

CIRANO Note, prepared by Mathieu Laberge, Project Director, March 2009

### Protectionism in the United States during the 1929 crisis

In the 1928 presidential election, the Republican candidate Herbert Hoover advocated imposing tariffs on agriculture to relieve the glut created by excess production during the postwar years. His assumption of the presidency set the stage for the principal protectionist measure of the Great Depression, the Smoot-Hawley Tariff adopted by Congress in June of 1930.<sup>1</sup>

After consultation, tariffs were hiked by more than ten percentage points—particularly targeting agriculture, tobacco and food, chemicals, and textiles. The *ad valorem* rate rose from 34.61% in 1922 to 42.48% in 1930.<sup>2</sup>

The volume of U.S. imports did not rebound to its 1929 level until 1941, 11 years after adoption of the Smoot-Hawley Tariff. Although the decline in U.S. imports cannot be entirely attributed to these higher rates, there is broad consensus that they exacerbated the depth and duration of the depression. On their own, higher tariffs on U.S. imports would have been responsible for a 4 % to 8 % reduction.<sup>3</sup>

The decline in U.S. imports had far-reaching implications for international trade. In Canada, lumber exports fell by 34 % between 1929 and 1931. This scenario was observed across several other industries, as well: wheat (-3%), seafood (-12%), woollens (-62%), dairy products (-65%) and livestock (-84%).

The adoption of protectionist measures by the United States provided a significant impetus to their spread around the globe after 1930. In that year alone, six general tariffs were revised in Europe. There were adjustments in South America and the Commonwealth (principally Australia, New Zealand and Canada).<sup>4</sup> The year 1931 was characterized by hundreds of tariff revisions. Most such revisions in the 1930–1931 period were upward.

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<sup>1</sup> U.S Department of State, *Smoot-Hawley Tariff* [<http://www.future.state.gov>], consulted February 6, 2009.

<sup>2</sup> Irwin, D.A., *The Smoot-Hawley Tariff: A quantitative assessment in The Review of Economics and Statistics*, (80:2) 1998.

<sup>3</sup> Eichengreen, B., Eichengreen, B., *The Political Economy of the Smoot-Hawley Tariff*, Cambridge (US) : National Bureau of Economic Research, section IV.

<sup>4</sup> Bidwell, P.W., *Trade, Tariffs, the Depression in Foreign Affairs*, (10:3), 1932.

### Analysis of the current situation and similarities with 1929

Fears of resurgent protectionism in the United States of 2009 are based on "Buy American" provisions in President Obama's recovery plan. These provisions appear to violate NAFTA and international trade rules of the WTO. Overturning these measures or obtaining reparations may, however, require several years, causing considerable damage to foreign producers already hurt by an economic downturn.

Some similarity between President Obama's stimulus plan and the protectionist measures adopted by the United States in 1929 are worth noting: (1) In February 2008, in the midst of their presidential campaigns, both Democratic candidates evoked the possibility of reopening NAFTA. Protectionist measures could satisfy an electoral imperative in the United States. (2) Prices of commodities and metals have collapsed recently, providing an incentive for a clause to protect the steel and iron industries. (3) International protests suggest that, following a formal challenge to the Buy American clause, temporary retaliatory measures could be adopted pending a trial.

### Implications for Quebec and general conclusion

If barriers to international trade were to attain their 1929 levels, exports from Quebec to the United States would fall by about \$2 to \$4 billion.<sup>5</sup> This reduction might be concentrated in a few industries already weakened by the economic downturn.

A tariff or a local procurement policy benefits a limited number of local producers while imposing costs that are spread over all consumers. For small open economies—such as Quebec—the net effect of a tariff on imports is always negative. Under these circumstances, the cost borne by society from an overall increase in prices of protected products exceeds the benefit received by domestic producers.

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<sup>5</sup> Based on a 4–8 % decline in U.S. imports and on the value of exports from Quebec to the United States in 2007:

<http://www.stat.gouv.qc.ca>