The Reaction of Private Interests to the 1934 Reciprocal Trade Agreements Act

Karen E. Schnietz

The 1934 Reciprocal Trade Agreements Act (RTAA) has been the focus of much recent scholarly attention. Most analyses of the RTAA emphasize features endogenous to the statute, such as the congressional delegation of tariff-setting authority to the president, the removal of Senate ratification of completed trade agreements, or the RTAA's reciprocity feature, that contributed to the long-term trade liberalization following its passage. However, some research is skeptical of the collective, so-called "magic bullet" thesis formed by these institutional analyses of the RTAA. Skeptics emphasize features exogenous to the RTAA, particularly the post–World War II shifts in Republican preference on trade policy, that contributed to RTAA renewals and thus sustained postwar trade liberalization. Critics thus challenge interpretations of the RTAA that claim its institutional particulars were sufficient conditions to eradicate U.S. protectionism.

What both groups of research have in common is a reliance on evidence from public actors, particularly shifting legislative preferences for trade liberalization, to support their claims. Neither the institutional analyses of the RTAA nor their critics have examined evidence from "private" actors. I address this gap by studying producer and investor reactions to the institutional changes wrought by the RTAA, thus providing new empirical insight into recent research on the RTAA. Did private interests recognize the likely effects of the RTAA? Was the RTAA viewed as a boon to exporters and a threat to the protectionist system that had dominated U.S. tariff policy after the Civil War, as institutional analyses of the RTAA suggest? Alternatively, did the private interests most likely to be harmed and helped by the RTAA in 1934 fail to react to the measure? This outcome would be consistent with the arguments of skeptics of the institutional analyses who claim

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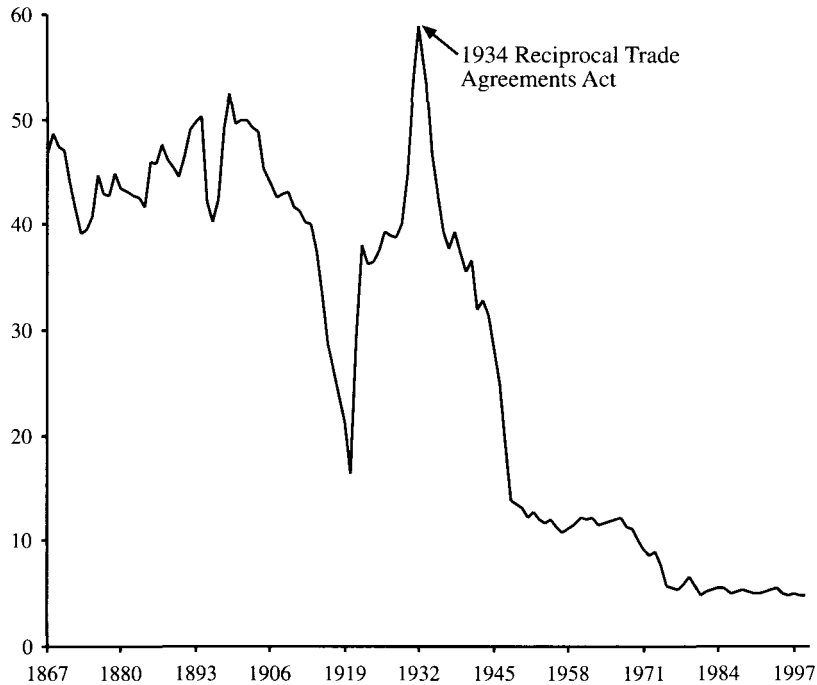
that the RTAA's features alone were sufficient to permanently liberalize U.S. trade policy outcomes.

To address these questions, I first provide an overview of recent institutional analyses of the RTAA and a review of their critics, along with the legislative voting data both groups offer in support of their views. I then examine two sources of evidence from private interests—unpublished archival documents from producer interest groups and stock price data from investors. My examination of the archival documents uncovers evidence that is more consistent with the institutional analyses of the RTAA than with its critics. Then, using the event study methodology, I find that export-dependent firms in 1934 (who should have been helped by the RTAA if it resulted in durable trade liberalization) experienced a positive and significant stock return increase of almost 4 percent when President Franklin D. Roosevelt (FDR) first announced he would seek the RTAA. Similarly, heavily tariff-protected firms in 1934 (who should have been harmed by the RTAA if it liberalized trade) experienced a significant stock return decline of almost 5 percent when the RTAA was reported out of the Senate Finance Committee. However, this decrease occurred almost four months *after* FDR's initial announcement that he would seek trade legislation. These results suggest that investors initially suffered from incomplete information in their valuation of the RTAA's effects on trade-dependent firms. This study contains a rare use of stock price data to measure the predicted effects of a public policy in the international political economy literature.

The RTAA's Role in Post–World War II Trade Liberalization

With the RTAA, the Democratic-controlled 73rd Congress delegated its constitutionally granted power to raise or lower tariff rates to the president and withdrew its power to ratify foreign trade agreements. The RTAA authorized the president to increase or decrease duties up to 50 percent of protectionist rates set under the infamous Republican 1930 Smoot-Hawley Tariff Act. Trade agreements negotiated under the RTAA required no *ex post* congressional approval; instead, the broad authority conferred on the president was subject to congressional renewal every three years. Under the RTAA, tariff reductions would no longer be made unilaterally via omnibus tariff legislation, but rather were made bilaterally via trade agreements and in exchange for comparable tariff reductions from foreign trading partners. The RTAA was thus a significant institutional departure from the tariff bills that had been the staple of previous congressional trade policymaking. Extensions of the original RTAA became the foundation for U.S. participation in post–World War II global trade expansion under the 1947 General Agreement on Tariffs and Trade (GATT). The basic institutional structure erected by the RTAA remains a feature of contemporary U.S. trade policy in modified forms, such as "fast-track" trade negotiating authority. Furthermore, the long-term decline of tariff rates



Sources: Historical Statistics of the U.S. (Washington, D.C.: U.S. Government Printing Office, 1975), and *U.S. Statistical Abstract* (Washington, D.C.: U.S. Government Printing Office), various issues.

