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**Adam Smith's Economic Liberalism Theories and
their Implications on Protectionism and Financial
Regulations Policy in the US.**

**Dissertation Submitted in Partial Fulfillment of the Requirements
for a Master Degree in Literature and Civilization**

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Dedication

Every challenge work needs self-efforts and guidance, especially from those who were very close to our heart. My humble effort I dedicate to:

Allah my creator,

praises and thanks to Allah, the Almighty, for his innumerable graces on me, one of which is the completion of this work.

My mother:

As a strong and gentle soul who taught me to trust Allah, and believe in hard work and that so much could be done with little.

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Abstract

Adam Smith economic Liberalism theories are considered as the foundations for Capitalism which has inevitably impacted so many nations on the globe. Smith theories were compiled in his book "The Wealth of Nations" in which he strongly advocated open market and competitive economies. The current study takes the US into account aiming at clarifying the effect of those theories on the United States financial regulations and Protectionism policy. A descriptive analytical method as well as historical method are used to answer the questions of the research. The study sheds light on the US economy during the Great Depression and after the Second World War area. As a result of this research, the study has proven the failure of Protectionism policy and the effectiveness of trade Liberalization as the United States faced the biggest crisis in its history by adopting free market policies and eliminating trade restrictions policies, which stand as the main cause behind the Wall Street stock market crash and the Great Depression. As a consequence, Adam Smith economic ideology has greatly contributed to the growth and development of the American economy after the Second World War.

List of Abbreviations and Acronyms

CAFTA: Central America Free Trade Agreement.

CEA: Council of the Economic Advisors

ERP: European Recovery plan.

FDA: Food and Drug Administration.

FTA: The Federal Transport Authority.

GATT: The General Agreement on Tariffs and Trade.

GDP: Gross Domestic Product.

GNP: Gross national product.

IBRD: The International Bank for Reconstruction and Development.

IMF: The International Monetary Fund.

NAFTA: The North American Free Trade Agreement.

NYSE: New York Stock Exchange.

OPEC: The Organization of Petroleum Exporting Countries.

RFC: Reconstruction Finance Corporation.

U.S: The United States.

WMW: World Money Watch

WTO: The World Trade Organization.

WWI: World War One.

WWII: World War Two.

List of figures

Figure 1. John Maynard Keynes(right)and Harry Dexter White at the International Monetary Fund's Board meeting in Savannah, Georgia, U.S., March 8, 1946 (International Monetary Fund, 1946).....	P.50
Figure 2. The policy trilemma (Pettinger, 2020).....	P.53
Figure.3: Unemployment Rate (“Civilian unemployment rate,” n.d).....	P.55
Figure.4: Yield on Long Term U.S. Government Securities (Federal Reserve Bank of Richmond,2001).....	P.56

Table of Contents

Dedication.....	I
Acknowledgements	IV
Abstract.....	V
List of figures.....	VIII
Table of Contents.....	IX
General Introduction.....	1
1. Background of the Study	1
2. Aims of the Study.....	1
3. Statement of the problem.....	2
4. Research Questions.....	2
5. Research Hypotheses	3
6. Research Methodology	3
7. Structure of the dissertation	3
8. Significance of the Research	4

Chapter one

Adam Smith economic Liberalism

1.1. Introduction:	6
1.2. Economic Liberalism	6
1.2.1. The history of economic Liberalism :	6
1.2.2. What is Liberalism :	7
1.2.3. Types of Liberalism :	7
1.2.3.1. The classical Liberalism :	8
1.2.3.2. Modern Liberalism	9

1.3. Adam Smith economic Liberalism theories:	10
1.3.1 Adam Smith 1723–90:	10
1.3.2. Early Years.....	11
1.3.3. Adam Smith & Economics	11
1.3.4. Death:	12
1.4. Liberalism theories:	12
1.4.1. Division of Labor:.....	12
1.4.2. Invisible Hand:.....	13
1.5. The analysis of The Wealth of Nations:	16
1.5.1. Overview about the book:.....	16
1.5.2. The first book: Of the Causes of Improvement in the Productive Powers of Labor . .	16
1.5.3. The second book: The Nature, Accumulation, and Employment:.....	19
1.5.4. The third book: Of the Different Progress of Opulence in Different Nations	19
1.5.5. Book four: Of Systems of Political Economy:	20
1.6. Gross Domestic Product (GPD):	21
1.6.1. Gross Domestic Product (GDP):.....	21
1.6.2. Gross Domestic Product vs Gross National Product (GDP vs. GNP):.....	21
1.6.3. Nominal vs Real GDP:.....	22
1.7. Conclusion:.....	23

Chapter Two

Protectionism and Its Impact on The World Trade

2.1. Introduction:	25
2.2.-The background of protectionism:	25
2.2.1- Protectionism Methods.....	26
2-2.1.1-Tariffs	26

2.2.1.2-Import Quotas:	27
2.2.1.3-Product Standards:	28
2.2.1.4-Government Subsidies:	28
2.2.2. The arguments for protectionism:	29
2.2.2.1. Infant industry:	29
2.2.2.2. Employment creation and protection:	30
2.2.2.3. Balance of Trade:	31
2.2.2.4. National Self-Sufficiency Argument:	31
2.2.3. The counter arguments of protectionism	32
2.2.4. The effect of protectionism on international trade:.....	34
2.2.5. On the world trade:	34
2.2.6. Effects of protectionism on WTO:.....	35
2.3. Free trade Vs protectionism:.....	36
2.4 Conclusion	37

Chapter three

The Impact of Adam Smith Economic Liberalism on Protectionism and Financial Policies on the US

3.1. Introduction:	39
3.2. Causes of the Great Depression:.....	39
3.3.1. The Smoot-Hawley Tariff Act of 1930:	41
3.3.2. Too much post manufacturing, too many imports:.....	41
3.3.3. Tariff and Special Interest groups:	42
3.3.4. Smoot-Hawley instigated a retaliatory storm:	42
3.3.5. Protectionism died down after the excesses of Smoot-Hawley:.....	43
3.5. Section 02: U.S Post-war II Economic Boom (1945-1948):	43
3.5.1.1.G.I. Bill of Rights:	43

3.5.1.2. Military Benefits:	44
3.5.2. The Employment Act of 1946:	44
3.5.3. Bretton Woods System and 1944 Agreement:	47
3.5.3.1. The plans and the outcomes:	49
3.5.3.2. The Keynes and White Plan:	49
3.5.3.3. The Articles of the Agreement:	50
3.5.3.4. The IMF and World Bank:	51
3.5.3.5. The Marshall plan:	52
3.5.3.6. The Emergence of the Dollar as a Key Currency:	52
3.5.3.7. Policy Trilemma and Bretton Woods.....	53
3.5.3.8. The Bretton Woods System’s Collapse:	53
3.5.4. Federal Reserve–Treasury Accord (1951):	54
3.6. Conclusion:	56
General Conclusion:	57
References:	59
الملخص.....	65

General Introduction**1. Background of the Study**

In order to promote economic growth and get rid of the negative effects of fiscal policy and financial restraint that prevailed in them for a long period of time, many countries have made attempts to liberalize their financial sectors by taking various economic measures.

The conduct of U.S. economic policies has always been the interest of many scholars and researchers, particularly in the domains of history and international politics. Many critics argue that understanding the United States' economic policies is a hard task. The U.S. is a large complex country that has been one of the world's most powerful for many decades.

The talk about Liberalism is associated with Scottish economist, philosopher, and writer Adam Smith who believed that granting people economic freedom would establish a harmonious and prosperous society and that Liberalism is more comparable to what we find economic Populism or Capitalism in the United States. On the other hand, economic Liberalization, a catalyst for the growth of a knowledge-based economy, gives advantages to all countries and, in particular, ensures the possibility for the developed countries to "burn" phases in their advancement. However, complete opening up to competition is not a recommendable measure, Protectionism between other limits is important and desirable.

2. Aims of the Study

This study tends to give a clear understanding of the inclusion of Adam Smith Economic Liberalism on Protectionism and financial policy in the United States of America. In doing so, Liberalism markets highly impact on USA financial and economic policies and regulation as well. For that, it also examines the factors and circumstances that are responsible for the emergence of Liberalism in the US. The present study also investigates whether this theory made a positive or negative effect on the policy by employing and

supporting the free market and private ownership of capital assets. In addition, it studies if there is a correlation between Liberalism and Protectionism.

3. Statement of the problem

Since its emergence as a political ideology, Liberalism attracted the eye of many politicians thanks to its core themes and values. The concept of Liberalism incorporates a wide influence on contemporary work within the sector of economy. Given this breadth of effect, it is not surprising that Liberalism can be invoked in the service of multiple-end, many of which appear to be at odds with one another. As such, this research will trace the implication of Adam Smith economic Liberalism theories on the US Protectionism and financial regulations policy in the US in order to provide general shape to the American economy.

4. Research Questions

The present research attempts to answer a set of questions related to the inclusion of Adam Smith economic Liberalism on Protectionism and financial regulations policy in the US. The objectives of this study are directed by the following questions:

- 1- Does the US economy apply the economic Liberalism regulations?
- 2- What are the main features of Protectionism policy?
- 3- How the US government faced the Great Depression?

5. Research Hypotheses

This study builds several hypotheses to the previous questions. Firstly, the US economy went through historical eras which may mean that it applied different systems and regulations. Secondly, Protectionism policy as any other economic policy has its own terms and features that target the exchange and trade. It may include different aspects of tariffs. Finally, the US government during 1930 faced an economic crisis that led to establish several acts.

6. Research Methodology

As the study investigates the inclusion and efficiency of Adam Smith's insights on the US Protectionism policy and financial system, the descriptive-analytical method, and the historical method of qualitative approach are adopted. In order to test the hypotheses, many sources are used in this research including books, articles, educational and governmental websites that gave good background information to the research. Finally, we used the APA 6th edition to organize our study.

7. Structure of the dissertation

This dissertation is composed of three chapters; the first two chapters tackle the theoretical side, whereas the third one is purely practical. The first chapter opens the dissertation with an overview of the founding father of Liberalism Adam Smith. In addition, it presents a full analysis of his book, and provides the key concepts that were introduced in "Wealth of Nations". The second chapter examines an economic policy known as "Protectionism" starting with overviewing it. Moreover, this chapter investigates the arguments and the counter-arguments of this policy, and it concludes with its effects on the world trade and the world market. Finally, the last chapter investigates how those two concepts are related to each other, in other words, how the Liberalism is linked to

Protectionism; by taking the Great Depression 1930s as case study. It also examines the causes and effects of this economic issue on the American economy. In addition, it provides a critical analysis to the acts and bills that were made during that era.

8. Significance of the Research

The significance of this research relies on the fact that it sheds light on one of the most life-changing economic movements that was founded by the British economist Adam Smith. This significance is also shown when the different theories of Liberalism are investigated, and related to the American economy. Moreover, the current research tries to relate those theories to another policy that aims to protect the local economy. This study appears also to be significant through the description and analysis of the relationship between Liberalism and Protectionism during 1930s.

