

# Cumberland Advisors Market Commentary – Does Trump-Navarro Equal Smoot-Hawley?

George Santayana said “Those who cannot remember the past are condemned to repeat it.”



In an article titled “The Smoot-Hawley Tariff and the Great Depression,” authors Theodore Phalan, Deema Yazigi, and Thomas Rustici assess the role the Smoot-Hawley Tariff Act played in the Great Depression:

“In 1930, a large majority of economists believed the Smoot-Hawley Tariff Act would exacerbate the U.S. recession into a worldwide depression. On May 5 of that year, 1,028 members of the American Economic Association released a signed statement that vigorously opposed the act. The protest included five basic points. First, the tariff would raise the cost of living by ‘compelling the consumer to subsidize waste and inefficiency in [domestic] industry.’ Second, the farm sector would not be helped since ‘cotton, pork, lard, and wheat are export crops and sold in the world market’ and the price of farm equipment would rise. Third, ‘our export trade in general would suffer. Countries cannot buy from us unless they are permitted to sell to us.’ Fourth, the tariff would ‘inevitably provoke other countries to pay us back in kind against our goods.’ Finally, Americans with investments abroad would suffer since the tariff would make it ‘more difficult for their foreign debtors to pay them interest due them.’ Likewise, most of the empirical discussions of the downturn in world economic activity taking place in 1929–1933 put Smoot-Hawley at or near center stage.”  
(<https://fee.org/articles/the-smoot-hawley-tariff-and-the-grea>

t-depression/)

In 2019, nearly every economist disagrees with the Navarro-advised Trump tariff policy. At our recent gathering in Maine we polled the group, which represented about \$2 trillion in assets under management and thousands of households and many hundreds of thousands of beneficiaries of retirement plans and millions of investors and savers in the US. Asked about Navarro, 1 supported him, 36 opposed, and 3 weren't sure. Asked about the Trump trade policy, about 3/4 of our group opposed it and saw it doing increasing damage to the US.

The late Allan Meltzer noted in *A History of the Federal Reserve Volume 1: 1913-1951* that "Research suggesting a small effect [i.e., from tariffs] ignores the pronounced effect on farm exports, distress, bankruptcies, and bank failures in farm states" (p. 564, note 299). Readers are invited to check the rising bankruptcy statistics in farm states in 2019. The Trump-Navarro trade policy is responsible; the correlation between the Trump trade war and rising distress is very high.

How historic and vital are the fundamental economic lessons of the Smith-Hawley Tariff Act and its consequences? As Milton Friedman and Anna Jacobson Schwartz note in *A Monetary History of the United States, 1860-1967*, "To find anything in our history remotely comparable to the monetary contraction of 1929-1933, one must go back nearly a century to the contraction of 1839 to 1843" (p. 299, chapter 7). I recommend that readers who wish to take a deeper dive study all of Chapter 7.

Dear readers, this is a brief response to the events of Friday, August 23, 2019. I could easily add 100 citations.

Peter Navarro owns the advisory role and the argument in favor of the present US trade war policy. President Trump owns the decisions. Together they are digging a hole, and that hole is getting deeper. Market agents know it. Farm-state voters know

it. Financial agents know it.

No matter what Navarro says and whom Trump blames, the truth is that the responsibility for the economic slowdown and the financial volatility lands squarely on the Oval Office desk and in the lap of the president and his advisors. He does not have the courage to admit an error. He avoids any self-blame. He constantly bashes the Fed since it (and Jay Powell) is a convenient and distracting target.

There is a fitting adage attributed to Will Rogers: "If you find yourself in a hole, stop digging."

Mr. Navarro, Mr. Trump, read history. You are digging a deeper and deeper hole for the nation and the world. Stop digging.

**David R. Kotok**

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