FIGURE 1. *U.S. average ad valorem tariff rate (%), 1867–1999*

that followed the RTAA's passage, and is illustrated in Figure 1, is often attributed to the RTAA as the initiating incident.[1]

Institutional Analyses

A universal conclusion of the institutional analyses is that the RTAA fundamentally altered U.S. trade policy processes and liberalized trade policy outcomes, although these analyses emphasize different institutional specifics. Three structural features of the RTAA are cited as having contributed to the durability of postwar trade liberalization. The first was the congressional delegation of trade policymaking authority that removed agenda-setting control from the Ways and Means and Finance Committees and put it in the president's hands. Two versions of this model have been advanced. Karen Schnietz emphasizes the Democrats'

1. See Bailey, Goldstein, and Weingast 1997; Gilligan 1997; O'Halloran 1994; and Schnietz 1994.

failure to secure their preferred low tariffs during the period of postbellum Republican political dominance. She claims presidentally led tariff setting solved this problem. In her model, presidents—even Republican ones—prefer lower tariffs than a Republican Congress, because legislators' restricted geographical representation produces more distributive policies. Similarly, Sharyn O'Halloran and Susanne Lohmann develop a model illustrating how the RTAA solved the problem of the universalistic logroll that characterized the system of pre-RTAA omnibus tariff setting. In this model, the primary emphasis is on the collective action dilemma of legislators trading votes for high tariffs: delegation to the president ended this.[2]

The second feature of the RTAA cited as institutionalizing postwar trade liberalization was the elimination of Senate ratification of trade agreements. Before the RTAA, a trade treaty's policy results had to be in the win-sets of both the president and a super-majority of senators to be ratified. After the RTAA, Congress no longer voted directly to approve trade agreements but rather took a simple majority vote on whether to renew the presidential authority. The RTAA thus greatly reduced the political transaction costs associated with trade agreement passage.[3]

The third endogenous feature of the RTAA resulting in institutionalized liberalization was the reciprocity provision. Michael Gilligan has best articulated this argument: under the pre-RTAA system, protectionist interests had powerful, rent-seeking incentives to lobby for high rates because the benefits of tariff protection were lucrative and concentrated, while the welfare losses were broadly distributed. Conversely, export-oriented interest groups had little incentive to lobby for trade liberalization because foreign markets were not opened as a condition of U.S. tariff reductions. The RTAA, however, provided a concentrated benefit to exporters from trade liberalization in the form of reduced tariff barriers in export markets that finally gave exporters an economic incentive to exercise their political voice for freer trade. Over time, the lobbying by proliberalization interests would shift legislative preferences in favor of freer trade.[4]

Skeptics of the Institutional Analyses

Some research also appropriately questions whether the RTAA's structural features alone could have produced the sustained tariff decline depicted in Figure 1. In particular, skeptics argue that Republicans would have failed to renew the RTAA, once they regained majority status in the late 1940s and early 1950s, had it not been for the conversion of many Republican legislators from being strongly protectionist to being more free-trade-oriented during the 1930s and 1940s. The conversion was the result of sharply increased postwar U.S. exports that altered earlier

2. See Lohmann and O'Halloran 1994; O'Halloran 1994; and Schnietz 1994.
3. See Bailey, Goldstein, and Weingast 1997; and Schnietz 2000.
4. See Bailey, Goldstein, and Weingast 1997; Gilligan 1997; and Irwin and Kroszner 1999.

partisan preferences and political coalitions on trade. Michael Hiscox, and Randall Kroszner and Douglas Irwin rightly point out that the institutional analyses' claim that the RTAA was a "magic bullet" that stopped protectionism does not take these exogenous developments into account. However, even Kroszner and Irwin agree that the RTAA's reciprocity provision enhanced the political voice of exporters and thus contributed to the durability of liberalization.[5]

Existing Empirical Support

Despite the debate over whether the RTAA's success was endogenously guaranteed or greatly aided by exogenous developments, the recent research shares at least a common emphasis on examining how the RTAA altered the behavior of the political elite, particularly congressional voting on trade issues.[6] Although private economic interests are represented in almost all the existing models of the RTAA, their preferences are assumed, not examined. Virtually absent from RTAA research is a study of private interests' reaction to the RTAA, particularly by firms and industries whose revenues were dependent either on foreign market sales or tariff protection.[7] What did private interests make of the RTAA at the time it was debated and passed? Indeed, another common criticism of the institutional analyses of the RTAA is that they suffer at least somewhat from *ex post* rationalization. Investigating the reactions of private interests to the RTAA at the time of its debate and passage would offer needed contemporaneous evidence of how it was perceived and whom it was expected to help and harm.

Furthermore, the institutional analyses, which imply that it was known in 1934 that RTAA would dramatically liberalize trade, differ in emphases. Analyses arguing that presidentally led tariff setting or the elimination of Senate ratification of trade agreements was the key feature behind durable trade liberalization emphasize the tariff-reducing quality of the RTAA. Conversely, analyses arguing that the reciprocity feature was a key endogenous feature behind durable trade liberalization emphasize the export-expanding quality of the RTAA. Did the private interests who would be greatly affected by the RTAA, such as producers and investors, recognize both the RTAA's possible long-term tariff-reducing and export-expanding potential? In the next section, I examine two sources of evidence—unpublished archival documents from producer interest groups and stock price data—to gain a contemporaneous view.

