

# Understanding Prosperity Through Scarcity, Choices, & Consequences

Background to the Jones Act of 1920, the Smoot-Hawley Tariff Act of 1930, and the North American Free Trade Agreement (NAFTA) of 1990

## Jones Act of 1920

During the first years of World War I, the United States faced issues with importing and exporting goods with Europe. European belligerents focused their commercial shipping on transporting war materials, leaving fewer ships to ferry materials both ways across the Atlantic. As a result, Congress passed the Jones Act in 1920. This law required that all goods carried between United States ports be on ships that were constructed in the U.S., fly the American flag, and be owned and crewed by U.S. citizens or U.S. permanent residents.

Congress passed the law in an attempt to create a thriving U.S.-owned commercial fleet—something the nation lacked during World War I. The government believed this problem posed a national security concern should another major war break out. While the U.S. owned shipping industry grew substantially after the passage of the Jones Act—which is still in effect today—critics have argued that it is a **protectionist law**, or a law that is designed to shield or protect the United States' domestic industries from foreign competition. The concern is that the law has driven the cost of goods up since foreign ships are not able to compete with U.S. ships in order to lower prices. How do you think our country should balance national security with economic prosperity?

## Smoot-Hawley Act

The Smoot-Hawley Act of 1930 raised **tariffs**, or taxes on imported or exported goods, on over 20,000 imported goods to protect American businesses and farmers. It began as a bill to raise tariffs on agriculture, to help the U.S. farm industry that had struggled throughout the 1920s. **Protectionism**, or the desire to shield or protect domestic industries from foreign competition, gained strength after the stock market crash of 1929. By the time the bill passed, it had expanded and placed tariffs not only on agricultural imports, but manufactured and industrial imports as well. The Smoot-Hawley Act increased tariffs on foreign imports to the U.S. by about 20%, making it the second highest tariff in U.S. history.

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The Act was passed despite the protests of some economists and politicians. Foreign governments retaliated against the U.S. by setting tariffs of their own. Increasing tariffs froze global trade and weakened the already struggling world economy. Both U.S. imports and exports declined dramatically and crippled industries.

The high tariffs created by the Smoot-Hawley Act proved to be a disaster. The decline in international trade and rising prices increased the suffering of people living through the Great Depression. Despite this failure, many still believe that tariffs can be beneficial. When might a tariff benefit a country?

## NAFTA

The North American Free Trade Agreement, or NAFTA, created a **trading bloc** between the United States, Mexico, and Canada in 1994. A **trading bloc** is a group of countries that agree to trade freely with each other, by reducing or getting rid of **tariffs**. A **tariff** is a tax on an imported or exported good. As a result of NAFTA, trade more than tripled between the United States, Mexico, and Canada. In the United States, NAFTA lowered prices, particularly on oil. Oil from Mexico was cheaper to import because there were no tariffs. As a result of lower oil prices, food prices and costs of living generally fell in the United States.

NAFTA also affected jobs. Certain industries moved their production to Mexico because it was cheaper to produce their goods there. As a result, some U.S. workers lost their jobs, particularly in manufacturing industries. In addition, the threat of moving business to Mexico also decreased the ability of U.S. workers to demand higher wages in some cases. However, NAFTA also directly supported the creation of new jobs, and the increased trade among the three countries also supported additional jobs. The creation of and the effects of NAFTA are still debated today. Do you think trade agreements like NAFTA are a good idea? Why or why not?