WHY CONGRESS SHOULD FEAR A TRADE WAR

This week the Senate is expected to consider the first of a number of major bills to restrict imports into the U.S. These measures would cost U.S. consumers billions of dollars in higher prices annually for imported products. Moreover, the likelihood of foreign retaliation against American exports could destroy far more jobs than protectionism might preserve.

The danger of a trade war is very real. In 1930, President Herbert Hoover signed the Smoot-Hawley tariff bill in an effort to save U.S. jobs. The results were catastrophic. Between 1929 and 1934, when the bill was repealed, an international trade war caused U.S. exports and imports to fall by 66 percent, pushing unemployment to nearly 30 percent and cutting the Gross National Product (GNP) nearly in half. Today there are over 300 bills before Congress to restrict trade. As in 1930, leading economists and newspapers across the political spectrum strongly oppose this protectionist stampede. And also as in 1930, America's trading partners are beginning to consider retaliation.

Fortunately, many U.S. lawmakers are having second thoughts about protectionism. And for good reason. Import restrictions would cost American consumers dearly. The proposed rollback of textile imports alone could add $28 billion to the cost of textile products. The proposed 25 percent surcharge on imports from certain countries would add nearly $25 billion to the cost of imports. And if shoe imports are cut by 30 percent, as some Congressmen wish, Americans will pay at least $1.3 billion extra for footwear. Other proposals to cut imports have similar price tags.

Advocates of trade restrictions argue that imports cost U.S. jobs. Yet over the last three years net employment in the U.S. has increased by nearly 8 million. Each job "saved" by trade restrictions for an American shoe worker making $15,000 a year would cost consumers $85,000. Jobs of similarly paid textile workers would be "saved" at a consumer cost of between $200,000 to $400,000 per job. Furthermore, jobs protected in one sector would be more than offset by increased unemployment in related firms. Restrictions on textile imports, for instance, could cost 61,000 retail jobs. And domestic content requirements, designed to keep foreign autos out of the U.S. market, could cost some 173,000 jobs for dock workers, long distance truckers, and automobile retail outlets.

Import restrictions would also leave foreigners with fewer dollars to spend on U.S. exports. Embattled American farmers hoping to export their crops would be badly hit, for instance, and 75,000 aircraft workers could find themselves on the unemployment line rather than the assembly line.

If other countries retaliate against U.S. protectionist measures, as seems likely, U.S. exports would suffer a body blow. American farmers have already tasted such reprisals. In 1983, for example, China cut off purchases of U.S. wheat in retaliation for U.S. cuts in Chinese textile quotas. This cost American wheat farmers half a billion dollars in sales. Exports of U.S. goods to the twelve countries most affected by the pending textile legislation amounted to $54 billion in 1984. Protectionist legislation would almost certainly lead to retaliatory action against these substantial U.S. exports, creating unemployment sending an economic shock wave through the midwest. Congressman should remember that a trade war triggered by U.S. protectionism could be far more damaging to America than the breakdown of trade in the early 1930s. Trade is much more important to the U.S. economy today. In 1929, total exports plus imports of all goods and services amounted to just 12.5 percent of the GNP. But in 1984 this figure was 21.6 percent.

The Third World debt crisis would also be intensified by import restrictions. The only way the debtor nations can come up with the dollars necessary to pay interest to U.S. banks is to export. Trade protection enacted by the U.S.--the biggest customer of most of these countries--would push several fragile economies further towards bankruptcy, reducing their ability to buy U.S. goods or make repayments.

Congress is faced with a clear choice on the trade issue. Strong action by the Administration to reduce existing barriers to U.S. exports should continue. But trade restrictions will not help job creation or promote American exports; they will lead only to higher consumer prices and to increased unemployment. Congress must move away from the trade war brink before it is too late.

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For further information:

Robert L. Bartley, "Toying With Depression," The Wall Street Journal, September 5, 1985, p. 32.

Pete du Pont, "The Kamikaze Economics of Protectionism," Policy Review, No. 34, Fall 1985.