

The United States and its Progression in Trade

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During the early part of the 20th century the United States and its growing economy was mainly stimulated and advanced by its heavy application of protectionist ideals. Their growing economy was not only “protected” from outside countries and their industries but also it maintained a sense of patriotism that supported its trade policies. Because of such protectionists ideas in the field of trade the government and the nation as a whole was able to increase it’s infrastructure, maintain a sense of stability by not heavily depending on imports, and more importantly was able to advance American industries by supporting their growth and in a sense “nationalizing” them.

The world economy has seen through many years of experience that every nation benefits and contributes from the ability to specialize and trade. Now that we are in a post-protectionist mind set as a nation regarding trade we have been able to establish deeper connections with our world partners, reap benefits such as a diversification of goods that we were unable to consume under our protectionist stance and furthermore put aside more of our national resources by purchasing foreign resources. Although we have these advantages that are very much so affected by the fact that we were a protectionist nation at our beginnings, there are still many people who believe that we should start to head back in that direction. “Despite the logic of specialization and trade, there are still protectionists in some union halls, corporate boardrooms, and the halls of Congress.” There are countless arguments to this stance that are discussed everyday and that might very well be accurate. First of all, there is an argument on the issue of modern day protectionism not based on the economy but rather on a political-military aspect. “In an uncertain world, the political-military objectives (self-sufficiency) sometimes must take precedence over economic goals (efficiency in the use of world resources)”. Their argument is that by introducing protective tariffs into trade policies we as a nation are able to “preserve or strengthen industries that produce the materials essential for national defense.”

The history of the United States and its policies of trade begin and are a direct result of a revolution. The year is 1783 and the American Revolution has ended with the treaty in Paris being signed and ratified. After years of oppression and resentment towards British rule the colonies finally overcame and stood victorious. The question now was who was going to take over and what was going to be done with this fledgling nation? The result was George Washington being elected to become the first President of these United States. The problem was the question of how to found a nation that would be prosperous out of what seemed nothing. To summarize his actions and ideologies especially pertaining to the discussion of trade he chose to implement what seemed the most obvious. The first trade policies of these United States were purposely and consciously the direct opposite of those of Great Britain. After the oppression and war and struggle to become independent everything that hinted to be related to the crown was banished of the thoughts of our founding fathers. Because Great Britain was a prosperous

nation who implemented free trade the United States decided to dismantle this idea and accept a protectionist form of trade policy towards the rest of the world. Thus, George Washington signed the Tariff Act of 1789 and from that point forward only the federal government was given the power to levy tariffs (instead of the separate colonies like they had done in the past). Not only that but this new mandate taxed all imports from 5 to 15 percent. "These rates were primarily designed to generate revenue to pay the national debt and annual expenses of the federal government."

There were many other Tariff Acts that followed such as the act of 1828 and 1832. Beyond that there were protectionist measures taken during the civil war for revenue to support the costs of war. However, one of the most important and influential figures in the history of protectionism in the United States was the 25th President of the United States William McKinley. The last veteran of the American Civil War to be elected, he implemented many measures that resulted in heavy "protection" from outside markets. He is so recognized for this during his presidency that he is known as the "Apostle of Protectionism". His presidency began at the turn of the 20th century, in 1897 to be exact. This was a time in history throughout the world that had just experienced a revolution known as the industrial age. This was a huge advancement throughout developing nations in several aspects including in cultural and socioeconomic progress. Although England was the first industrial nation this movement eventually reached the United States and expanded this nations abilities in many aspects. Now that this nation had received an enormous boost in growth and prosperity McKinley believed there was only one way to further it. McKinley passed one of the most famous tariff acts known as none other then the McKinley Tariff of 1890. This quote taken from a speech that was given by William McKinley on October 4th, 1892 sums up his point of view on the issue of international trade.

"Under free trade the trader is the master and the producer the slave. Protection is but the law of nature, the law of self-preservation, of self-development, of securing the highest and best destiny of the race of man. [It is said] that protection is immoral.... Why, if protection builds up and elevates 63,000,000 [the U.S. population] of people, the influence of those 63,000,000 of people elevates the rest of the world. We cannot take a step in the pathway of progress without benefiting mankind everywhere. Well, they say, 'Buy where you can buy the cheapest'.... Of course, that applies to labor as to everything else. Let me give you a maxim that is a thousand times better than that, and it is the protection maxim: 'Buy where you can pay the easiest.' And that spot of earth is where labor wins its highest rewards."

This tariff was passed before his presidency while he was the head of the Republican Party. The passage of this new law drove the average rate for tariffs on imports to the United States at 48.4%! There were many positives and negatives to these acts, especially pertaining to those that were drastic such as McKinley's. The steep increase in tariffs by the McKinley act had an enormous strain on U.S. farmers, which in one way or another resulted in the Panic of 1893. The opposite could be said by arguing that the protectionist ideology founded, maintained and furthered this country.