Chapter one

Adam Smith economic Liberalism

1.1. Introduction:

In the eighteenth century, the reigning economic theory originated from a school of economic thoughts called Mercantilism, which advocates that a nation's wealth mainly relies on the amount of gold and silver contained in the country. Thus, from Mercantilism perspective, the more gold a nation has, the wealthier it is, and the less gold, the less well off. However, Adam Smith in his book "The Wealth of Nations" strongly objects Mercantilist ideology. According to Smith (2007) the wealth of nations does not consist in pieces of metal, gold and silver, instead it is people ability to satisfy their own needs and desires. Smith basic economic ideology was purely liberal, so he rejects any limitations and obstacles which in turn hinder marketing process. (Otteson, 2018). Thus, this chapter will be devoted to the description and analysis of Smith main economic insights.

1.2. Economic Liberalism**1.2.1. The history of economic Liberalism :**

From the theoretical point of view, the idea of Liberalism is considered as a sturdy reaction against mercantilist attitudes started out to take form in the direction of the middle of the 18th century (the 18th-century) movement called the Enlightenment in Europe. The Enlightenment arose via conferences of scientists and writers, who communicated through books and pamphlets but also in person in the new coffee houses and in literary salons, especially in France. The members of the motion believed within the concepts of reason, progress, and individual liberty. They also believe in tolerance of various religions and social groups; and the separation of church and state. Liberalism was very strongly influenced by the scientific revolution that had begun within the 16th and seventeenth centuries.

The abstract ideas of the Enlightenment were correctly placed into practice within the American Revolution (as represented by the Declaration of Independence in 1776) and the founding of the American republic (as represented via the United States Constitution in 1789). But they equally inspired the French Revolution in 1789, which was much less a hit in that it descended into the Reign of Terror, accompanied by way of the restoration of absolutist order underneath Napoleon. The ideological founders of Liberalism have been the English truth seeker John Locke (1632–1704), who advanced a concept of political authority based totally on natural person rights and the consent of the governed.

The Scottish economist and philosopher Adam Smith (1776), who argued, that societies succeed when people are free to pursue their self-interest within a financial framework based on private possession of the means of production and competitive markets, controlled neither by the state nor by private monopolies. (Jeffrey,2016)

1.2.2. What is Liberalism :

Political doctrine that takes protecting and enhancing the liberty of the individual to be the central trouble of politics. Liberals normally trust that authorities are important to defend individuals from being harmed via others; however, they also recognize that government itself can pose a chance to liberty (Mentan, 2015).

1.2.3. Types of Liberalism :

When it comes to division of Liberalism , there were some sort of discussion as some experts intend to distinguish two types of Liberalism according to the historical background as the classical or the original Liberalism which, goes back to the European roots and the contemporary one which is rooted in America. Others came against this division and used the geographical space to distinguish the types of this socio- economic movement, as they divided it either into two types: the European Liberalism and the American one. (Zafirovski, 2007).

1.2.3.1. The classical Liberalism :

Andrew Heywood (2007) argues that the term "classical Liberalism " first appeared in the nineteenth century as transmitting step from the older system which was feudalism to capitalism. It became more famous in the Anglo-Saxon countries starting in the United Kingdom and the United States of American then the rest of the world, thus there was if we can state different perspectives concerning this movement but, in the end, they all share in essential points.

First, Heywood (2007) states that the classical Liberalism shed light on the human nature and that by introducing egotistical individualism as the liberal view the human being as rationally self-interested beings, besides they are independent and self-aware as they are charge on their destiny. Those individuals together they compose an atomistic society as the individuals compose a large group of self-sufficient groups. Second, negative freedom is one of the key terms that was given during this era as it suggests that the individual is totally free from constraints if he or she left alone without any kind of interference by others. The two philosophers Voltaire and Charles –Louis Montesquieu supported the individual liberty as they called for it as a crucial natural right. Third, negative freedom required another kind of policy to be taken by the government which is applying the theory of Robert Nozick as it is entitled with to the minimal state. it is a strategy that limits the government interference in people as Thomas Jefferson, USA’s founding father, states: ‘The government that is best is that which governs least...when government grows, our liberty withers." Jefferson (as cited in Heywood, 2007, p.78). According to Jefferson, for the better and successful government it should govern less and it should give the people the liberty and the freedom to own. As he also states that in case the government grew bigger in the authority this would limit the people’s liberty and will eventually lead to withering this liberty. Finally, another term was introduced after the act of the minimal state which limits government interference in the people’s business. “Laissez-faire” is a French word was introduced to the field of capitalist

economy, as it means in English let it happen, as it refers to free markets which also allows the laws of supply and demand to self-regulate the business cycle. It also claims that unfettered capitalism will create a productive market on its own. In addition, it limits the authority of the state on the trade. Free market is based on four characteristics. Firstly, private property which allows the individual to profit from his or her ownership of the goods and the services as the owners can buy sell or lease their goods through contracts. Secondly, freedom of choice. The owners are free whether to buy or sell their goods as long as they are not breaking two main constrains, the first one the price that they are willing to buy or sell with which means they must keep with the same price without any changes, and the second condition is the amount of capital. Thirdly, the competition. The free markets would actually require some sort of competition between the salesmen as they compete with low prices; however, if the product became more demanding the price of the goods gets higher and rises, this called the law of demand. Finally, the role of the government is limited to ensure that the market is working and accessible to the individuals. In addition, the government supervises on the prices of the goods does not allow any kind of manipulation. (Heywood 2007).

1.2.3.2. Modern Liberalism

Classical Liberalism has proved its failure by developing economic issues like the one that the USA witnessed in 1930 (the Great Depression). Thus, the modern Liberalism emerged as a reaction against the classical one, it has made changes concerning the concepts of the classical Liberalism . Modern Liberalism 's concepts were as follows. First, the developmental individualism unlike the egoistical one; it supported the idea that individuals can live within the society, in other words this concept has helped the individuals to become humans as this led to social development. Second, another result of the previous point is the acceptance of the state intervention as the government is obliged to provide some sort of essential welfare and limits the

wealth levels. The state attempted to provide the welfare state to its people in order to overcome social and economic issues. Unlike the classical one in which the individual is allowed to have as much as wealth as she or he can which led to chaotic social and economic situation. Third, Heywood (2007) states that as this step is provided, it resulted in another concept called positive freedom (social justice) he also states that Thomas Hill Green argues that the negative liberty has affected the individual's life by making him or her pursuits the profits. This caused a huge gap in the wealth besides poverty and injustice. As Heywood (2007) addresses that Green argues that there is some kindness and empathy that the individual has for another individual, in other words, positive freedom refers to the ability in which the individuals are able to achieve their goals with or without external interference unlike the negative one which requires zone of no interference. Finally, another concept has been rejected for a solid economic system and providing the welfare the government sought in the "Laissez-faire" policy as it has severe consequences on the economy. In order to reach the prosperity, it is a must to manage or reject this doctrine. Another one is introduced to replace the latter; Keynesianism is an economic theory that was introduced by the British economist John Maynard Keynes in the 1930, in which it tackles the total spending and its effects on output and inflation (Chappelow, 2020). Heywood (2007) states that Keynes argues that the government can increase and regulate the demand in order to boost the growth. In other words, the government plays a crucial role in driving the aggregate demand which refers to increasing in spending that would increase demand in addition to this strategy will maintain a full employment.

1.3. Adam Smith economic Liberalism theories:

1.3.1 Adam Smith 1723–90:

Born in Kirkcaldy, Scotland, Smith become a well-respected philosopher, economist, lecturer, and university administrator. Inspired by using Enlightenment thinkers and seeing the harm produced by using Great Britain's trade policies, Smith wrote "The Wealth of

Nations”, a work that has motivated Western economic policy ever for the reason that its publication (Magill, 1999).

1.3.2. Early Years

While his genuine date of start isn't known, Adam Smith's baptism turned into recorded on June 5, 1723, in Kirkcaldy, Scotland. He attended the Burgh School, in which he studied Latin, mathematics, records and writing. Smith entered the University of Glasgow while he became 14 and in 1740 went to Oxford. (Magill, 1999)

1.3.3. Adam Smith & Economics

After toiling for nine years, in 1776, Smith published An Inquiry into the Nature and Causes of “The Wealth of Nations”, which is the notion of as the first work dedicated to the examiner of political economy. Economics of the time had been dominated by means of the idea that a country's wealth was satisfactorily measured by its saved of gold and silver. Smith proposed that a nation's wealth should be judged now not by this metric but with the aid of the entire of its production and commerce today called the gross domestic product (GDP).

He also explored theories of the department of labor, an idea which specialization would lead to a qualitative increase in productivity.

His ideas are a reflection on economics in mild at the beginning of the Industrial Revolution, and he states that free-marketplace economies are the maximum efficient and useful to their societies. He is going on to argue for an economic gadget based totally on man or woman self-interest led by means of an “invisible hand,” which would achieve the best excellent for all. (Adam Smith Biography, 2014).

In 1748, Smith commenced giving a chain of public lectures on the University of Edinburgh. Through these lectures, in 1750, he met and have become lifelong buddies with Scottish philosopher and economist David Hume. This relationship brought about Smith's appointment to the Glasgow University college in 1751.

His first book was "The Theory of Moral Sentiments," Smith proposed the concept of an invisible hand the tendency of loose markets to adjust themselves by competition, supply and demand, and self-interest (Adam Smith Biography, 2014).

1.3.4. Death:

Smith became named rector of the University of Glasgow in 1787, and he died just 3 years later, on the age of 67. (Adam Smith Biography,2014).

1.4. Liberalism theories:

Adam Smith was the principal individual to recognize specialization and the division of labor as the primary drivers of productivity. He additionally conceptualized the 'invisible hand guideline' which clarifies how, under the correct arrangement of motivators, self-intrigued people are coordinated to seek after exercises that advantage the entire of society.

1.4.1. Division of Labor:

The division of labor separating an undertaking into a progression of progressively particular segments is the primary key thought introduced in "The Wealth of Nations". For Smith, the more advanced the division, the more beneficial a given business, industry, or society will be. Inside a crude town, he brings up, everybody benefits if the best lead her worker centers around making the apparel, while the best fletcher makes the bolts, and the best tracker finds the game. In a pin processing plant, in order to use another pattern, productivity is most remarkable when it is not possible for one-person spotlight to draw the wire, another to cut it even in lengths, etc. In the later books of "the Wealth of Nations",

Smith only from time to time examines the division of labor legitimately, however, it stays a significant calculated supporting of his contention. The thought reemerges in different startling manners. For a certain something, Smith (1776) will, in general, consider them to be of labor as an anticipated, however good, side-effect of rivalry the more enthusiastically various makers need to rival each other, the more they will be squeezed to advance, discovering progressively proficient methods for making similar products. At that point, as those improved practices are duplicated by their rivals, the cycle continues, and further challenge drives further gains in productivity.

In any case, Smith recognizes a couple of drawbacks to an incredibly specific labor power, maybe the most exceedingly awful of which is the absence of an expansive and shifted education. The exchanges of the common people are “generally so simple and uniform, as to give little exercise to the understanding.”(Smith, 1776, p.305). However, their “labor is both so constant and so severe, that it leaves them ... less inclination”“(Smith, 1776, p.305) to pursue intellectual pastimes in the off-hours. For Smith (who was writing at the beginning rather than the end of the Industrial Revolution), this is a little downside, balance effectively enough by a program of obligatory, citizen supported tutoring. In like manner, in Book 5, childhood education is one of a bunch of open costs Smith safeguards as advantageous, regardless of whether it isn't carefully fundamental for society to work. (Course Hero, 2017).

