ECONOMICS, LABOR & BUSINESS

The Golden Millstone

THE SOURCE: "The Slide to Protectionism in the Great Depression: Who Succumbed and Why?" by Barry Eichengreen and Douglas A. Irwin, in ***The Journal of Economic History***, Dec. 2010.

Robert Zoellick, the president of the World Bank, recently suggested that leading economies consider adopting a diluted gold standard (under which currencies are pegged to the price of gold) to help moderate international currency fluctuations. The gold standard is not beloved by mainstream economists, and a study by economists Barry Eichengreen of the University of California, Berkeley, and Douglas A. Irwin of Dartmouth should give Zoellick further pause. Countries that stuck to the gold standard throughout the Great Depression enacted harsh protectionist policies that caused a sharp contraction in international trade; even after economies began to recover, trade lagged.

The Depression is often remembered as a time when every country imposed strict trade barriers in an effort to protect its own. But nations that abandoned the gold standard tightened their trade restrictions "only marginally." As their currencies devalued, these countries benefited from an influx of gold, as people sought their cheaper goods. To prevent their gold from going overseas, those still on the gold standard were forced to enact tariffs, duties, and other protectionist measures against imported goods.

The first big step toward a restrictive trade era was the enactment in the United States of the Smoot-Hawley Tariff Act of 1930, which raised tariffs by 20 percent. But the wave of protectionist policies did not begin in earnest until 1931. That September, following a financial crisis in Austria, Britain abandoned the gold standard, a move that "sent shock waves through the world economy." Other countries with close financial ties to Britain followed suit within days, including Denmark, Finland, Norway, and Sweden. Japan did so two months later. In general, these countries recovered from the Depression earlier than those that stayed on the gold standard.

France, which stuck with gold until 1936, reacted to the fall in the value of the British pound (which made British goods cheaper overseas) by imposing a 15 percent surcharge on British goods. The Netherlands, also tied to gold, raised its duties by 25 percent. Between the third quarters of 1931 and 1932, world trade decreased 16 percent.

Once countries ditched the gold standard, they began relaxing their trade restrictions. In 1934, one year after the United States left gold behind, Congress passed the Reciprocal Trade Agreements Act, authorizing the president to reduce tariffs. Within four years, the Smoot-Hawley increases were virtually gone.

Ideally, countries should have coordinated a simultaneous devaluation against gold, Eichengreen and Irwin argue. Instead, devaluation occurred willy-nilly between 1931 and 1936. For the countries married to the gold standard during that time, those were five very long years.

POLITICS & GOVERNMENT

Don't Blame Polarization

THE SOURCE: "The Gridlock Myth" by Michael Barone, in ***The American Interest***, Nov.–Dec. 2010.

Does America's polarized political landscape render bipartisan legislation impossible? Are supermajorities the only way to move beyond gridlock? No, contends Michael Barone, coauthor of *The Almanac of American Politics*. Partisanship isn't the reason why politicians don't reach across the aisle—rather, it's the fear that they'll lose their seats.

Over the last 30 years, it has been easier to pass bipartisan legislation "when political voting patterns are stable and most members have reason to believe their seats are reasonably safe."

From 1938 until the late 1970s, when turnover in Congress was low, a loose coalition of centrist Republicans and southern Demo-

crats constituted a reliable voting bloc for many important pieces of legislation. That coalition came undone as liberal Republicans from the Northeast lost their seats and conservative votes in the South shifted to the GOP. After the elections of 1982 and 1984 passed without significant upsets, however, members felt comfortable. In 1985 and 1986, bipartisan majorities passed major legislation on taxes and immigration.

Bipartisanship receded from 1991 to 1995, a period that "saw an upending of political verities." Republicans were thought to have a hold on the presidency, but Bill Clinton took the White House in 1992. Democrats were thought to own Congress, but they lost control in 1994. The rise of Ross Perot and other third-party candidates added to the uncertainty.

The years from 1995 to 2005 tell an interesting story. Pundits decried the bitter partisanship in Washington, but there was a surprising amount of bipartisan legislation. Despite the hot rhetoric, members of Congress didn't feel that their seats were especially endangered. President Clinton was able to pass welfare reform in 1996, and he had a good chance of passing Medicare and Social Security reforms too until the impeachment debacle, Barone says.

Even after the divisive election of 2000, bipartisan coalition-building was possible. President George W. Bush enjoyed support from congressional Democrats on his 2001 tax cuts, the No Child Left Behind education reform effort, the 2003 Medicare prescription drug bill, the invasion of Afghanistan, and the Iraq war (a vote many Democrats later came to regret).

But in 2005, the stable pattern of the prior decade fell apart when support for Republicans dropped sharply in the polls. President Bush's plans for a comprehensive immigration reform bill, which enjoyed some Democratic support, died in the House because Speaker Dennis Hastert (R–Ill.), aware that many Republicans were at risk of losing their seats, refused to press the legislation. Then came the large Democratic majorities after the 2008 election, which removed incentives for bipartisan collaboration. President Barack Obama's stimulus package, health care legislation, and financial reform all passed with little, if any, Republican support.

The upheaval in the 2010 election, in which Republicans took control of the House, makes it plain "that major legislation addressing long-term problems will have to have bipartisan support to pass." But because the electorate has been so volatile, Barone thinks it will be difficult for legislators to overcome their fears and make headway on the deficit, entitlement reform, and immigration.

It's a vicious cycle, Barone observes. "Why are voters so willing to 'throw out the bums'? Because they think they can't get much of anything done. Why can't they get much of anything done? Because they're afraid that bipartisan compromise will get them thrown out of office."

POLITICS & GOVERNMENT

Disaster Management 101

THE SOURCE: "Our Responder in Chief" by Patrick S. Roberts, in ***National Affairs***, Fall 2010.

When Hurricane Katrina pummeled New Orleans in 2005, Americans looked to the White House to handle the crisis. Not long ago this would have seemed odd. Only in the last 60 years, with the advent of executive agencies responsible for national security, has the president become the go-to official for disaster response. Patrick S. Roberts, an assistant professor of public administration at Virginia Tech, warns that the "fixation on the White House badly distorts the way America thinks about and prepares for major disasters."

For most of the Republic's history, federal assistance to disaster-stricken communities took the form of one-off congressional appropriations. The first of these came in 1803, when much of Portsmouth, New Hampshire, was destroyed in a fire. Congress provided a temporary waiver of tariffs to residents in hopes of attracting investment to rebuild the city. As a later instance shows, federal intervention could also be ad hoc: When Army troops helped restore order in the aftermath of the 1906 earthquake in San Francisco, they did so "informally," with no instructions from Washington.