5. See Hiscox 1999; Irwin 1998; Irwin and Kroszner 1999, 663.

6. See Bailey, Goldstein, and Weingast 1997; Gilligan 1997, 93–133; Hiscox 1999, 678–89; and Irwin and Kroszner 1999, 655–65.

7. Gilligan's useful examination of exporter testimony during congressional hearings is imperfect evidence because congressional hearings are highly choreographed by committee chairs. Gilligan 1997, 87–89.

Archival Data on Producer Groups' Reaction to the RTAA

For archival evidence of producers' views on the RTAA, I consulted all surviving unpublished manuscript collections in the Library of Congress and National Archives of members of the 73d Congress, the Ways and Means and Finance Committees, and executive branch officials in 1934. These collections have not been studied as heavily (or at all, in some cases) as published papers and sources relating to the RTAA, such as testimony before congressional committees.[8] I reviewed the following senators' unpublished manuscript collections: William Borah (R-Idaho), Tom Connally (D-Texas), James Couzens (R-Mich.), Bronson Cutting (R-N.M.), Robert La Follette (R-Wisc.), William McAdoo (D-Calif.), Charles McNary (R-Ore.), George Norris (R-Neb.), Key Pittman (D-Nev.), and Wallace White (R-Maine). I also consulted all extant unpublished manuscript collections of the House members of the 73d Congress: Emmanuel Celler (D-N.Y.), Ross Collins (D-Miss.), and Henry Rainey (D-Ill.). Additionally, I examined the unpublished papers of two members of the Roosevelt administration in 1934: Herbert Feis (economic advisor, State Department) and Secretary of State Cordell Hull. Finally, I examined the collections of the Ways and Means and Finance Committees relating to the RTAA and any other tariff and trade matters in 1933 and 1934. I sought to gauge the amount of producer support and opposition to the RTAA, and the level of understanding of the RTAA's three main institutional features, in these primary sources.[9]

Unsurprisingly, the pattern of producer group support for and opposition to the RTAA depended on their level of protection. The Ways and Means Committee received sixty-three pieces of RTAA-related correspondence from producers: fifty-nine letters were from heavily tariff-protected producers opposed to the bill, including textile producers, scientific instrument manufacturers, and toy makers. The four letters of support that were written to the Ways and Means Committee came from cotton and wheat farmers, whose products were highly competitive on global markets.[10] The Senate Finance Committee received seventy-four pieces of RTAA-related correspondence from producers; seventy-two were in opposition to the measure and came from the lace, wool, glass, textile, and chemical industries.

8. Schattschneider 1935.

9. This sampling method introduces possible bias. For instance, a disproportionate number of legislators with extant, unpublished manuscript collections were from the relatively more protectionist northern and western states, than from the relatively less protectionist southern states. The implication of this is that there would likely be greater numbers of letters in support of the RTAA in the historical record than I have uncovered, if there were more manuscript collections from southern legislators to consult. Nonetheless, I believe the number of letters from RTAA opponents would still outweigh those from its supporters because of the distributive nature of trade regulation, which encourages interests harmed by liberalization to exercise their political voice more than interests helped by liberalization—a main point of Gilligan 1997, of course.

10. *House Ways and Means Committee Papers*, container 185.

Two export associations wrote in support of the legislation.[11] Producers also wrote their individual legislators. The heavily protected wool and mining interests were particularly hostile to the RTAA, while the internationally competitive auto industry and many agricultural segments were strong supporters.

The archival evidence also suggests that, while a significant minority of producer groups understood the likely results of presidential tariff setting and the loss of Senate ratification of trade agreements, almost no group articulated an understanding of reciprocity's long-term implications. Only one letter—from the National Automobile Chamber of Commerce—predicted that reciprocity would enhance the political voice of export interests. Unsurprisingly, this letter came from a rare RTAA supporter.[12] More commonly, if producer groups focused on a specific institutional feature of the RTAA, it was on presidential tariff setting, and in opposition to it. For example, of the fifty-nine letters from producers opposing the RTAA sent to Ways and Means, twenty-four specifically objected to presidentally led tariff setting, while the rest argued generically that the RTAA would make them worse off. Only one of the two RTAA supporters writing to the Finance Committee made a specific, rather than a generic, argument in favor of the RTAA: he believed presidentally led tariff setting would result in lower tariffs than congressionally led tariff setting.[13] In the Senate, of the seventy-two letters to the Finance Committee opposing the RTAA, eleven specifically opposed presidentally led tariff setting.[14] Additionally, eighteen of the fifty-nine producers opposing the RTAA to the Ways and Means Committee argued specifically that the removal of Senate ratification of trade agreements would eliminate an important safeguard for protecting producer interests in the event a "bad" agreement was negotiated.

The archival evidence thus suggests that, while only a handful of export-oriented producer groups wrote to their legislators or the congressional oversight committees, these producer groups expected to be helped by the RTAA. Conversely, the far more vocal tariff-protected producer groups expected to be worse off under the RTAA. This evidence is consistent with institutional claims that the RTAA was expected to result in trade liberalization.

