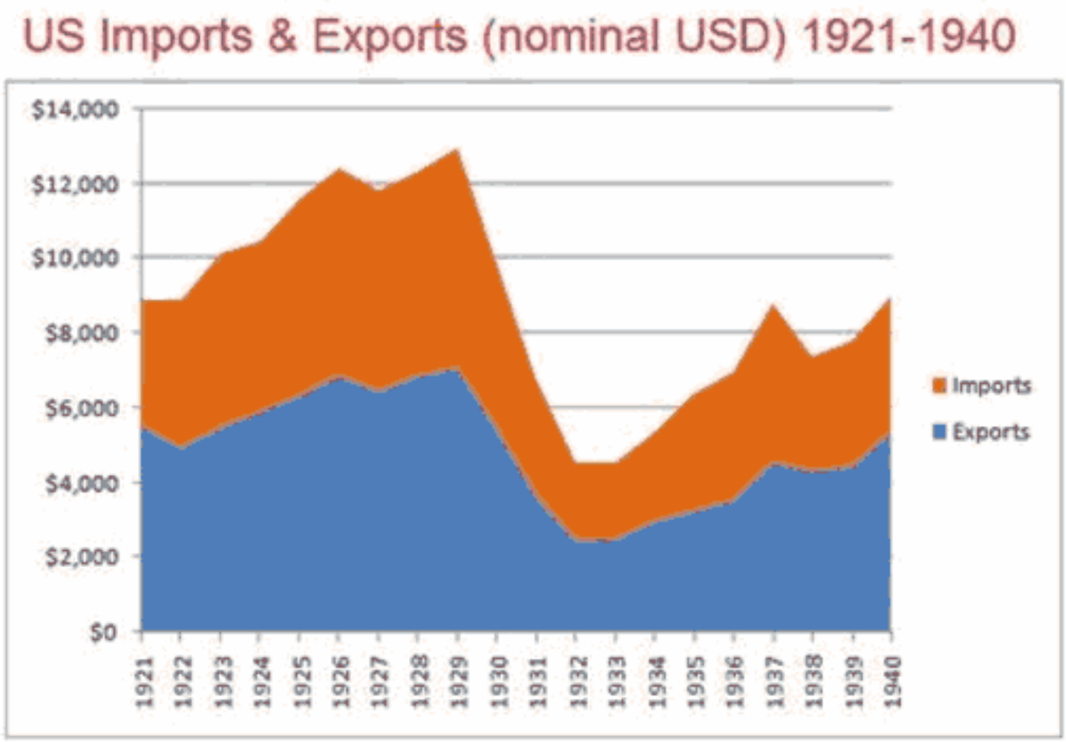
"The undersigned American economists and teachers of economics strongly urge that any measure which provides for a general upward revision of tariff rates be denied passage by Congress, or if passed, be vetoed by the President.

"We are convinced that increased restrictive duties would be a mistake. They would operate, in general, to increase the prices which domestic consumers would have to pay. By raising prices they would encourage concerns with higher costs to undertake production, thus compelling the consumer to subsidize waste and inefficiency in industry.

"At the same time they would

Continued on Page Four.

Source 14: US Imports & Exports 1921-1940 (From U.S. History Text Book, 2007)



Source 15: Logarithmic Chart of German hyperinflation Table IV (page 441) of *The Economics of Inflation* by Costantino Bresciani-Turroni, published 1937