1.4.2. Invisible Hand:

No idea from “The Wealth of Nations “has been more broadly promoted than that of the invisible hand. For Smith (1776), the invisible hand is a helpful image for those powers that, in a free market, manage labor and funding to their best business. It may seem like a scary picture, however, there is nothing enchanted about the invisible hand Smith (1776) portrays it in spite of the fact that has not prevented some latter-day writers from attempting to make

it mystical. The thought repeats all through “The Wealth of Nations”, yet the term itself shows up just once when Smith (1776) portrays an investor as "led by an invisible hand to promote an end which was no part of his intention"(p. 540). The "end" here is the general enhancement of society, which, as Smith calls attention to, is totally discrete from the speculator's objective of boosting individual benefit. The business that can offer the investor's the best return will notwithstanding, additionally be the industry that yields the best monetary advantage to society. Along these lines, much as he had endeavored to do in The Theory of Moral Sentiments, Smith (1776) accommodates the personal circumstance of people with the satisfaction of more note worthy's benefit. At the point when individuals seek after the previous under states of reasonable challenge, the last is normal too.

Regardless of its short-lived appearance inside the book, the invisible hand has obtained an enormous emblematic stature among political and economic commentators, particularly the individuals who, similar to Smith, by and large favor free-market policies. In utilizing the picture, present-day authors have now and again misrepresented Smith as an advocate of free markets with no administration limitations at all. This is a distortion: Smith, all through The Wealth of Nations, notes a lot of anti-competitive practices that have little to do with the legislature, and in which government may even assume a job in checking or nullifying. He is as worried about imposing business models set up by merchant cartels or even by holy places, as he is about those built up by governments. Smith, it might be said, sees the government as an overactive referee, continually interceding in the financial "game" of society. In Smith's view (1776), the arbitrator has a place uninvolved more often than not, yet this doesn't mean the person should leave the arena through and through. (Course Hero, 2017).

1.4.3. Political Economy:

“The Wealth of Nations” offers more than an all-encompassing economic philosophy. It likewise makes an interpretation of this philosophy into solid "dos and don'ts" for overseeing tax assessment, local trade, and other national-level strategy issues. For scholars of Smith's time, these were the points that appropriately made up the field of political economy, a subject that got its English name just in the eighteenth century. So as to present his own perspectives on this as a matter of fact entangled subject, Smith initially needs to convince his peruses to dismiss or if nothing else question the fundamentals of mercantilism, the overwhelming arrangement of the politico-monetary idea in Europe at that point. To achieve this, he draws on actually several recorded models, looking over what has worked for past systems, just as what hasn't. The thought, for Smith, is to show up at a framework that breezes through the assessment of genuine usage. (Course Hero, 2017).

The thought that a country can, and should, care for its monetary advantages was not another one in Smith's day, he himself recognizes politico-financial standards in English laws going back to the Middle Ages. Until the eighteenth century, in any case, effective explanation of how a country could better guarantee those interests were not received. Rather, an interwoven of now and again opposing objectives and thoughts had been progressed by various interests -the nobility, the merchant class, the landed gentry-and bit by bit discovered its way into the legitimate code. (Course Hero, 2017).

Sir James Steuart was among the primary British scholars to systematize political economy into something taking after a scholastic field. His work, be that as it may, was given to a great extent to a legitimization of the present system of mercantilism. Smith (1776), similar to his French associates the physiocrats, was rather keen on assaulting

business as usual. Odd as the term would appear when applied to the father of classical economics, Smith was from multiple points of view a radical. (Course Hero, 2017).

1.5. The analysis of The Wealth of Nations:

1.5.1. Overview about the book:

“An Inquiry into the Nature and Causes of the Wealth of Nations” (shortened to “The Wealth of Nations”) was published on March 9, 1776. It is a long and wide-ranging book, written by the Scottish philosopher and economist Adam Smith, and it is considered as the foundational work of classical economics. As the title suggests, Smith wants to identify the main factors that determine a nations' wealth and wherein the genuine or true wealth consisted. Smith basic economic insights were purely liberal tending to challenge the predominant economic system, mercantilism by introducing a large laissez-faire system in its place. In the process, he presents his view about different economic notions and concepts such as value, price, demand, and other fundamental concepts. “The wealth of Nations” strongly influenced so many subsequent generations thinkers, including British economist David Ricardo, English philosopher John Stuart Mill, and American economist Milton Friedman. They were influenced by Smith's ideas on trade, taxation, and the free market. (Otteson,2018).

1.5.2. The first book: Of the Causes of Improvement in the Productive Powers of Labor.

This book develops basic definitions for such basic economic concepts as "price" and "stock." Smith (2007) first begins by describing what he considers the major motif of economic growth, the division of labor. He argues that "it is the great multiplication of the productions of all the different arts, in consequence of the division of labor" (Smith, 2007, p.13). Smith (2007) illustrates the great effect of the division of labor in enhancing productive powers. So, through splitting the employment between employees whom they are

specialized in an identified area, the production will increase. Smith contends that the division of labor within the industrial process as enormously efficient and explains his argument with the example of the pin factory. consider this example of making pins.

Smith (2007) argues that a competent pin-maker could make no more than twenty complete pins in a day. A shop of ten such pin-makers could thus make 200 pins per day, whereas, if they made one pin at a time from the beginning until the end, as far as the various tasks involved in making pins are distributed between different workman and each of them is specialized on individual tasks. As a result, the overall production of pins increases dramatically, they could make over 48,000 pins in a day. On the average, therefore, each individual's output is increased 240-fold. Moreover, Smith (2007) identifies three reasons that explain why is there an increase in output productivity, which are in consequence of the division of labor. The first reason is due to the increase of workman' dexterity, the second is time- saving, the last one is the invention of machines that allow to do multiple works at the same time. Smith continues to manifest what made the division of labor even possible. According to Smith (2007), it is the power of exchange that leads to the division of labor, as he demonstrates, it is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves not their humanity, but their self-love, and we never talk to them of our own necessity but of their advantages "(Smith, 2007, p.16). Smith (2007) explains how all humans are on occasion for one another, unlike animals, and that the butcher, the brewer, and others are doing their jobs because they are in need for one another, and they need to keep their own self-interest while trading with each other. Smith (2007) considers self-interest as the principle which gives occasion to the division of labor. Then, he goes on to discuss how the division of labor is limited by the extent of the market, he argues (2007) that the amount of labor is limited by the size of the market. In the next section, he starts (2007) analyzing the origin and use of money.

People invest money in order to exchange commodities. Smith (2007) tries to develop the meaning of value. He distinguishes two related kinds of value: value in use, which is the usefulness of a commodity, and value in exchange, which refers to the ability to purchase other goods. Things which have a high use- value, have a small exchange value, and things which have low value in use, have high exchange value. For instance, water has high use value, but no exchange value, whereas diamonds have little use value but tremendous exchange value. The rest of the book, Smith dealt with exchange value along with the related ideas of what determines prices. He attempts (2007) to clarify the function of money in an economic system, arguing that money does not represent a nation's real wealth but instead it stands as a way of storing and exchanging such wealth, and that the real price of a commodity is measured through the amount of labor it will buy on the open market, in contrast with money or nominal price which is merely useful as an estimate for business purposes. Smith (2007) suggests a three-part model for determining the price of any commodity. He demonstrates that the money paid for any item breaks down into wages (given to the worker), profit (given to the investor), and rent (given to landowners). The price paid for any good, he illustrates, must be distributed among these three people. Smith (2007) admits that these categories are interrelated and interdependence and it is almost possible to separate them. Smith (2007) then starts to give a detailed analysis of each of these three components, indicating factors that cause them to rise and fall. The latter portion of Book One endeavors tries to describe the relationships between the three components, and Smith offers a long discussion of the price of silver, with the central objective to show that silver prices do not simply decline over time as more of the metal is mined. (Smith, 2007)

At the end, it can be said that the primary factor, according to Smith, that explains why some countries are wealthier than others is the division of labor.

1.5.3. The second book: The Nature, Accumulation, and Employment:

Smith pointed out in the second book “The Nature, Accumulation, and Employment” how the improvement of society caused more inventory to run our lives. he offers a theoretical framework for wondering about "stock," which means any assets that might be utilized in a profit-making enterprise. By dividing stock into capital and revenue, he argues that societies thrive whilst a big proportion of their inventory is invested as capital, instead of spent on economically unproductive activities. He gives an extra detailed treatment of cash than in Book 1, reiterating his view that money is, essentially, not as unique as people seem to think: like every other commodity, it could be "bought" through any person (or nation) with something of fee to alternate for it. In the book's last chapter, Smith describes 3 concentric sorts of commerce, which he terms the home trade, the foreign change of consumption, and the wearing alternate. Commerce carried on domestically (the house exchange) is, he suggests, the most beneficial to the home country, even as that carried on abroad (the carrying change) does the least for the home industry. (Course Hero, 2017).

1.5.4. The third book: Of the Different Progress of Opulence in Different Nations

This book, the briefest of the five, takes the shape of a financial history lesson. Smith (2007) initially proposes a "natural" model, in line with which agriculture is the authentic and predominant financial activity, accompanied with the aid of manufacturing, and then with the aid of trade. This pattern, Smith (2007) says, was disrupted in medieval England, where various felony and social forces combined to give cities a financial advantage over the countryside. Oppressive landlords, for example, slammed the brakes on financial progress of their rural domains, even as town-dwellers were granted enormous freedom to manage their own affairs. Consequently, urban monetary growth outpaced rural boom for centuries, but subsequently a surplus spilled over into the country in the form of investments by means of

rich citizens. Thus, in a roundabout way, the improvement of cities contributed to the development of the countryside. (Course Hero, 2017).

1.5.5. Book four: Of Systems of Political Economy:

In this book, Smith discusses the notion of the different politico-economic systems as he relates these to mercantilism which was dominant systems in his era that he lives in Great Britain. Smith criticizes the concept of wealth and how it is determined and measured by the amounts of the precious metals, and he comments on this kind of strategy as naive one. He presents an alternative idea as he argues that in order to make money you must to spend money. He states that by developing and encouraging the kind of trade in which would bring the currency. Smith spends eight chapters critiquing both the assumptions and the policies of mercantilism as it had promoted. In addition to his critique, Smith has devoted the last chapter surveys a different system was presented by him called the agriculture system. (Coursehero, 2017).

2.3.5. The fifth Book: The Revenue of the Sovereign or Commonwealth

In the end, Smith (1776) turns his attention to the national price range. He lays out the specific costs incurred in governing a kingdom, from the constructing of roads and bridges to the expense of palaces and carriages for the monarch. a number of these prices, Smith (1776) argues, can be minimized without resorting to taxation, but most cannot. inside the "tax chapter", Smith (1776) gives a catalog of various tax systems which have been attempted by using Great Britain and its ecu neighbors. None of those, he admits, are ideal, however some together with a tax on luxurious goods are less oppressive than others. Consequently, much more likely to be established with the aid of the general public. The book closes with a sobering attention of England's national debt, which Smith sees as having spiraled dangerously out of manipulate which will get the debt again into line. He contends,

exquisite Britain will both have to improve extra price range, possibly through a commodity tax, or cut returned on charges. If the latter is to be done, Smith recommends letting pass of the yank colonies, whose upkeep has been a chronic drain on Britain's resources. (Course Hero, 2017).