Stock Price Data on Investor Reactions to the RTAA

If investors in 1934 also expected the RTAA to result in long-term trade liberalization and export expansion, then they should have bought and sold stocks in a manner consistent with that expectation. Specifically, the stock returns of firms heavily dependent on export sales should have increased on news of the RTAA,

11. *Senate Finance Committee Papers*, containers 60 and 131.
12. 30 April 1934 letter from G. Bauer to Sen. W. Borah, *Borah Papers*, container 402.
13. Quote from 7 March 1934 letter from M. Michtom to Rep. Robert Doughton. *House Ways and Means Committee Papers*, container 185.
14. *Senate Finance Committee Papers*, container 60.

because the anticipated lowering of trade barriers would likely improve the long-run export prospects of these firms, and thus their growth prospects and profitability. Conversely, the stock returns of firms selling heavily tariff-protected products should have decreased on news of the RTAA, because lower tariffs would likely increase foreign competition, lower sales, dampen profits, and possibly even drive the most inefficient domestic firms out of business. Alternatively, if the stock returns of trade- or tariff-dependent firms did not change in response to the RTAA, then this result would suggest that investors did not regard the RTAA as a "magic bullet" against future protectionism.

Event Study Data

For the event study data I constructed a sample of export-oriented firms likely to benefit from the RTAA's trade liberalization as follows. First, I compiled a list of the percentage of total 1933 export production for all products (agricultural, natural resources, and manufactures) using data on industrial production from the *1935 Biennial Census of Manufacturers*[15] and data on exports from the *1937 U.S. Statistical Abstract*. Second, I restricted this list to those products exported at rates of 10 percent of 1933 domestic production and higher; products exported at this level in the protectionist world trading system of the early 1930s clearly would have been even more competitive under a liberal international trade system. Nineteen products were exported at this rate in 1933.

Next, I compiled a list of firms producing these products using *Moody's Manual of Industrial Securities*, the most comprehensive listing of U.S. firms at the time. This compilation resulted in a sample of 229 firms, which I further restricted as follows. First, I omitted 145 firms not traded on the New York Stock Exchange (NYSE) because regular trades, and thus stock price observations, are critical to the statistical validity of an event study. Although stocks were traded on various regional exchanges in 1934, the NYSE was the most liquid market. Second, I omitted thirty-eight highly diversified firms from the sample of NYSE-traded firms because abnormal stock returns could not be reliably attributed to the heavily exported product if a firm sold highly different products.[16] For example, no NYSE-traded petroleum firms were simply refiners. All were also involved in exploration and production, distribution, marketing, or some combination thereof. Finally, in event studies, one must guard against spurious significant results, caused not by the event of interest, but by firm-specific confounding events occurring during the event interval.[17] To control for this possibility, I searched the *New York Times* and

15. Data for 1934 are unavailable because the *Census of Manufacturing* was published biennially at this time.

16. The greatest difficulty in constructing the samples of export-oriented and import-competing firms lay in moving between the product-level data on exports and the firm-level data required to analyze stock prices. Unfortunately, no comprehensive source of individual firms' export sales existed in 1933.

17. McWilliams and Siegel 1997.

Wall Street Journal indices for all firms in the sample for news of mergers, major labor strikes, lawsuits, and other events that might confound the analysis. Consequently, I omitted five firms from the sample. The final sample of export-oriented companies consists of forty-one firms in eleven product areas (listed in Appendix 1).

I constructed the sample of heavily tariff-protected firms likely to be harmed by the expected trade liberalization of the RTAA as follows. First, I constructed a list of all dutied products using the 1933 tariff rates provided in the 1938 *Foreign Commerce and Navigation of the United States*. Second, I restricted this list to products that had tariff rates of 100 percent and higher; firms receiving this level of protection clearly could be expected to suffer from trade liberalization. Thirty-nine products enjoyed tariff protection in excess of 100 percent in 1933. I constructed a list of firms producing these products using *Moody's Manual of Industrial Securities*. This compilation resulted in a sample universe of 134 firms, which I further restricted following the same decision rules as with the group of export-oriented firms. Forty-six firms were traded on the NYSE, but fifteen firms sold highly diversified products and three firms had confounding results, so the final sample of heavily protected firms consists of twenty-eight companies in ten product areas (listed in Appendix 2).

Event Study Analysis

The event study methodology, originated in financial economics, has been used increasingly in analyses of the impact of regulatory legislation and trade agreements.[18] This methodology assumes that rational investors and efficient markets accurately assess the economic impact of new information (the "event") on the long-run profitability of a firm and bid stock returns up or down. The model calculates the "abnormal" stock return associated with a specific event by isolating the stock returns induced by news of the event from market-wide and firm-specific returns before the event. The abnormal returns calculated by the model are thus a measure of investors' expectation of the impact of the event on firm values (see Appendix 3 for complete model specification).

This article examines two event dates in detail (for reasons discussed below). The first event analyzed is the 29 December 1933 announcement by FDR that he would submit a trade bill during the upcoming second session of the 73d Congress. Although FDR briefly contemplated seeking trade legislation in April 1933, this possibility received little publicity. In his December announcement, FDR did not specify what form the trade legislation would take, although it was expected to be trade-liberalizing because Democrats had unified political control and the 1932 Democratic platform had pledged to reduce Smoot-Hawley rates if elected.[19]

18. On the event study, see Brown and Warner 1980; and Fama et al. 1969. For an application in regulation, see Mullin and Mullin 1997; and, in trade, see, Hanson and Song 1998.

19. *New York Times*, 30 December 1933, 3; *Wall Street Journal*, 30 December 1933, 1.

