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POWELL: The tempting path of protectionism

Smoot-Hawley ended up burying American exports

By Jim Powell

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The Obama administration is playing with fire when it tries to bully other countries like Mexico and China to satis protectionist interest groups in the United States.

It might be worth recalling how the Tariff Act of 1930 - still the statutory basis of U.S. trade policy - increased cos for consumers and businesses, devastated trade and plunged the Western world deeper into the depression that was already under way. Focused exclusively on domestic politics, President Hoover and members of Congress triggere an international catastrophe.

The story began on Oct. 27, 1928, when Hoover said he would welcome higher tariffs for agricultural commoditie The following year, the House Ways and Means Committee announced there would be hearings so lobbyists could plead for higher tariffs. The announcement set off a mad scramble, and soon it became apparent that higher tariffs couldn't be limited to agricultural commodities. Every conceivable interest group wanted higher tariffs to prevent American consumers and businesses from taking advantage of better values available from overseas suppliers. As historian E.E. Schattschneider warned, "No party that undertakes a revision of the tariff can be confident it won't start a prairie fire."

On June 17, 1930, Hoover signed what became known as the Smoot-Hawley Act. It was named after Utah Sen. Reed Smoot and Oregon Rep. Willis C. Hawley, both Republicans. The law raised import duties an average of 59 percent on more than 25,000 agricultural commodities and manufactured goods. Smoot-Hawley was a factor in the subsequent plunge of the stock market and the doubling of unemployment within a year. More than 60 countries retaliated with restrictions against whichever products would inflict the worst losses on Americans.

Smoot-Hawley outraged people, starting with our neighbors. "The tariff on halibut was doubled, thus offending th eastern provinces of Canada," explained Joseph M. Jones Jr., in his classic study "Tariff Retaliation." "The tariff duties on potatoes, on milk, cream, buttermilk, skimmed milk and butter were all radically increased, thus antagonizing the populations of Quebec and Ontario; the prairie and western provinces were provoked by increase duties on cattle, fresh meats, wheat and other grains; British Columbia and Alberta were infuriated by increases in the duties on apples, logs and lumber." Canadians slapped steep tariffs on U.S. agricultural implements, electrical apparatus, household equipment, cast-iron pipe, vegetables, gasoline, shoes, paper, fertilizers and jewelry - perhap a billion dollars' worth of business down the tubes.

In Great Britain, long the greatest champion for free trade and prosperity, Smoot-Hawley helped provoke a protectionist reaction that led to the Import Duties Act (1932), the country's first general tariff law in more than a century. Part II of the Import Duties Act provided 100 percent tariffs on goods from countries such as the United States that penalized British goods.

Because Smoot-Hawley included cork, which accounted for more than half of Spain's exports to the United States, Spain increased tariffs on American cars by 150 percent, enough to shut American cars out of the Spanish market.

Smoot-Hawley hit Italy's principal exports to the United States, including raw cotton, wheat, copper and leather, a
Italy retaliated by more than doubling its tariffs on American cars. Sales of American cars in Italy subsequently dropped 90 percent. Italy also increased tariffs on American radios more than 500 percent.

France responded to Smoot-Hawley with import quotas that, together with its tariffs, business taxes and other obstacles, shut American goods out of the French market.

Smoot-Hawley affected just about every Swiss export to the United States, watches in particular. A tenth of the Swiss population was involved in the watch business, and 95 percent of Swiss watches were exported. There was popular support for a Swiss boycott aimed at all American goods.

By inflaming nationalist sentiment against the United States, Smoot-Hawley encouraged many governments to retaliate by enacting exchange controls that further throttled trade. By 1935, there were exchange controls in Afghanistan, Argentina, Austria, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Czechoslovakia, Danzig, Ecuador, El Salvador, Finland, Germany, Greece, Hong Kong, Hungary, Iceland, Japan, Latvia, Lithuania
Luxembourg, Mexico, Netherlands, New Zealand, Nicaragua, Paraguay, Poland, Romania, Uruguay, Venezuela a
Yugoslavia.

American farmers, who had lobbied hard for Smoot-Hawley, were among the biggest losers from all this. They sa
their exports plunge from $1.8 billion in 1929 before Smoot Hawley to $590 million just four years later.

Rather then risk setting off another protectionist binge, the United States should pursue genuine hope and change: Begin the process of phasing out Smoot-Hawley and all its costly amendments.

Jim Powell is a senior fellow at the Cato Institute.His next book is "What's Likely to Happen When Government Goes Broke."