1.6. Gross Domestic Product (GPD):

The ideas of the "The Wealth of Nations" are the origins of the concept gross domestic product (GDP). A concept that is first created by Adam Smith. Before "The Wealth of Nations", countries were evaluating their wealth depending on their gold and silver deposits. But after "The Wealth of Nations" has been published, and due to Smith highly criticism of mercantilism thoughts, Smith introduces GDP as a way of measuring a country wealth. (Sharma, 2020).

1.6.1. Gross Domestic Product (GDP):

Lepenies (2016) contends that The Gross Domestic Product measures the value of economic activity within a country. Strictly he defined GDP as the monetary value of all final goods and services produced in an economy in an accounting period.

Formula:

- The following equation is used to calculate the GDP: $GDP = C + I + G + (X - M)$ or $GDP =$ private consumption + gross investment + government investment + government spending + (exports – imports). (Chappelow, 2020)

1.6.2. Gross Domestic Product vs Gross National Product (GDP vs. GNP):

GPD is a measure of the economic production of a particular territory in financial capital terms, whether by foreigners or citizens of the country over a specific time period. it requires that all goods and services collected are produced within the boundaries of the country. GNP, on the other hand, is defined as the total value of all goods and services produced by

permanent citizens of a country regardless of their location. GNP entails that the sum of all goods and services produced only by citizens of the country, whether inside or outside the country. Thus, while GDP is the value of goods and services produced within a country, GNP is the value of goods and services produced by citizens of a country. (Brezina, 2011)

Growth Rate of GDP:

Typically, economists, politicians, new reporters use GDP growth rate to compare the relative performance of different countries. In order to measure the GDP growth rate of the country, subtract 1 from the value received by dividing the GDP for the first year by the GDP for the second year.

GDP growth rate = $[(GDP_1)/(GDP_2)] - 1$ (Amadeo, 2020)

1.6.3. Nominal vs Real GDP:

There are two types of GDP which have been created by the economist in order to deal with the ambiguity inherent in the growth rate of GDP, nominal and real. When calculating GDP using current market prices, it is called nominal GDP, therefore, nominal GDP can be understood as the total value of all goods and services produced at current prices, which are those prices indicated in a given moment of time, without factoring in inflation or deflation. Whereas real GDP reflects the value of all goods and services in a given year or a baseline. Real GDP does factors in inflation and deflation, that's why it is regarded as a more precise measure of the economy's output, giving a more realistic evaluation of the growth than nominal GDP.

A major difference between the two types of GDP is that nominal GDP changes due to shifts in both quantity and price, but real GDP, on the other hand, is influenced only by changes in quantity.

Economist generally uses real GDP to indicate whether a country's economy is rapidly growing or not and to compare a country's economic growth rate. The most popular method

that is used to calculate real GDP is through the GDP deflator which refers to the price index that measures price inflation or deflation, it is calculated by dividing nominal GDP by real GDP and multiplying by 100. ("Nominal Vs Real GDP", 2019)

1.7. Conclusion:

The term 'Liberalism' derives its strength from Adam Smith's image as the great ideological opponent of the Mercantilists. In his classic work "An Inquiry into the Nature and Causes of the Wealth of Nations" Smith (1776) explained that the productive capacity rests on the division of labor and the accumulation of capital that makes possible a country's future income depending upon this capital accumulation. In addition, he developed the concept of the "invisible hand" that guides the forces of supply and demand in an economy. Moreover, he stated that free-market economies are the most productive and beneficial to their societies. For all these causes, Smith agreed that the government itself must be limited and it should keep the market economy open and free, and not act in ways that distort it. This chapter also has identified two different types of Liberalism with two different principles.

Chapter Two:
Protectionism and Its Impact on The World Trade

2.1. Introduction:

The second chapter is devoted to investigating the establishment of Protectionism as a system in order to preserve and propose multiple advantages to the states with a high level of knowledge, and protect the domestic economy. This chapter will also show the arguments that have been used to justify Protectionism over the past few hundred years in the security industry. The last part will uncover the effects of Protectionism on international trade.

2.2.-The background of protectionism:

Protectionism is a policy of change restriction between nations through tariffs on imported goods, restrictive quotas, or different authorities' regulations. Protectionist policies aim to shield the producers, businesses, and workers inside the import-competing quarter of a country from foreign competitors and foster national financial growth. Historically, protectionism is related to monetary theories which include mercantilism: focused on keeping complete employment, domestic enterprise growth, and a nice alternate balance. (USA, 2009)

In the latter part of the 19th century, Protectionism spread throughout the wars and financial depressions. Britain's spurning of protectionism in favor of free trade changed into symbolized by using its repeal in 1846 of the Corn Laws and unique responsibilities on imported grain.

Protectionist rules in Europe had been relatively moderate in the second half of the 19th century, despite the fact that France, Germany, and several different countries have been compelled at times to impose customs duties as a way of sheltering their growing industrial sectors from British competition. By 1913, however, customs obligations have been low during the Western world, and import quotas had been rarely used. It turned into the harm and dislocation resulting from World War I that inspired a continual raising of customs obstacles in Europe inside the 1920s.

The United States had a long record as a protectionist country, with its tariffs accomplishing their excessive points in the 1820s and all through the Great Depression. The country's protectionist guidelines changed closer to the middle of the 20th century, and in 1947 the US grew to become into one in every of 23 countries to sign reciprocal change agreements inside the form of the General Agreement on Tariffs and Trade (GATT). (Wonnacott, Allais, Bertrand, Balassa & Robinson,2020).

2.2.1- Protectionism Methods

2-2.1.1-Tariffs

The most generally applied protectionist rehearses, levies, likewise called "duties," are taxes charged on explicitly imported merchandise. Since taxes are paid by the merchants, the cost of imported merchandise in local markets is expanded. Tariffs are to make the imported item less appealing to buyers than the equivalent privately delivered product, accordingly ensuring the local business and its laborers.

One of the most acclaimed tariffs is the Smoot-Hawley Tariff of 1930. At first, proposed to shield American ranchers from the post-World War II flood of European agricultural imports. The bill in the long run endorsed by Congress included high taxes numerous different imports. At the point when European nations fought back, the subsequent trade war confined worldwide trade, hurting the economies of all nations included. In the United States, the Smoot-Hawley Tariff was viewed as an excessively protectionist measure that declined the seriousness of the Great Depression. (CHAPPELOW,2019)

2.2.1.2-Import Quotas:

Trade quotas are “non-tariff” exchange obstructions that limit the amount of a particular product that may be imported over a hard and speedy timeframe. Constraining the supply of a specific imported product, while expanding costs paid to be consumers, permits local makers an opportunity to improve their situation in the market by filling the neglected interest. Truly, businesses like automobiles, steel, and shopper hardware have utilized trade quotas to shield local makers from a remote challenge.

For instance, since the mid-1980s, the United States has forced a quota on imported crude sugar and sugar-containing items. From that point forward, the world cost of sugar has found the middle value of from 5 to 13 pennies for each pound, while the cost inside the U.S. has extended from 20 to 24 pennies.

As opposed to importing quotas, “production quotas” happen when governments limit the stock of a specific product so as to keep up a specific price point for that product. For instance, the nations of the Organization of Petroleum Exporting Countries (OPEC) force a creation quantity on unrefined petroleum so as to keep up a production quota for oil on the world market. At the point when the OPEC countries lessen creation, U.S. purchasers see higher gasoline costs.

The most intense and possibly provocative type of import quota, the "embargo" is an all-out restriction against bringing a specific product into a nation. Generally, embargoes have an impact on affected customers. For instance, when OPEC announced an oil ban against countries it saw as supporting Israel, the subsequent 1973 oil emergency saw the normal cost of fuel in the U.S. bounce from 38.5 cents per gallon in May 1973 to 55.1 pennies in June 1974. A few officials called for across the country gas apportioning and President Richard Nixon asked fuel stations not to sell gas on Saturday evenings or Sundays. (Chappelow,2019)

2.2.1.3-Product Standards:

Product standards limit imports by forcing the least security and quality prerequisites for specific products. Product standards are commonly founded on worries over its product safety, material quality, environmental dangers, or improper labeling. For instance, French cheese items made with crude, non-sanitized milk, can't be brought into the United States until they have been matured at any rate 60 days. While dependent on worry for public health, the deferral forestalls some claim to fame French cheeses from being imported, accordingly giving local makers a superior market for their own purified adaptations.

Some product standards apply to both imported and locally delivered products. For instance, the U.S. food and Drug Administration (FDA) confines the substance of mercury in imported and locally gathered fish sold for human utilization to one section for every million. (Chappelow, 2019).

2.2.1.4-Government Subsidies:

The governments provide the local manufacturers subsidies that are direct payments or low-hobby loans in order to assist them to compete within the global marketplace. In general, subsidies lower production prices enabling producers to make an income at decrease charge levels. For instance, U.S. Agricultural subsidies help American farmers supplement their income while assisting the government to manage the supply of agricultural commodities, and control the cost of American farm merchandise internationally. Additionally, cautiously implemented subsidies can protect local jobs and help local corporations alter to global marketplace demands and pricing. (Chappelow,2019)

2.2.2. The arguments for protectionism:

The protectionism is double edged-sword, it may benefit and help the domestic and local companies. Most of the economic experts agreed on the following points as they stated it as reasons for protectionism.

2.2.2.1. Infant industry:

It is an economic terminology that was introduced to the field of economy by Alexander Hamilton and Friedrich List in 1791 to refer to that type of policy that certain developed country would take in order to protect the local and domestic products from the external competition (Infant Industry Argument, n.d). The reason behind calling this policy infant as the human child is that this policy intends to protect the local product and growing it by the government till it grows mature and it can compete the other products in the market. The developed governments intend to follow this particular policy besides protecting the local product from the external competition is also due to other reason as the products are lacking the economies of scale defined by Kenton (2019) as follows:

Economies of scale are cost advantages reaped by companies when production becomes efficient. Companies can achieve economies of scale by increasing production and lowering costs. This happens because costs are spread over a larger number of goods.

Costs can be both fixed and variable. (para 1)

The size of the business typically matters once it involves economies of scale. The larger the business, a lot of the price savings, that competitors have. This policy also can work in favor of encouraging the domestic production as well as promoting the national security and decreasing the relying on the foreign products. In addition, to it may be a successful strategy to attract foreign

investments and to create job and employment opportunities for the people and develop local market, as it can prevent the trade dumping ("Infant Industry Argument", n.d).

2.2.2.2. Employment creation and protection:

Since protectionism insists on protecting and growing the local product and that by decreasing exports and increasing imports, thus the home industry will offer to the people different job opportunities which will create domestic labor in the domestic market and by the increasing of the domestic industry with the different products. This will also open more and various jobs. Therefore, the government will be fulfilling and covering the manufacturing and labor aspect (Nipun, n.d). An example of this argument as what happened in the case of USA 2002 when the president Bush has announced an 8-30% tariffs on imports of certain steel products in an endeavor to secure the household U.S. steel industry from foreign dumping.