The following week, the press announced that FDR's Executive Economic Committee recommended he seek broad authority to negotiate trade agreements that did not require Senate ratification. But FDR refused to commit to any trade bill before the return of Secretary of State Hull, the main advocate for the RTAA within the administration, from the Pan American Conference in Montevideo, Uruguay.[20] When Hull returned in January 1934, he set to work on a draft of the RTAA. In late February, FDR brought congressional leaders to the White House to hammer out final details and disclosed the bill's specifics, prompting the *New York Times* to describe the RTAA as a "radical departure in commercial policy."[21] On 2 March 1934, FDR submitted the RTAA to Congress. The bill passed through the House in less than a month and through the Senate in two months; FDR signed it into law on 12 June. (Table 1 overviews RTAA event dates.)

Event Study Results and Refinements

The sample of export-oriented firms experienced a statistically significant excess stock increase of 3.8 percent following FDR's announcement, as hypothesized. However, the analysis of the sample of heavily protected firms, hypothesized to be negatively affected by the RTAA, yielded no significant results.[22] Additionally, though the coefficient for this sample was insignificant, its sign was positive rather than negative (Table 2).[23]

One interpretation of this result is that investors understood the trade-expanding consequences of the RTAA, but not its tariff-reducing potential. This result provides evidence more consistent with the institutional analyses that have emphasized the RTAA's reciprocity feature as the critical factor to long-term liberalization than with the analyses emphasizing the RTAA's presidentally led tariff setting or elimination of Senate approval of trade agreements. But it also provides mixed

20. Butler 1998, 85–93.

21. See *New York Times*, 25 February 1934, 22; and, for source of quote, 1 March 1934, 1.

22. One criticism of using an event study is that the methodology measures reaction simply to the expectation of generic Democratic trade legislation. This interpretation is unlikely. First, if the reaction was simply a measure of expected gains to exporting firms under a new Democratic administration, then that reaction would have occurred more than a year before the date this model tests. Second, if this model was measuring the expected value of generic trade legislation under Democrats, then there should be a symmetric result that includes a significant abnormal stock decline in the sample of protected firms. The fact that there was not one suggests investors *did* view the RTAA as a significant departure from previous tariff bills.

23. Similar results were obtained using the alternative event methodology developed to estimate stock reaction to the gradual release of information about sugar tariff reform in the 1910s, by Ellison and Mullin 1995 (to which the reader is referred for formal specification). The model estimates a peak of gradual diffusion of information, providing estimates both of when this peak occurs and the magnitude of the cumulative stock increase. When applied to the RTAA, exporting firms experienced a statistically significant abnormal stock price increase of 22 percent over the period from 29 December 1933 (FDR's first announcement) to 28 February 1934 (when all institutional features of the RTAA were made public). Also, again there are no statistically significant results for the sample of heavily protected firms.

TABLE 1. *RTAA event chronology*

Date	*Event*
29 December 1933	FDR announces intention to seek trade legislation; form of legislation is unclear, though it is unlikely to be omnibus tariff bill.
3 January 1934	Executive Economic Policy Committee recommends FDR seek broad authority to negotiate trade agreements not requiring Senate ratification; reciprocity emphasized in press.
27 January 1934	Hull returns from Pan-American Economic Conference; begins drafting RTAA.
26 February 1934	Agreement reached within administration on form of RTAA. Bill framed as an export-expansion measure.
28 February 1934	White House conference with congressional leaders on RTAA. First time all the institutional specifics of the bill are discussed together in press accounts.
2 March 1934	FDR submits RTAA to Congress; emphasizes bill's export expansion potential and its "emergency" nature.
8 March 1934 to 14 March 1934	Ways and Means Committee hearings. Only one week's notice of hearings given. Supporters dominate testimony and frame bill as export-expansion measure.
16 March 1934	RTAA reported out of Ways and Means.
24 March 1934 to 29 March 1934	House debate.
29 March 1934	House passage.
26 April 1934 to 1 May 1934	Finance committee hearings. Opponents given more time than during Ways and Means hearings to testify on likely welfare losses under RTAA. Republican senators more passionate opponents, because of elimination of Senate ratification power.
7 May 1934	RTAA reported out of Senate Finance Committee.
17 May 1934 to 4 June 1934	Senate debate.
4 June 1934	Senate passage.
12 June 1934	FDR signs RTAA.

evidence for skeptics of institutional analyses. On the one hand, investors in trade-dependent firms clearly believed the RTAA would have a positive effect on these firms' earnings. On the other hand, investors did not recognize, or did not believe that the RTAA would threaten the profitability of protected firms. This result is consistent with the critics' assertion that the postwar conversion of formerly protectionist Republicans to a freer trade position was necessary to cement the liberalization of the RTAA's endogenous features in the long term.

Another explanation for the asymmetric results lies in the possible effects of issue framing and incomplete information on investor preferences. Interestingly, FDR emphasized only the trade-expanding potential of the RTAA in his public

TABLE 2. *Event study results using 29 December 1933 event date (FDR first announces he will seek trade legislation)*

Sample	*Sample size*	*% change in stock return*	*Standard error*	*t-value*	*Model F value*
Export-oriented firms (hypothesized +)	41	0.038**	0.020	1.93	3.74
Tariff-protected firms (hypothesized −)	28	0.023	0.026	0.87	0.76

** *t*-value significant at $p \leq .05$ in a 1-tailed test.

addresses on the measure.[24] Other supporters also noted only that the RTAA's reciprocity feature would expand foreign market access. Supporters did not highlight either the elimination of Senate ratification of trade agreements or the presidentially led tariff-setting features of the bill. Indeed, RTAA supporters had no incentive to identify the bill's potential losers, or the institutional features likely to bring domestic losses, because doing so would only create more opposition to the bill. FDR and other supporters thus publicly framed the RTAA only as an "emergency" measure to ameliorate the Great Depression,[25] not as a tariff-reducing bill, despite privately acknowledging that the RTAA might be a potential solution to the Democrats' long-standing inability to deliver durable low tariffs to their constituents.[26]

