

Laissez faire Economics Economic Isolationism .

A time of adjustment

The government, meanwhile, believed in ***laissez faire***: letting businesses run their own affairs rather than passing laws to control working hours, prices or wages. *Laissez faire* led to problems immediately after the war, when the prices of crops fell and many employers reduced wages. There was discontent and **strikes**. People lost their jobs. Those who still had jobs found that their hours of work were reduced. But the government felt that all this was part of the economy returning to normal after its huge wartime push. It hoped that falling prices would eventually even things out without government interference.

Coolidge [President 1923–29] believed in as little government interference as possible and declared, 'the business of America is business'. Very soon, America was revelling in what became known as 'Coolidge prosperity'. It had very little to do with him and everything to do with the fact that America, after the First World War, was the country the world owed money to. Its undamaged industries achieved miracles of production on the first great assembly lines. It had the highest average income of any country. It made more steel than Europe. And Henry Ford built a car that almost everyone could afford.

Source C. *From America*, written by Alistair Cooke in 1976.

Protectionism

Financial isolationism

The government still had a policy of *laissez faire* – not interfering in business. However, it made some exceptions in the early 1920s to make the USA's economic independence more secure. It introduced laws to keep the government 'living within its budget' and lowered the high wartime taxes. It also introduced trade tariffs – taxes on goods imported into the USA. This pushed up the price of imports, encouraging Americans to 'buy American'.

- **May 1921, Emergency Tariff Act:** increased the import taxes on wheat, sugar, meat, wool and other agricultural products.
- **June 1921, Budget and Accounting Act:** put controls on government spending.
- **November 1921, Revenue Act:** changed taxes, cutting individual tax and the wartime tax on high levels of profit. However, it put in place a rise in the amount of tax paid by business from 1922.
- **September 1922, Fordney and McCumber Tariff Act:** raised tariffs and extended them to industrial goods. It also gave the president the power to raise the tariff yearly, in line with the selling price of these goods in the USA.

These tariffs did encourage Americans to buy American goods. However, they did not help US exports. Other countries retaliated by introducing tariffs of their own, so US exports became more expensive and so less popular.

Tariffs did nothing to foster cooperation among nations. They quickly became a symbol of the 'beggar-thy-neighbour' policies, adopted by many countries during this time, which contributed to a drastic reduction of international trade once they had taken effect. For example, US imports from Europe declined from a 1929 high of \$1,334 million to just \$390 million in 1932, while US exports to Europe fell from \$2,341 million in 1929 to \$784 million in 1932. Overall, world trade declined by some 66% between 1929 and 1934.

Source E: From a discussion of protectionism on a US government history website in 2009.

- ① Explain what you understand by the terms *laissez faire* economics and Protectionism.
- ② Draw a table to show the terms of the 4 tariff acts of May 1921 to September 1922.
- ③ Write a paragraph outlining the benefits and problems the tariffs caused for US trade.