However, this action put the steel companies in problematic situation as they had to increase their labor even though had not enough capacity which after short term led to the bankruptcy of those small companies (York, 2018).

Diversification is Associated in Nursing act of Associate in Nursing existing entity branching out into a replacement business chance. This company strategy allows the entity to enter into a replacement market section that it doesn't already operate in. call the choice to diversify will sway be a difficult decision for the entity because it will cause extraordinary rewards with risks. (Board, 2019)

This strategy seems productive as it has the following advantages. Firstly, each period of time, there would be a certain product with high demands in the market thus, this strategy will help maintaining the ups and downs of it. Secondly, it also maximizes the use of all the different types of the unutilized resources. Thirdly, certain industries might collapse for a selected time-

frame as a result of economic factors. According to (Board, 2019), diversification provides movement off from activities which can be declining. For those reasons, the companies intend to apply this act since it helps in the growth of the business and to ensure the total use of the resources whether it was human or natural.

2.2.2.3. Balance of Trade:

This term used in the field of economics to refer to the calculation difference between the imports and exports (total value of exports minus the total value of imports equals (=) the trade of balance) of certain country (Kenton, 2020). In case the calculation has a positive result (the value of the exports is higher than the value of imports). This would be identified as trade surplus and if it is the opposite (the value of imports is higher than the exports). It would be identified as trade deficit. Thus, most of the advocates of the protectionism believed that the restrictions on imports for the aim of protection can produce a surplus within the balance of trade of the country. In order to correct the disequilibrium in trade balance, governments use the tariffs as an instrument to achieve that through the term of trade which obliges the foreign side to pay a certain amount of the tariff or all of it to complete the process of exporting (Chand, n.d).

2.2.2.4. National Self-Sufficiency Argument:

Low (2019) states that protection is additionally required to realize self-sufficiency in essential product. The industries that area unit essential for national self-reliance area unit to be protected. This can be extremely a convincing argument to cover in developing countries like Republic of India. In fact, national interest is that the sole criterion for granting protection to industries in such countries. However, this argument is strongly related to other arguments. First, national defense argument which is related to manufacturing the military products such as the arm and military equipment's; the governments which follows this argument is protecting

its national security. Second, Low (2019) finds that the advocates of protectionism argue that by covering the national self-sufficiency will avoid the domestic markets from the foreign products dumping which is another terminology used in the economy to refer to the state of the certain country's market when it is occupied by the different foreign products and services instead of the local one.

2.2.3. The counter arguments of Protectionism

Protectionism policy has proven in some cases its failure like the American case of 2002 concerning steel industry tariff. The critiques attacked this policy as they mentioned list of different counterarguments of it.

Firstly, concerning the first argument, infant industry, the critiques and experts argue that this policy endangers the whole country's resources to failure as mentioned previously that is this argument the country uses all the national and domestic resources and devoted it to a certain industry, which can be considered as that country's government gambling with its resources, in other words if the government has chosen an industry that may fail or it may take long period of time in order to reach the maturity on the back of the domestic resources which may be expired even before reaching that phase. In addition, this strategy endangers the consumer ability to buy the domestic products as he pays high amounts of money to buy the domestic product, however if the market included imported products, this would reduce the domestic products price. Besides, the country with different industries its government would be facing challenge which industry to protect ("Infant Industry Argument", n,d).

Secondly, the argument related to creating and protecting job opportunities, as mentioned in the first counter argument that infant industry imposes high prices for local product, thus the consumers would not consume the local product which would lead to reduction in the sales of that product therefore dismissing huge numbers of workers to decrease the financial damages

and avoid bankruptcy as the case of USA 2002, by imposing tariffs on the steel the industries had to use the American steel which expensive which led to imposing high prices on the products (cars, bicycle...etc.). This led to the consumer to avoid the local product and then caused serious breaking downs that affected the employees and made them lose their jobs (Low, 2009). Thirdly, protectionists claim that a certain country uses the policy of diversification of Industries that would allow it to dominate or at least cover all the domestic market needs, however this perspective was considered mistaken by the experts. The anti-protectionist argues that it almost impossible for a certain country, no matter how developed and dominant, to have resources that would cover all the types of the industry. Therefore, it is practically hard for any country to achieve self-sufficiency (Chand, n.d). Fourthly, this procedure concerning relying on the tariffs and quotas to achieve the balance trade is risky one due to the economic changes that could happen on the market. In the very beginning, it seems that this strategy is working in the favor of the country, however by time there would be some products that would not be flexible in the market ,in other words, the demand of that certain product will decrease causing a trauma for the trade balance and then economic issue(Chand, n.d). Other experts argue that this policy of protecting the domestic products and imposing tariffs or quotas on the foreign products, could lead to retaliation and eventually to a big international trade war as the case of China and the United States. Finally, as it was mentioned in the previous counter argument, the one related to diversification of the industry, it states that it is almost for particular country to fulfill all the industry aspects (Chand n,d ; Nipun, n.d). Thus, it is impossible for that country to fulfill all its needs without resorting to open trade with others. In fact, exporting other products from other countries could lead to increase the competition and by time adjusting and modifying the local products standards. It will provide chances to study the flaws of the local product and get benefit from the foreign experiences.

2.2.4. The effect of Protectionism on international trade:

When a government legislates policies to reduce or block international trade, it is engaging in protectionism. Protectionist policies main objective is to protect domestic producers from foreign competition. Protectionism has three main forms: tariffs, import quotas, and nontariff barriers. In International trade protectionism is regarded as a policy which harm consumers due to the restriction of imports. The effects of protectionism differ from one country to another according to the level of development. if a country implements protectionist measures, this will cause other countries to embrace protectionism. As a result of this actions the global wealth will decrease. For instance, if an economically developed country has restricted its trade, it will surely influence the world's supply-demand balance. When a developed country imposes import restrictive protectionist measures, demand in the global market will decrease and the prices of goods will reduce as well. Reduced prices will make producers of those commodities as a damage. In that respect, countries which highly contribute to the world supply should apply protectionism. (Demir & Sepli, 2017)

2.2.5. On the world trade:

In order to study the effect of protectionism on the world trade, the following example is given: the Chinese automobile industry, if China implements government subsidies in order to enhance domestic production, this will cause decrease in the world supply. While world demand remains the same without any changes, and thereby, the world's market price for automobile will decrease. As China applies protectionist measures, trading with partners will get worse, and automobile prices fall whereas prices in other sectors continue to rise. This situation creates serious impediment for countries that export automobile and import other goods. Furthermore, for other countries there would be welfare losses.

During the time of crisis, the implementation of protectionism negatively affects the Chinese economy due to the decrease of demand. In spite of the huge reduction of China's export, as the prices of global energy and commodities decline, China will limit its domestic demand. Thus, the level of imports degrades faster than the level of exports. (Demir & Seppli, 2017)

2.2.6. Effects of Protectionism on WTO:

The World Trade Organization (WTO) was officially established in 1995, but its history is much longer. In the years after the Great Depression and World War II, there was a worldwide push to build institutions that would tie the nations of the world together. The World Bank, which assists the poorest people in the world, and the International Monetary Fund, which addresses issues raised by international financial transactions, were both created in 1946. The third planned organization was to be an International Trade Organization, which would manage international trade. Realizing the compromises between nations that come about due to trade policy, many countries came together in 1947 to form the General Agreement on Tariffs and Trade (GATT). The general agreement on trade was established in order to provide a forum in which nations gather and negotiate about reductions in tariffs and other barriers to trade. In 1995, the GATT was changed into the WTO whose membership includes about 150 nations and most of the economies of the world. It is the primary international mechanism through which nations negotiate their trade rules including rules about tariffs, quotas, and nontariff barriers. The WTO plays a central role in manipulating and conducting the international trade. (Alavi, 2002)

Globalization, in terms of economy, facilitates the international trade. In a globalized economy, countries cannot implement policies in terms of their own interests as the exercises that began with the GATT and continued throughout the WTO prevent protectionism. Countries illustrate that they used protectionist measures in order to enhance their economic sectors. The WTO credibility and

legitimacy has been damaged when it fails to create an internationally comprehensive agreement to liberalize trade. (Demir & Sepli, 2017).

2.3. Free trade Vs protectionism:

Free trade is a mechanism where the trade of goods and services flows unhindered by government-imposed constraints and interference within or within countries. Interventions involve taxes and tariffs, non-tariff barriers for instance; administrative rules and quotas and even trade deals handled between governments, such as; the CAFTA with other countries that decide the tariffs, duties, and subsidies that countries that apply on their imports and exports. One of the most well-known FTAs is the North American Free Trade Agreement (NAFTA), between the United States, Canada, and Mexico. Now popular in international trading, the FTA seldom leads to pure, unregulated free trade. Protectionism, on the other hand, is an economic policy of restricting trade between nations by means of measures such as import tariffs, restrictive quotas, and a number of other restrictive government regulations aimed at prohibiting imports and preventing the foreign takeover of local markets and businesses. This approach is very much in line with anti-globalization. Protectionism refers to policies or doctrines that "protect" companies and "living wages" within a country by limiting or controlling trade between foreign nations. Adam Smith famously cautioned against the industry's 'involved sophistry,' trying to gain profit at the customers' expense. Practically every modern economist believes that protectionism is negative because its risks outweigh the benefits and hinder economic growth. Many circumstances have made it possible for the international community to call for a general meeting to try to address this crisis. That was valid in 1947 when the General Tariff and Trade Agreement (GATT) was signed with the goal of promoting foreign trade and reducing tariffs as much as possible. (Fouda,2012).

2.4 Conclusion

Firstly, this chapter has identified an essential economic policy that was taken by some developing countries. Protectionism is an economic policy that provides protection to the domestic economy through several terms and conditions. Secondly, it has examined the advantages and disadvantages of this policy; infant industry was one of the Protectionism solid arguments in which a certain country encourages the domestic industry and closing the foreign competition; however, those arguments were criticized by several experts as they found gaps and drawbacks on the local economy. Finally, the chapter has addressed not only the drawbacks of Protectionism on local economy, but also the worldwide trade flow besides its impact on the WTO. After examining data, this chapter has resulted in the invalidity of the Protectionism policy as it cannot be used neither domestically or internationally due to its high risks on the economy.

Chapter Three:

the Impact of Adam Smith Economic Liberalism

on Protectionism and Financial Policies on the US

3.1. Introduction:

In this practical chapter, we will describe and analyze the causes and consequences of the Great Depression. The acts and laws that had been adopted to decrease the damages will be also analyzed.

According to Cambridge dictionary (n.d), the Great Depression is: “the period of decrease in wealth, industrial production, and employment from 1929 until the start of the Second World War ” (para.1). Another dictionary (n.d) defines it as follow: " the economic crisis and period of low business activity in the U.S. and other countries, roughly beginning with the stock-market crash in October, 1929, and continuing through most of the 1930s" (para.1). From these definitions, we can deduce that the Great Depression refers to that economic crisis that appeared in the 1930s in the united states, it lasted till the second world war.