Investors thus may have accepted the initial framing of the RTAA as a trade expansion bill, especially considering how novel the measure was compared to the traditional omnibus tariff legislation.[27] Of course, the welfare effects of protectionism were not fully understood even by economists until the 1941 publication of Wolfgang Stolper and Paul Samuelson's seminal analysis.[28] In short, perhaps investors should not have been expected to initially understand the RTAA's tariff-reducing potential, because the administration framed the RTAA only in terms of benefits at first and because investors and economists had an incomplete understanding of protectionism's welfare effects in 1934. These explanations may also account for the positive sign on the model parameter for the sample of protected firms (Table 2).

24. *Wall Street Journal*, 3 March 1934, 1.

25. See *New York Times*, 3 March 1934, 1; 6 March 1934, 5.

26. See 17 February 1934 Feis Notes "Some Observations," *Feis Papers*, container 124; 30 June 1934 letter from J. Rankin (D-Miss.) to Hull, and 26 April 1934 letter from H. Byrd (D-Va.) to Hull, *Hull Papers*, container 36; 16 December 1939 letter from Hull to McNary, *McNary Papers*, container 44.

27. Another possible explanation concerns the sequencing of tariff reductions. Investors may have expected the initial trade negotiations to focus on products where political opposition to tariff reductions would be low; heavily protected products may not have been the initial targets of negotiation because of likely strong political opposition. Indeed, after 1934 many new import quotas were introduced to ensure that protection for sensitive industries was not eroded by the new trade agreements. See Haggard 1988.

28. Stolper and Samuelson 1941.

Eventually, however, more complete information about likely welfare losses under the RTAA would have become apparent. I thus conducted another event study using a second event date of 7 May 1934. This date coincides with two important developments that gave investors additional information on the RTAA's likelihood of passage and welfare effects. The first widespread publicity of the RTAA's possible damage to protected industries occurred during Senate Finance Committee hearings from 26 April to 1 May 1934. Moreover, when the RTAA was reported out of the Finance Committee on 7 May 1934, its ultimate passage was virtually ensured because the full Senate had a Democratic majority and FDR had clearly indicated that he would sign the measure.

Publicity on the RTAA was sparse from January 1934 through the beginning of March, when FDR finally submitted the bill to Congress. Once in Congress, the RTAA was an unusual tariff bill, not only in its content, but also in the speed with which it moved. Within three weeks, the bill had successfully passed through the Ways and Means Committee and the full House—an extraordinarily fast pace for tariff legislation. To illustrate, the Ways and Means Committee held just five days of hearings on the RTAA, in marked contrast to the forty-three days of hearings on the 1930 Smoot-Hawley Act. The RTAA was reported out of the Ways and Means Committee without amendments, and moved swiftly through the full House with only minor amendment activity and little public opposition, particularly compared to the vociferous objections raised in the Senate. As a result of its swift and uncontroversial movement through the House, the RTAA generated only modest news coverage during March 1934.[29]

Unlike debate in the House, Senate debate on the RTAA generated widespread reports of the expected welfare losses, largely because Republican opponents in the Senate energetically addressed them. The Finance Committee hearings focused on the negative consequences to protected interests of eliminating Senate ratification of trade agreements—an unsurprising emphasis given the proposed elimination of this Senate power under the RTAA. Senators such as William Borah (R-Idaho), Charles McNary (R-Ore.), and Warren Austin (R-Vt.) openly criticized elimination of Senate approval of trade agreements because it would greatly diminish their veto power and thus the political voice of their constituents, the majority of whom supported and benefited from tariff protection.[30] Indeed, Senator Borah personally attempted to organize grassroots opposition to the RTAA, urging dozens of constituents to organize protest campaigns.[31] In short, publicity surrounding the Finance Committee hearings gave investors who may have initially suf-

29. See *New York Times*, 3 March 1934, 2; 4 March 1934, 12; 9 March 1934, 1; 16 March 1934, 9; 17 March 1934, 22; 24 March 1934, 5; 29 March 1934, 2. Note also how little of this coverage was on the front page, particularly compared to coverage of debate in the Senate.

30. *Senate Finance Committee Hearings*, 37–62. This criticism continued during general Senate debate.

31. Schnietz 2000, 15–16.

TABLE 3. *Event study results using 7 May 1934 event date (RTAA reported out of Senate Finance Committee)*

Sample	*Sample size*	*% change in stock return*	*Standard error*	*t-value*	*Model F value*
Export-oriented firms	41	−0.038	0.034	−1.01	1.21
Tariff-protected firms (hypothesized −)	28	−0.049*	0.030	−1.65	2.92

* *t*-value significant at $p \leq .10$ in a 1-tailed test.

fered from incomplete information on the RTAA's effects on protected industries the first full and relatively accurate portrait of likely losses under the measure.[32]

I thus repeated the event study, using an event date of 7 May, the date on which the RTAA was reported out of the Finance Committee, following the committee hearings held on 26, 27, 30 April and 1 May (Table 1). On this day the likelihood of the measure's eventual passage became very high because it had not been defeated in committee, and the measure now only had to be approved by the full Senate (with its filibuster-proof Democratic majority) for congressional passage. The results are presented in Table 3 and show that investors bid down the stock return of the portfolio of protected firms a statistically significant 4.9 percent. The results are insignificant for the sample of exporting firms when using the 7 May 1934 event date, arguably because the positive effects of the RTAA had been recognized and capitalized months earlier.[33] Thus investors predicted that tariff-protected firms would be harmed by the RTAA, though only after the case for the welfare losses under the measure had been widely made.