This protectionist rally by the government resulted in one of the highest rises to tariff rates in United States history up until the Smoot-Hawley Tariff in 1930. This new passage in 1930 finally caused an upheaval in the protectionism movement. "According to government statistics, U.S. imports from Europe declined from a 1929 high of \$1,334 million to just \$390 million in 1932, while U.S. exports to Europe fell from \$2,341 million in 1929 to \$784 million in 1932. Overall, world trade declined by some 66% between 1929 and 1934." The fact that world trade declined by 66% is astonishing in and of itself. From this arose not a question of what action would be taken but rather yet when the worldwide community would take this action. Almost immediate retaliation by the worldwide community resulted. By this time World War II had just concluded and measures were taken regarding protectionism in the world and especially in the United States. As a result the Bretton Woods Agreement was passed (in the United States) immediately following the war. This established and maintained exchange rates among countries and obligated countries to maintain monetary policies. Through interpretation of the causes and effects it is a definite consensus that each and every act or law had a direct result in the next one. Consequently, history shows that the age of protectionism ends in the United States once the GATT is formed. The GATT is the General Agreement on Tariffs and Trade, which was an agreement between 23 nations including the United States. This agreement broadened the Reciprocal Trade Agreements Act and was based on three principles. First of all, the implementation of equal and nondiscriminatory trade treatment for all member nations. Secondly, the reduction of tariffs by multilateral negotiations and finally the elimination of import quotas. This great advancement was furthered by the World Trade Organization (WTO), as GATT's successor, which is the current authoritative committee for 149 member nations.

Moreover it is important to recognize that a protectionist ideology isn't only enacted through tariffs. There are several ways in which a government can "protect" its nations economy from outside markets. For example, import quotas are also a proponent to restriction in trade. This is because they reduce the quantity and thus increase the market price of imported goods. Besides these two implementations there are also direct subsidies, export subsidies, administrative barriers or Nontariff barriers, anti-dumping legislations, and exchange rate manipulations. All of these in one way or another have been argued to result in protectionism especially in modern times.

Throughout the history of this ideological practice there has been a constant and heated debate over the pros and cons of its application. Although it's still debated to this day there are definite arguments to favor protectionism. First of all, there are current protectionists who support the diversification-for stability argument. This arguments states that for highly specialized economies that are dependent on international markets for their incomes many times fluctuations in world supply and demand can cause declines in export revenues and therefore in domestic income. "Tariff and quota protection are allegedly needed in such nations to enable greater industrial diversification. That way, these economies will not be so dependent on exporting one or two products to obtain the other goods they need. Such goods will be available domestically, thereby providing greater domestic stability." Secondly, many argue that a protectionist policy will increase domestic employment. In the case of an economy that takes part in international trade, exports require spending on domestic output and imports reflect spending to acquire part

of another countries output. “So, in this argument, reducing imports will divert spending on another nations output to spending on domestic output.” The final and probably most frequently used argument is that of the infant industry. New domestic industries require protective tariffs in order to establish themselves. In this case it is these fledgling industries have not had, and if they face mature foreign competition will never have, the chance to make the adjustments and advancements for larger scale and greater efficiency production. “In this view, tariff protection for such infant industries will correct a misallocation of world resources perpetuated by historically different levels of economic development between domestic and foreign industries.”

While protectionists are adamant in their support there still arise downsides to these every point that they try to convey. For example, the diversification-for-stability argument that is used may not be entirely true. “The argument has little or no relevance to the United States and other advanced economies. Also, the economic costs of diversification may be great; for example, one-crop economies may be highly inefficient at manufacturing.” Additionally, the argument for increased domestic employment as a result of protectionism has plenty of shortcomings. “While imports may eliminate son U.S. jobs, they create others. Import restrictions alter the composition of employment, but they may have little or no effect on the volume of employment.” Lastly, reasoning for the infant industry explanation is also not completely viable. “In developing nations it is difficult to determine which industries are the infants that are capable of achieving economic maturity and therefore deserving protection. Also, protective tariffs may persist even after industrial maturity has been realized.

This journey that protectionist ideology has traveled through the pages of American and world history books has shaped and left a mark on our past, our present and most certainly our future. In many respects, this is an economic policy that has for a very long time helped this nation become prosperous even though it wouldn't be successful in present times. After a good amount of research I have been able to establish validity to both the arguments for and against protectionism. Not only that but I also believe that I have been able to concretely establish a sense of importance of this economic ideology in this nations history. The question will arise in the future on whether protectionism is a feasible option in modern day economics and history will answer this question by recounting the story of the United States and its progression in trade.

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