According to Amado (2020), the president of World Money Watch (WMW), this economic crisis that touched different sectors in the economy resulted in unemployment with 25% as the employment rate went from 3% to 25% in 1933; however, the ones who kept their jobs suffered from low wages and this led to shrink the gross domestic product to the half (from 103 billion dollar to 55 billion dollar) due to deflation. The government was in chaotic situation, so they adopted the Smoot-Hawley tariffs as they hoped this may save the economy; however, this act had a reversed effect as it led to worsen the problem concluding with the beginning of another worldwide second war.

3.2. Causes of the Great Depression:

There were several causes that led to this economic crisis in one hand, and other producers were thought of as the remedy for this crisis on the other hand, it had reversed on the economy badly. Firstly, most of the field experts believed that the Great Depression begun due to the stock market crash on the black Thursday, October 24th 1929. Segal

(2020) argues in her essay "What was the Great Depression" that during the early years of the roaring twenties there was a sign of the Great Depression and it was called the forgotten depression; that period witnessed fell of the stock by the half (50%). On the black Tuesday the NYSE (New York Stock Exchange) had fell violently till it crashed with 90% loss. Secondly, the former chairman of the Federal Reserve Ben Bernanke had admitted that the Fed had mismanaged the supplies of the money and credit before and after the crisis 1929. By increasing the money offer and keeping the interest rate low throughout the last decade, the Fed instigated the fast growth that preceded the collapse. A lot of the excess finance's growth inflated the securities market and property bubbles. Once, the bubbles burst and also the market crashed; the Fed took the alternative course by cutting the money offer by nearly a 3rd. This reduction caused severe liquidity issues for several little banks and clogged off hopes for a fast recovery. During the early years of the crisis (1930-1932) president, Herbert Hoover did not take any action plan as the problem had occurred then he often was characterized as the "do-nothing". However, Segal (2020) argues that Hoover had actually made some steps to face this issue as he increased the federal spending by 42% enrolling several working programs such as Reconstruction Finance Corporation (RFC), which is an agency that was approved by the U.S congress in order to safe failing banks through offering loans for the ones under the threat as it started directly after the stock market crush 1929 (Kenton, 2019), and in order to ensure that the RFC does its job which is providing loans to under threat banks, it is a must to raise the taxes for funding this program. Hayes (2020) discusses that Hoover did not stop at this point, he also banned immigration during 1930, so he can keep the low-skilled from flooding on the labor market, however all this policy turned against the economy and worsen the issue. Thirdly, after the massive failure that Herbert Hoover had accomplish,

another new president promised to solve this issue. Franklin Roosevelt with his new deal had challenged the crisis. Hayes (2020) states that:

The new deal was a comprehensive and broad set of government-directed projects set forth by the federal government under President Franklin Delano Roosevelt, and designed to help the United States economy emerge from the Great Depression. It launched in the early 1930s and was meant to bolster the United States economy, reduce unemployment, provide a social safety net, and instill confidence in the government's ability to protect its citizens.

3.3.1. The Smoot-Hawley Tariff Act of 1930:

In June 1930, the U.S. Congress passed the 1930 U.S. Tariff Act, it also called the Smoot-Hawley Tariff Act, in an attempt to help protect domestic producers and other U.S. companies from scaling up imports after World War I. Historians believe its overly protectionist policies were responsible for raising U.S. tariffs to historically high rates, adding significant pressure to the Great Depression's international economic atmosphere. What led to this, is a global tale of destroyed supply and demand seeking to get right after the devastating World War 1 trade anomalies. (Kelly,2020)

3.3.2. Too much post manufacturing, too many imports:

Outside Europe, countries increased their agricultural production during World War I. At the end of the war, European producers also stepped up production. This led to the major overproduction of agricultural crops during the 1920s. This, in turn, caused a decline in farm prices during the second half of the decade. Before the Depression, United states had several features of a conventional economy. Almost 25% of Americans were farmers. One of the campaigns promises Herbert Hoover American farmer, and others by increasing

tariff rates on agricultural products. (Leab, Bindas made during his election campaign in 1928 was to support the, Stein, Corfield, & Danver, 2009).

3.3.3. Tariff and Special Interest groups:

The Smoot-Hawley Tariff was sponsored by US Sen. Reed Smoot and US Rep. Willis Hawley. When the bill was presented in Congress, changes to the tariff began to expand as one special interest group had called for protection after another. By the time the legislation was enacted, the new law increased tariffs not just on agricultural goods but also on goods in all economic sectors. Its increased tariff levels above the already high rates laid down in the Fordney-McCumber Act of 1922. That was among the most draconian protectionist tariffs in the history of the world, bringing the average import tax to some 40 percent. The Fordney-McCumber tariff caused European governments to retaliate but did nothing to dampen growth in the US. Smoot-Hawley thus was one of the most protectionist tariffs in American history. (Kelly,2020).

3.3.4. Smoot-Hawley instigated a retaliatory storm:

The Smoot-Hawley Tariff might not have triggered the Great Depression but it was definitely worsened by the introduction of the tariff; the tariff did not help to relieve this period's inequities and eventually caused further misery. Moot-Hawley triggered a storm of international retaliatory steps and became a symbol of the 'beggar-thy-neighbor' policies of the 1930s, intended to better one's own lot to the detriment of others.

This and many other policies have led to a sharp fall in foreign trade. US imports from Europe, for instance, decreased from a peak of \$1.334 billion in 1929 to just \$390 million in 1932, while US exports to Europe dropped from \$2.341 billion in 1929 to \$784 million in 1932. In the end, world trade between 1929 and 1934 fell by around 66 per cent. The Smoot-Hawley Tariff fostered mistrust among nations in the political or economic realms,

resulting in less cooperation. This contributed to further isolationism which would be crucial in delaying US entry into the Second World War. (Kelly,2020)

3.3.5. Protectionism died down after the excesses of Smoot-Hawley:

The Smoot-Hawley Tariff was the final nail in the coffin of global twentieth-century US protectionism. Starting with the Reciprocal Trade Agreements Act of 1934, signed into law by President Franklin Roosevelt, America started to prioritize trade liberalization over protectionism. Throughout later years, as demonstrated by its advocacy for the General Agreement on Tariffs and Trade (GATT), the North American Free Trade Agreement (NAFTA), and the World Trade Organization (WTO), the United States started pushing towards much freer international trade arrangements. (Kelly,2020).

3.5. Section 02: U.S Post-war II Economic Boom (1945-1948):

(Causes of the boom)

The years immediately following the Second World War marked unprecedented expansion in the U.S economy known as postwar economic boom. This section attempts to investigate the reasons which led to the economic growth during this area.

3.5.1.1.G.I. Bill of Rights:

On 22 June 1944, U.S. President Franklin D. Roosevelt signed the 1944 Servicemen's Readjustment Act, also known as G.I., into law. Rights Bill. The aim of the act was to enable the kingdom to reabsorb thousands and thousands of veterans who had returned from overseas fighting in World War II. During the decades seeing that its enactment, the regulation, and its amendments have made viable the funding of thousands and thousands of bucks in training and schooling for a great range of veterans. The nation has earned normally it's funding in return, through increased tax revenues and a dramatically modified society. (Castagna, 2010).

3.5.1.2. Military Benefits:

The GI Bill provided numerous choices and advantages to servicemen and women of World War II. Those who wanted to complete their studies in college or vocation school could do that up to \$ 500 tuition-free while also having received a living stipend.

As a consequence, in 1947 almost 49 percent of university admissions had been veterans. In a way that was by no means executed before, the GI Bill opened the door of better education for the working class. Where; the invoice prolonged American university education from a curriculum focused completely on liberal arts to cover plenty of professional paths, inclusive of science, business, and engineering.

For veterans looking for jobs, the bill offered a \$20 weekly unemployment payment for up to one year. There was also career counseling available.

The authority's warranty for domestic and commercial enterprise loans also precipitated a monetary boom, financing the construction of thousands of new homes, like those who sprang up in suburbs together with Levittown and New York.

The GI Bill also paid for medical services for veterans. Additional hospitals for veterans were created, and all veteran-related issues were taken over by the Veterans Administration.

Eventually, the GI Bill was a significant force behind post-war growth. By 1956, almost 10 million veterans had earned compensation from GI Bill.it to save the American economy from a possible epidemic of unemployment. ("G.I. Bill," 2019)

3.5.2. The Employment Act of 1946:

According to Kenton (2018) the employment act as follows:"

The Employment Act Of 1946 was an act of legislation enacted by the United States Congress that charged the government with the responsibility of maintaining a high employment level of labor and price stability (para1). These two goals are in direct conflict with each other because as full employment is achieved consistently over time, demand-pull inflation will result.

Steelman (2013) argues that the employment act was signed on February 20th, 1946 after the world war II by the president Harry Truman as an attempt to contain hundreds of thousands of American soldiers returning home as they will be jobless, thus US government took this act in order to provide a solution to this problem since the economy was not based on the military production. The act was introduced originally as the Full Employment bill 1945; however, it was reviewed and revised several times till it reached the phase where it was signed to become a law. Before those sessions and revisions, the legislatives had already discussed and announced that:

"All Americans able to work and seeking work have the right to useful, remunerative, regular, and full-time employment, and it is the policy of the United States to assure the existence at all times of sufficient employment opportunities to enable all Americans who have finished their schooling and who do not have full-time housekeeping responsibilities to freely exercise this right". Bailey (as cited in Steelman, 2013. Para 4)

In this section, we can interpret that the US government is responsible for providing jobs for their people whether they were graduate from schools or the ones who do not have fulltime housekeeping responsibilities. So, the challenges that the U.S government is to provide jobs to all the previous soldiers troops besides the new generation. However, when the U.S authorities put an end to the final version of the act they removed the claim that citizens have a "right" to a job as well as the importance of maintaining acknowledgement of the purchasing power was removed. These changes came as opposition toward certain

members in the house of the representatives who claimed that the original bill was too radical and wanted to found a replacement for such that would Bailey (1950) argues:

"exclude the last remnants of ... dangerous federal commitments and assurances (including the wording of the title), but would provide for an economic planning mechanism of some sort in the Executive and legislative branches, and for a moderate program of public works". Bailey (as cited in Steelman, 2013. para 5).

In fact, this act had resulted the Council of the Economic Advisors (CEA) which is three-member board that the president seeks their advice when it comes to economic policies. It required the president to submit a report back to Congress within 10 days of the submission of the federal budget that forecasts the longer term state of the economy and presents the administration's domestic and international economic priorities; and established the Joint Economic Committee – composed of members of each political parties from each the House and Senate – that is charged with, among alternative things, reviewing the president's report and creating recommendations to the Senate and House on policy. However, Murray Weidenbaum, an economist at Washington University in St. Louis who served as chairman of the CEA during the early 1980s argues that:

"... the act's then-controversial statement of national policy has become adopted as part of the federal government's bureaucratic fabric and the two new institutions the 1946 act established are still in operation. A substantial government responsibility for the overall performance of the economy is widely presumed". Weidenbaum (as cited in Steelman, 2013. Para 8).