Conclusion

This article offers evidence from private interests to illuminate research on the RTAA. When the results of the two event studies and archival evidence presented here are considered, they provide some evidence that investors and producer groups believed the RTAA would help firms in export-oriented industries and harm firms in tariff-protected industries. If the success of the RTAA was solely or primarily

32. See *New York Times*, 19 April 1934, 1; 25 April 1934, 1; 27 April 1934, 1; 30 April 1934, 1; 1 May 1934, 1, 34; 2 May 1934, 6.

33. The model also was run using the alternative event dates of 28 February (the first time all major institutional specifics of the RTAA appeared together in press coverage), 16 March (RTAA reported out of Ways and Means), and 29 March (House passage). There were no significant results in either sample of firms on any of these dates.

because of postwar exogenous changes in trade coalitions, then investors are unlikely to have had any significant reaction to the RTAA. The fact that investors *did* bid the portfolios of firms up and down suggests that they did not view the RTAA as trivial. Moreover, this evidence suggests that the recent institutional analyses of the RTAA's features are more than simply *ex post* rationalizations. There is evidence that the private interest groups likely to be most affected financially by the RTAA understood, at minimum, the measure's broad effects. Thus this research has found evidence more consistent with the institutional analyses of the RTAA than with their critics who argue exogenous developments were necessary conditions for durable trade liberalization.

This evidence should not suggest that skeptics of the institutional analyses are incorrect. They have expanded political economists' understanding of how exogenous developments amplified the effects of the RTAA's endogenous features. However, the evidence I present suggests that the institutional analyses, like the proverbial baby in the bath water, should not be thrown out just yet. While the RTAA may not have been a "magic bullet," in that exogenous postwar developments did magnify the effects of the RTAA's endogenous features,[34] particularly in conjunction with the RTAA's reciprocity feature, investors in 1934 appear to have thought it was a bullet of some kind, long before the Republican conversion on trade was evident.

Appendix 1: Restriction of Sample of Export-Dependent Firms

Product/industry	*% product exported*[35]	*No. of firms in Moody's*	*No. of firms in NYSE*	*Firms focused on this product, with no confounding events*
Raw cotton	63.9	0	0	0
Tobacco leaf	56.2	1	1	Universal Tobacco Leaf
Cameras & projectors	43.2	6	2	Consolidated Film Industries Eastman Kodak
Aircraft	34.7	13	7	Curtis Wright Douglass Aircraft Wright Aeronautical

(*continued*)

34. Indeed, this point suggests an interesting avenue for future research: a comparison of the stock returns for a sample of export-oriented firms on the date of the first election when Republicans resume congressional control after their conversion on trade, with the returns in 1934 in this event study.

35. The percentage of production exported was computed by dividing the value of 1933 exports of each product, from the 1935 *U.S. Statistical Abstract*, tab. 528, by the value of overall domestic production of that product, from 1933 *Biennial Census of Manufacturers*.

Appendix 1 (Continued)

Product/industry	*% product exported*[35]	*No. of firms in Moody's*	*No. of firms in NYSE*	*Firms focused on this product, with no confounding events*
Business machines	31.0	20	8	Addressograph Multigraph Burroughs Adding Machine IBM National Cash Register Remington Rand Teleautograph Underwood Elliott Fisher
Well-drilling & refinery equipment	26.7	10	3	0
Machine tools	19.7	13	4	Chicago Pneumatic Tool Clark Equipment Mesta Machine National Acme
Electric measuring instruments	19.3	5	3	Cutler-Hammer Minneapolis-Honeywell Weston Electrical Instrument
Tractors & farm equipment	17.6	5	3	Allis-Chalmers Caterpillar Tractor International Harvester
Fish	16.1	7	1	0
Radios	13.8	11	2	Zenith Radio
Abrasives	13.4	3	0	0
Sewing machines	13.3	3	1	White Sewing Machine
Autos	12.5	22	11	Auburn Auto Checker Cab Chrysler General Motors Grahman Paige Hudson Motor Hupp Motor Nash Motors Packard Motor Car Reo Motor Car Studebaker
Oil refining	12.2	80	31	0
Motorcycles	11.6	2	0	0
Motion pictures	11.5	9	7	Columbia Pictures Fox Film Metro-Goldwyn Paramount Pictures Warner Brothers
Totals		229	84	41

Appendix 2: Restriction of Sample of Heavily Protected Firms

Product/industry	*Tariff rate %*[36]	*No. of firms in Moody's*	*No. of firms in NYSE*	*Firms focused on this product, with no confounding events*
Razors	435	4	2	American Safety Razor Gillette Safety Razor
Cutlery & scissors	304 - 189	1	0	0
Beet sugar	268 - 161	36	5	American Beet Sugar Great Western Sugar
Carbonized & steel wool	265 - 113	0	0	0
Firecrackers	228	4	4	0
Thermoses	221	0	0	0
Raw peanuts	209	0	0	0
Distilled liquor & chemicals with alcohol	202 - 101	8	4	American Commercial Alcohol Commercial Solvents US Industrial Alcohol
Pearl beads & buttons	202 - 173	0	0	0
Firearms	194 - 106	3	1	Savage Arms
Cotton textiles	189 - 85	5	3	Cannon Mills Consolidated Textiles Pacific Mills
Goat wool	184	0	0	0
Clocks & watches	182 - 105	9	2	Bulova Watch Hamilton Watch
Stamped pencils	181	0	0	0
Cellulose products	179 - 91	2	2	0
Citrus juice	174	6	1	0
Pipes	172	0	0	0
Prepared walnuts	172 - 92	1	0	0
Ginger root	167	0	0	0
Bent grass seed	151	0	0	0
Onions	147	0	0	0
Matches	144	0	0	0
Breakfast food	142	11	6	Cream of Wheat
Potato flour	141	0	0	0
Wool textiles	135	9	1	American Woolen
Dried beans	133	0	0	0

