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The tariffs imposed by Donald Trump will have a much more negative effect on the US economy than the Smoot-Hawley Tariff Act of 1930

According to studies, the Smoot-Hawley Tariff Act of 1930 (so named because it was an initiative of Senator Reed Smoot and Representative Willis C. Hawley) had the effect of sharply reducing US imports (by between 15% and 32% depending on the study) and sharply reducing economic activity.

We believe that the tariffs imposed by Donald Trump will have a more pronounced effect, with, in particular, a strong impact on US inflation. Indeed:

- The US economy is now at full employment, whereas from 1930 to 1932 there was high unemployment, so it is now difficult to relocate production to the United States;
- The proportion of US GDP accounted for by trade is much higher today than it was in 1930;
- The weight of emerging countries (with low wage costs) was low in 1930; their high weight today implies a greater inflationary effect of tariffs if imports are reduced;
- Companies' production is now organised into global value chains, which are difficult to modify.

All these differences between the 1930s and today imply that we can expect a greater negative effect on economic activity and, above all, a bigger rise in inflation today than after the Smoot-Hawley Tariff Act.

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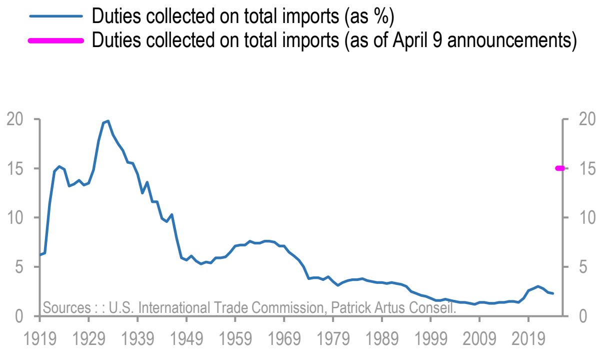
The Smoot-Hawley Tariff Act

It is legitimate to compare the tariffs introduced in 1930 in the United States (the Smoot-Hawley Tariff) with the tariffs introduced today by Donald Trump, because they are approximately the same size (22.5 points of tariff increases in the 2 April version, which would bring the tax on US imports to around 25% today; 12.5 points of tariff increases in the 9 April version) and because they affect all countries (**Chart 1**).

Chart 1
United States: Duties collected on total imports (as %)



Available studies[1] show that the tariffs imposed by the Smoot-Hawley Tariff Act significantly reduced US imports (by 15% to 32%), and since 25 countries increased their tariffs in 1930, there was an overall reduction in world trade and growth, which was already depressed. It was not until 1934 that President Franklin D. Roosevelt lowered the tariffs that the United States imposed on its imports and returned to a policy favourable to free trade.

We will show that the structural differences between the US economy in 1930 and the US economy today mean that we must now fear not only the recessionary effect of the tariffs introduced by Donald Trump's administration, but above all their inflationary effect.

What are the structural differences between the United States in 1930 and the United States today?

1. Unemployment in the 1930s, full employment today

Unemployment was much higher in the US in the years following 1930 (8% in 1930, 16% in 1931, 23% in 1932) **than it is today** (4.1% in February 2025).

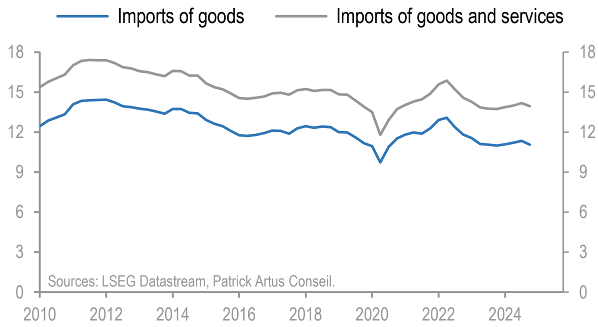
This implies that at the beginning of the 1930s, there was a workforce available to work in companies that were located in the United States, and not abroad, **whereas today, the situation of full employment implies that it will be difficult to relocate industrial jobs to the United States**. As a result, the positive effect on investment of the tariffs imposed by Donald Trump is likely to be low, while their inflationary effect is likely to be high.

[1] For instance, Douglas A. Irwin; The Smoot-Hawley Tariff: A Quantitative Assessment. *The Review of Economics and Statistics* 1998; 80 (2): 326–334. doi: https://doi.org/10.1162/003465398557410

2. Imports account for a much higher proportion of GDP today than in 1930

In 1930, US imports represented 6% of GDP, and in 1931 and 1932, 5% of GDP, whereas today their weight is 11% for imports of goods and 14% for imports of goods and services (Chart 2).

Chart 2
United States: Imports of goods and services
(as % of nominal GDP)



This implies that high tariffs will have an effect, either on domestic production (if domestic production is substitutable for imports), or on inflation, which is higher today than in 1930.

3. Low weight of emerging countries in imports in 1930, high today

In 2024, US imports totaled $3,296 billion (**Table 1** shows the breakdown of imports by main trading partner).

Table 1 : United States: Imports (2024)

Country	Imports (USD bn)	Imports (as % of total imports)
Mexico	505.85	15.35
China	438.95	13.32
Canada	412.70	12.52
Germany	160.44	4.87
Japan	148.21	4.50
Vietnam	136.56	4.14
South Korea	131.55	3.99
Indonesia, Malaysia and Brazil	122.94	3.73
Ireland	103.29	3.13
India	87.42	2.65
United Kingdim	68.08	2.07
Thailand	63.33	1.92

Source: LSEG Datastream

Emerging countries account for a very large proportion of total US imports, whereas in 1930, the United States' main trading partners were **Europe, Asia, North America (Canada, Mexico and Central America) and South America** (**Table 2**).

Table 2: United States: Imports of merchandise distributed by continent (1930)

Continents	Imports (millions of dollars)	Imports (as % of total imports)
Europe	911.27	29.77
Asia	854.07	27.90
North America	761.71	24.89
Canada	414.36	13.54
Mexico and Central America	347.36	11.35
South America	433.52	14.16
Africa	67.55	2.21
Oceania	32.79	1.07

Source: U.S. International Trade Commission

If the weight of imports from emerging countries is reduced today by tariffs, inflation will rise today because imports from emerging countries have low prices (**Table 3**).

Table 3: Statutory nominal gross monthly minimum wage as of december 31, 2024 (USD)

Country	Monthly minimum wage (USD)
India	55
Vietnam	195
Thailand	244
China	266
Mexico	354
United States	1257
South Korea	1497

Source: LSEG Datastream

4. US companies have organised global value chains

Companies in advanced countries have organised their production into **global value chains** (the production of a good is segmented between different countries according to production costs, labour resources, raw material resources, etc..). **These value chains** are very difficult to change because changing global value chains means destroying production capacity in some countries and rebuilding it elsewhere (in the United States, in the case of relocations).

If global value chains are difficult to change, the main effect of tariffs will be to raise the price of imports.

Summary: a comparison of the Smoot-Hawley Tariff and the Trump Tariff shows that we should expect a surge in inflation today

Compared to the situation in 1930, one can observe today in the United States:

- Almost full employment;
- A significantly higher share of trade in GDP;
- A major role of emerging countries in U.S. imports;
- The organisation of production into global value chains.

This implies that the inflationary effect of the tariffs decided by Donald Trump will be high because of:

- The situation of full employment;
- The high weight of emerging countries in US imports, which means that if US imports from emerging countries with low production costs fall, the price of goods in the US will rise;
- The difficulty of modifying global value chains, and therefore of relocating production to the United States, which implies a slight fall in the volume of imports but a sharp rise in their prices as a result of tariffs.

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