During the three decades directly following the passage of the 1946 act, the American economy generally performed quite well. Whereas there was vital inflation within the second half of the 1940s, annual inflation rates generally ranged from 1 % to 5 % throughout the rest of this era. The marketplace additionally was comparatively robust, with annual state rates trending around 5 %. however, throughout the 1970s, the US

experienced high inflation and unemployment, usually named as “stagflation.” In early 1975, worsening economic conditions prompted Congress to adopt Resolution 133, that taught the Federal Reserve System to:

1. pursue policies in the first half of 1975 so as to encourage lower long-term interest rates and expansion in the money and credit aggregates appropriate to facilitating prompt economic recovery; and
2. maintain long run growth of the monetary and credit aggregates commensurate with the economy’s long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates Meltzer (as cited in Steelman, 2013).

Two years later (1977) the Congress amended the Federal Reserve Act and after sessions of debating, a year later the Congress finally passed the Full Employment and Growth Balance Act as these two acts modified the Employment Act of 1946 and was signed into law by President Carter. Humphrey-Hawkins Act (also known as Full Employment and Growth Balance Act) targeted the unemployment and inflation as it stated that within five years the unemployment should not exceed 3% for youth in their second decade of life in addition to 3% reduction in the inflation as long as the reduction would not interfere with the employment goals. As the expectations concerning the inflation rates would become zero (0) by the late 1980s only if it did not come cross the employment goal. Meltzer (Cited as Steelman, 2013).

3.5.3. Bretton Woods System and 1944 Agreement:

With the world at war, delegates from each of the allied countries agreed on July 1944 in Bretton Woods, New Hampshire, to create a new international monetary system. These countries were brought together to help regulate and promote international trade across borders. Furthermore, to provide currency stabilization for trade of goods and

services and financing. The failure of the gold standard, and the mutually destructive economic policies that followed, convinced leaders that a new set of cooperative monetary and trade agreement was necessary for world peace and prosperity. The outcome of the conference, known as the Bretton Woods Agreement included the creation of an adjustable peg exchange rate system and the establishment of two international organizations that would maintain economic cooperation among the participating countries, to this end the conference participants drafted charters for the international Monetary Fund (IMF) and the International Bank for Reconstruction and Development (the World Bank). The Bretton Woods agreement and System created a collective international currency exchange regime that lasted from the mid-1940s to the early 1970s. (Chen,2020)

The Bretton Woods system of monetary management set up the rules for commercial and financial relations among the United States and its allies. Approximately 730 delegates representing 44 countries gathered in July 1944 having a central goal to create an efficient foreign exchange system, with the purpose of preventing competitive devaluations currencies and increasing the international economic prosperity. Under the agreement, countries agreed that their central banks would maintain fixed exchange rates between their currencies and the dollar. (young,1944).

The Bretton Woods agreement of 1944 created a new global monetary system. It replaced the gold standard with the US dollar as the global currency. By so doing, it established America as the dominant power in the world economy. After the agreement was signed, America was the only country with the ability to print dollars. Though the Bretton Woods conference was held in 1944, it was not until 1958 that the Bretton Woods System became fully functional. Once implemented, its provisions called for the U.S. dollar to be pegged to the value of gold. Moreover, all other currencies in the system were then pegged to the U.S. dollar's value. (D. Bordo, 1993)

3.5.3.1. The plans and the outcomes:

The planning that led to the Bretton Woods conference both in the United States and Britain reflected a common vision of the future international monetary order and a quite different national concern. The architects on both sides of the Atlantic wanted a system that avoid the defects of the interwar period and promote world peace and prosperity. shared beliefs include a multilateral payments system, stable exchange rates, and full employment.

3.5.3.2. The Keynes and White Plan:

The primary designers of the Bretton Woods System were the British economist John Maynard Keynes and American Chief International Economist of the U.S. Treasury Department Harry Dexter White. The British Treasury team of planners led by John Maynard Keynes and the American team led by Harry Dexter White drafted two competing plans for the postwar international monetary order. Each plan went through a series of drafts, and the final version, known as Keynes and White plans, a compromise between the two plans, were published in 1943. Keynes' hope was to establish a powerful global central bank. In addition, he wanted to encourage the expansion of the world trade and activity by the generous provision of the international liquidity. But the White plan put more emphasis in its design on exchange rate stability and less on the generous provision of the international liquidity than its counterpart. The key institution of the US plan was the creation of United Nations Stabilization Fund. In the end, the adopted plan took ideas from both sides. (D. Bordo, 1993)



Figure 1. **John Maynard Keynes(right)and Harry Dexter White at the International Monetary Fund's Board meeting in Savannah, Georgia, U.S., March 8, 1946**

Source: (International Monetary Fund, 1946)

3.5.3.3. The Articles of the Agreement:

The Articles of the Agreement incorporated elements of both the Keynes and the White plans. The central goals were to create international monetary cooperation, to facilitate the maintenance of full employment and rapid growth, to provide stable exchange rates and avoid competitive devaluations, to introduce a multilateral payments system and eliminate exchange restrictions. The main points of the Articles were the creation of the par value system, multilateral payments, the use of the Fund's resources, the Fund's powers, and its organization. (D. Bordo, 1933)

Three issues dominated the perception of the interwar experience: the flows of the gold exchange standard; the case against floating exchange rates; and bilateralism.

3.5.3.3.1. The Gold Exchange Standard:

"We have gold because we cannot trust governments," President Herbert Hoover statement to Franklin D. Roosevelt in 1933. This statement traces one of the most

significant events in U.S. financial history: The Emergency Banking Act, which obliged all Americans to transmit their gold coins, into U.S. dollars.

The gold exchange standard is a monetary system where a country's currency or paper money has a value directly linked to gold. It appeared in 1925 after Britain returned to the gold Standard at the prewar parity, followed after two years by most countries. The case for the "gold economy" was made at the Genoa conference in 1922. It ended with Britain's suspension of gold convertibility in September 1931. (Lioudis, 2019)

3.5.3.3.2. Floating Exchange Rates and Competitive Devaluations:

Nurkse (1944) believed that uncontrollable floating rates definitely causes destabilizing speculation. The depreciating currency led speculators to predict more decrease. At the same time, a depreciating exchange rate hurts the balance of trade as importers, expecting a further devaluation and a rise in import prices, imported more whereas exporters, expecting the price of exports to rise, held back sales to get a better price later.

3.5.3.3.3. Bilateralism and Exchange controls:

Ever since 1939, quantitative studies on interwar economic policy have emphasized the growing importance of bilateralism in international trade relations. Bilateralism was made to encourage trade between the two sides of the agreement, and to achieve mutual benefits. Breier (1955) contends that, like Nurkes, the architects of Bretton Woods argued that the competitive devaluations of 1930s led certainly to the prevalence of exchange control.

3.5.3.4. The IMF and World Bank:

Under the Bretton Woods Agreement the IMF and IBRD were established. Formally introduced in December 1945. Despite the shared similarity between both institutions, globally serving as important pillars for international capital financing and trade activities, the Bank and the IMF remain distinct. the IMF, by intention was not equipped to deal with

the postwar reconstruction problems, but to monitor exchange rates and identify nations that need global monetary support. On the other hand, The World Bank, initially called the International Bank for Reconstruction and Development, was established to manage funds available for providing assistance to countries that had been physically and financially devastated by World War II. Thus, the IMF is considered as a cooperative institution that seeks to maintain an orderly system of payments between nations. But the Bank is primarily a development institution. (Maverick, 2019)

3.5.3.5. The Marshall plan:

On June 05, 1947 the U.S Secretary of state George Marshall suggested a European Recovery plan (ERP). The Marshall Plan, was a U.S. program providing aid to Western Europe following the devastation of World War II. It was created under the Economic Cooperation Act of 1948. The Marshall plan provided Western European countries approximately with \$13. It was created to help European countries enhance and expand their economies, restore their export capacity, and to make economic stability which invisibly lead to political stability. The plan required the members to engage in the liberalization of trade and payments program. For that reason, The Marshall plan is widely credited for the intra-European trade liberalization. Under the Marshall plan the OEEC was established in April 1948, which is responsible with the allocation of aid. (D. Bordo, 1933)

3.5.3.6. The Emergence of the Dollar as a Key Currency:

The convertible Bretton Woods system that began at the end of 1958 differed from the system presented by its architects. At the early periods of the system, Sterling was the dominant currency in the world reserves. But, by the end of 1950s, it was eclipsed by the dollar, and the dollar became key currency of the international monetary system. the US role become so influential in the international monetary order. The reduction of the IMF prestige, the rise of the dollar as a key currency and the decline of the sterling, a

transmission from to a de facto fixed exchange regime, and enhancing capital mobility.

(Eichengreen & Flandreau, 2008)

3.5.3.7. Policy Trilemma and Bretton Woods

Pettinger (2020) states that in trilemma policy the government can only choose two monetary objectives out of three possible choices, fixed exchange rates, Capital mobility, and independent monetary policy. While under Bretton Woods System, the government was effectively choosing to priorities, fixed exchange rates and independent monetary policy. This meant the necessity of capital controls.

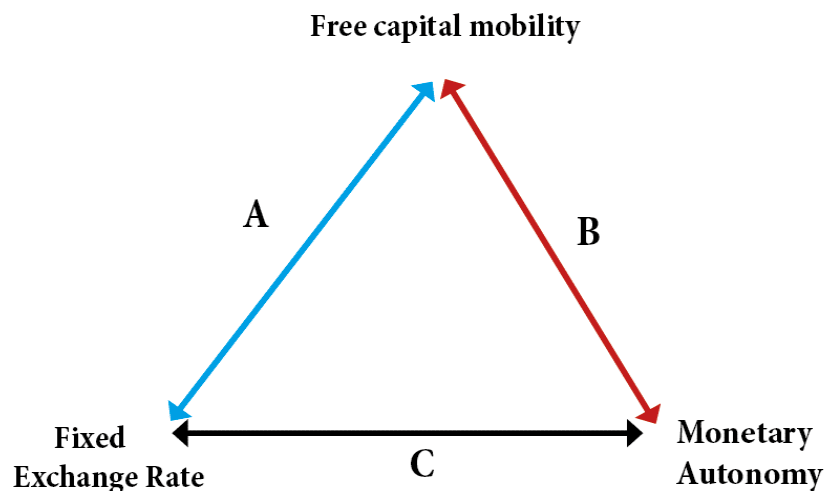


Figure 2. the policy trilemma (Pettinger, 2020)

- (Breton Woods) C = Fixed Exchange rate + monetary autonomy

3.5.3.8. The Bretton Woods System's Collapse:

The system dissolved between 1968 and 1973. The U.S. gold supply was no longer able to cover the number of dollars in circulation . In August 1971, U.S. After a run-in gold reserve, president Richard Nixon announced the "temporary" suspension of the dollar's

convertibility into gold. While the dollar had struggled throughout most of the 1960s within the agreement established at Bretton Woods, this crisis marked the breakdown of the system. An attempt to revive the fixed exchange rates failed. By March 1973 the system had collapsed and the major currencies began to float against each other. Countries were then free to choose any exchange arrangement for their currency, except pegging its value to the price of gold. For instance, they could relate its value to another country's currency or let it float freely and allow market forces to indicate its value relative to other countries' currencies. (Chen, 2020)

The Bretton Woods Agreement remains a significant event in world financial history. The two Bretton Woods Institutions it created in the International Monetary Fund and the World Bank played an important part in helping to rebuild Europe in the aftermath of World War II. Subsequently, both institutions have continued to maintain their founding goals while also transitioning to serve global government interests in the modern-day.