(*continued*)

36. On products for which there is a range of tariff rates, this range was the result of collapsing several products with varying tariff rates into a larger product category. For instance, there were many different kinds of cotton textile manufacturers, such as men's shirts, children's hose, and women's outer garments, many of which had varying tariff rates.

Appendix 2 (continued)

Product/industry	*Tariff rate %* [36]	*No. of firms in Moody's*	*No. of firms in NYSE*	*Firms focused on this product, with no confounding events*
Epsom salt	126	0	0	0
Toys	124	1	0	0
Linseed oil	120	0	0	0
Silk textiles	117	0	0	0
Oxalic acid	116	0	0	0
Manganese ore	114	0	0	0
Cashmere	109	0	0	0
Tomatoes	109	0	0	0
Soybeans	109	0	0	0
Green beans	108	0	0	0
Cork tile	105	0	0	0
Cigarettes & cigars	101	24	10	American Tobacco Bayuk Cigar Congress Cigar Consolidated Cigar General Cigar Liggett & Myers Lorillard Philip Morris Reynolds Tobacco Webster-Eisenlohr
Perfumes & cosmetics	100	10	5	Coty Lehn Fink Products Vadsco Sales
Totals		134	46	28

Appendix 3: Specification of Event Study Model

Formally, the event study computes the expected return to a stock portfolio i in week t according to the capital asset pricing model, resulting in the ordinary least squares regression equation:

$$R_{it} - R_{rft} = \alpha_i + \beta_i(R_{mt} - R_{rft}) + \delta_{is} D_{RTAA,t} + e_{it}$$

where R_{it} is the return from investing one dollar in stock portfolio i for week t; R_{rft} is the risk-free rate of return from holding a U.S. Treasury bill for week t; R_{mt} is the return to the market as measured by the Standard & Poor Industrial (S&P) 50, for week t; $D_{RTAA,t}$ is a dummy variable coded 1 in the week of the RTAA's announcement and the following week,

and coded 0 otherwise; α_i is the model intercept; β_i is the regression coefficient on the adjusted market portfolio; δ_{is} is the excess stock return attributable to the announcement of the RTAA; and e_{it} is a serially uncorrelated random disturbance.

The portfolio return for each sample is calculated as follows:

$$R_{it} = (1/n_{it}) \sum^{n_{it}} R_{k,t}$$

where n_{it} is the number of individual firm returns in portfolio i for week t; and $R_{k,t}$ is the return on the k*th* stock for week t.

Each sample is treated as a portfolio, with a mean stock return for the portfolio calculated. If news of FDR's intention to seek the RTAA had a positive effect on the sample portfolio's stock return, then the null hypothesis on the regression coefficient for the RTAA, H_0: $\delta = 0$ will be rejected in favor of H_0: $\delta \neq 0$, and δ will be positive. Conversely, if the RTAA had a negative effect on the portfolio's return rate, then the null hypothesis on the regression coefficient for the RTAA, H_0: $\delta = 0$ will be rejected in favor of H_0: $\delta \neq 0$, and δ will be negative.

Weekly stock returns were compiled for 1 January 1933 through 31 December 1934 based on Wednesday's closing stock prices as reported in the *New York Times*, or the last preceding sale price if the stock did not trade on Wednesday. A midweek price observation is the method used by S&P in compiling their weekly and monthly indices. Returns were adjusted for dividends and stock splits. Weekly, rather than daily, data were used for two reasons. First, the stocks of several firms were not traded daily during this period; weekly data reduces the impact of nonsynchronous trading. Second, information relevant to stocks was not dispersed nationwide as rapidly in the 1930s as it is today. Weekly data allows for the event information to disperse and the resultant stock trades to be completed before measurement.[37]

The performance of the samples is being compared against the market performance of the S&P 50. This market index was chosen for two reasons. First, it is the continuation of the oldest stock market index, the Cowles Index. Second, it contains the greatest number of firms of any index available for 1932 to 1934 and thus is most likely to accurately reflect overall stock market fluctuations.

For an event study to be statistically valid, it is necessary for the event to be unanticipated. Thus the event date used is the very first announcement by FDR on 29 December 1933 that he planned to pursue trade legislation during the upcoming second session of the 73d Congress. However, because the RTAA's institutional details were gradually made public, and the bill differed so greatly from omnibus tariff legislation, it is possible that investors were unable to accurately gauge its likely effect immediately following FDR's initial announcement. I thus make an accommodation for the potentially diffuse leakage of information regarding the RTAA. The event study employs a two-week postevent window, to ensure that investor reaction to the 3 January recommendation by the Executive Economic Policy Committee that FDR specifically pursue the RTAA is captured, in addition to the 29 December announcement that FDR would seek trade legislation during the upcoming congressional session. I thus sacrifice some estimation precision in an attempt to ensure that

37. Daily data was also collected for a randomly chosen subsample of twenty firms in both samples of firms. There was no material difference in the model results using daily versus weekly data.

investor reactions are captured, but do not extend the window so far as to lose substantial statistical power.

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