3.5.4. Federal Reserve–Treasury Accord (1951):

Treasury Bills (or short T-Bills) is a short-term financial instrument issued by the United States Treasury with maturity duration varying from a few days to 52 weeks (one year). The Fed was passed by the treasury to keep long term interest rates low to allow the government debt accrued during the war to be financially more cheaply. (Hafer, 2005)

If an investor purchases a Treasury Bill, they lend money to the government. The US government is using the money to repay its obligations and to cover continuing expenditures including salaries and military equipment. T-Bills are offered in amounts ranging from \$1,000 (standard) to \$5 million at most. (Hafer, 2005)

There are many features of these illustrations worthy of note. Real GDP grew rapidly throughout the year preceding the Accord, unemployment dropped sharply, and inflation

rose steadily. After the agreement was formed, the inflation rate stabilized automatically, while the drop in unemployment declined. Interest rates in capital markets have been greatly affected by the deal. Short-term interest rates were set at a steady rate during World War II and the years immediately followed, in order to keep down Treasury borrowing costs. By midnight 1947, The Federal Reserve had been worried about rising inflation as well as the Treasury decided to allow a slightly higher drift of the peg. Such concerns eased shortly when an abrupt tightening of the money supply and a slight recession occurred in 1949. Nevertheless, the beginning of the Korean War in the mid-1950s re-accelerated inflation and GDP growth to a point to which they again caused concern for the Fed. (Federal Reserve Bank of Richmond,2001).

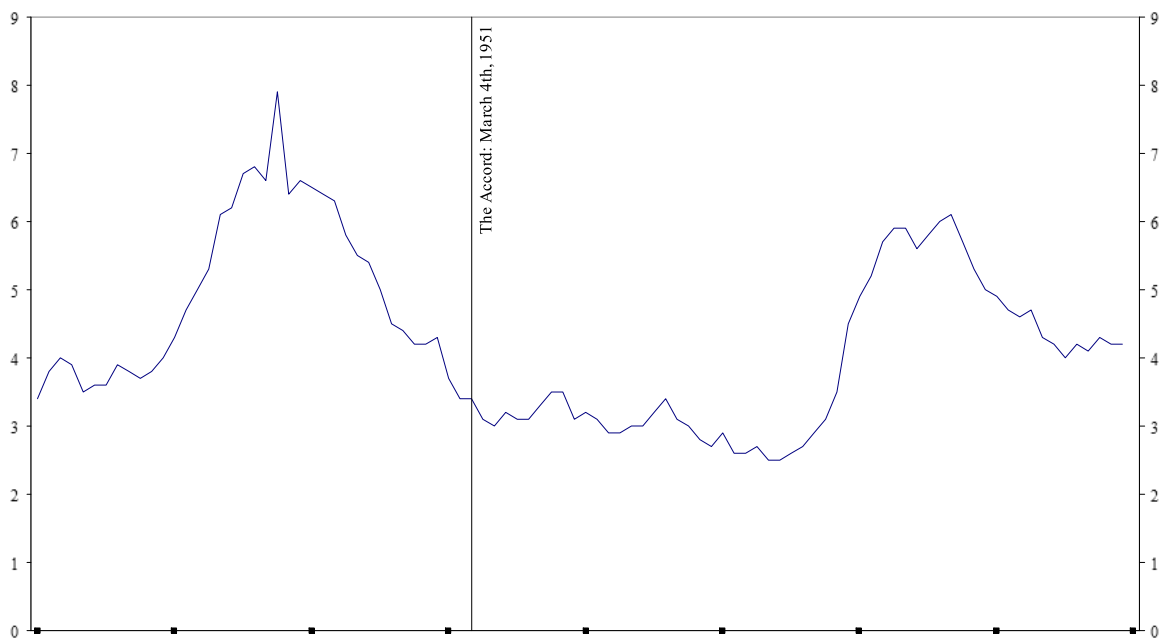
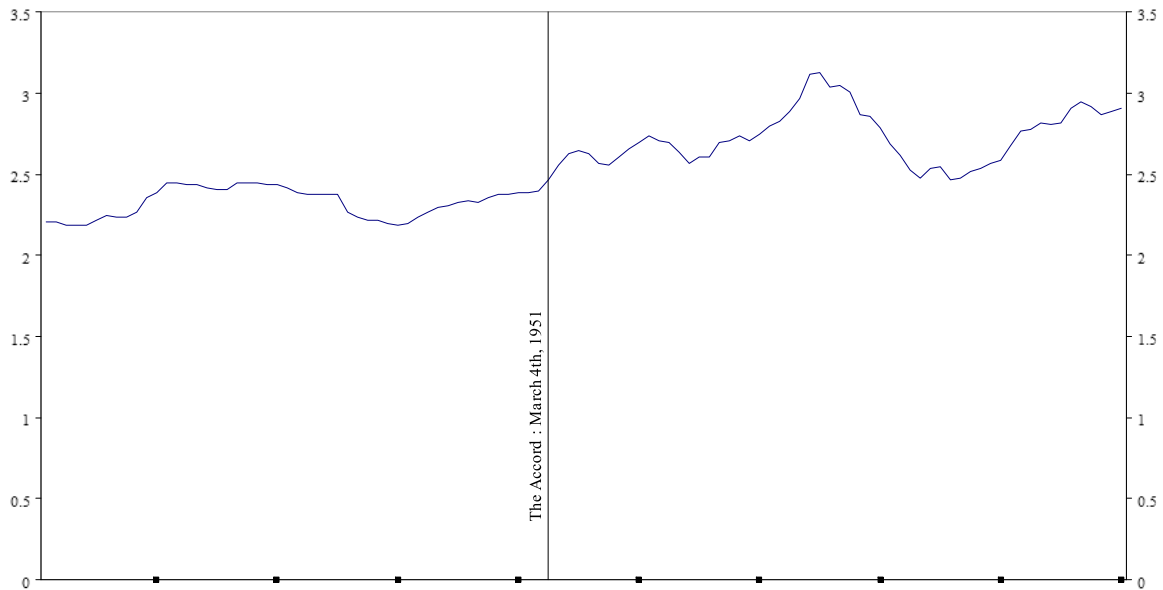


Figure.3: Unemployment Rate (“Civilian unemployment rate,” n.d.)

Long-term interest rates were also influenced by deals reached between the Treasury and the Fed both before and after the Deal. The Fed sponsored a 2.5 per cent interest rate limit on long-term treasury securities prior to the deal. Long-term prices were able to drift

upwards with the introduction of the Compact before the 1953 recession. (Federal Reserve Bank of Richmond,2001).



Note: Treasury long-term bond yields are the unweighted average of yields on all issues of bonds outstanding which are neither due nor callable in less than 10 years.

Figure.4: Yield on Long Term U.S. Government Securities (Federal Reserve Bank of Richmond,2001)

3.6. Conclusion:

It can be deduced that the U.S government jeopardized its economy by following the Protectionism. Furthermore, the U.S government struggled for years in order to overcome the hazard consequences of this crisis. We have taken the most common bills, agreement, laws and acts as data to be analyzed in order to comprehend how the government faced this crisis. Through the analysis of the data, this chapter results in the fact that the US gave up on the Protectionism with its consequences and adopted the modern Liberalism which encourages the free-market and opening up to the world in terms of economical exchanges and trade.

General Conclusion:

The present research is an attempt to investigate, describe and analyze the effect of Adam Smith's economic Liberalism theories on the United States Protectionism and financial regulations. In doing so, we tried to cover all dimensions of Smith economic insights by giving a description and analysis to his book "The Wealth of Nations". In addition, the study defined and explained Protectionism policy tracing its historical background and impact on global trading. Eventually, the research studied the US economy from the early years of 1930s until the post-WII area taking it as a case study, because the US, in this period, witnessed two contradicted economic situations: The Great Depression (1929-1939) and an Economic Boom that took place immediately after the Second World War.

Regarding the Great Depression, the study discussed the main cause that led to the Wall Street Stock Market Crash. It came up that the Smoot-Hawley tariff act contributed to the early loss of confidence on Wall Street. The research also examined the main factors of the post-WII Economic Boom. In response to the unpleasant economic state during the Great Depression, the US Congress passed The Employment Act of 1946 as well as the G.I Bill of Rights and Federal Reserve–Treasury Accord (1951). In addition, The United States decided to make a collaborative global economic through the Bretton Woods Agreement in 1944 under which the IMF and the World Bank were established.

The study revealed the failure of Protectionism policy and the efficiency of trade Liberalization, it also extracted the inverse relationship between them. While Protectionism is regarded as a policy of protecting local industries through imposing high tariffs on imported goods, trade Liberation in contrast regarded as a policy that advocates open marketing and laissez-faire economy.

The nature of the topic itself, the complexity of the US financial system, the rarity of previous studies and lack of required resources on the domain are the main obstacles that confronted us while conducting the research. Furthermore, the current global pandemic prevents us from carrying the study in a more suitable situation. The contribution of this study to the scientific area is that it proved the failure of Protectionism and explained the correlation between trade restriction and trade Liberalization.

Finally, the study in hand recommends future studies to conduct research on the economic implication of rising Protectionism on global trade, taking into consideration the US- Chinese trade exchange as an example.

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الملخص:

تعد نظريات آدم سميث الاقتصادية الليبيرالية مهد الرأسمالية، والتي حتما ألقت بأثرها على عديد دول العالم. وقد جُمعت نظريات سميث في كتابه " ثروة الأمم"، والذي من خلاله أظهر تأييده الكبير للسوق المفتوحة والاقتصاد التنافسي. تهدف هذه الدراسة إلى توضيح آثار نظريات سميث على النظام الاقتصادي الأمريكي بما في ذلك سياسة الحماية الصناعية. وللإجابة على التساؤلات المطروحة في هذه المذكرة، اتبعنا المنهج الوصفي التحليلي بالإضافة إلى المنهج التاريخي بغية تقفي مدى نجاعة ايدولوجيات سميث الاقتصادية على النظام المالي الأمريكي. تسلط الدراسة الضوء على حالة الاقتصاد الأمريكي خلال الكساد الأعظم وكذا ما بعد الحرب العالمية الثانية. وكنتيجة لهذا البحث، فقد اثبتت الدراسة فشل سياسة الحماية الصناعية وفعالية السوق المفتوحة؛ فقد واجهت الولايات المتحدة أكبر أزمة اقتصادية في تاريخها أو ما يعرف بالكساد العظيم، وذلك بتبني سياسات آدم سميث بغية الخروج من الأزمة، والتي كان أحد عواملها الرئيسية سياسة الحماية الصناعية التي أدت إلى سقوط أسهم الـ وول ستريت. ومنه نستخلص أن ايدولوجية سميث الاقتصادية ساهمت وبشكل كبير في نمو وتطور الاقتصاد الأمريكي بعد الحرب العالمية الثانية.