

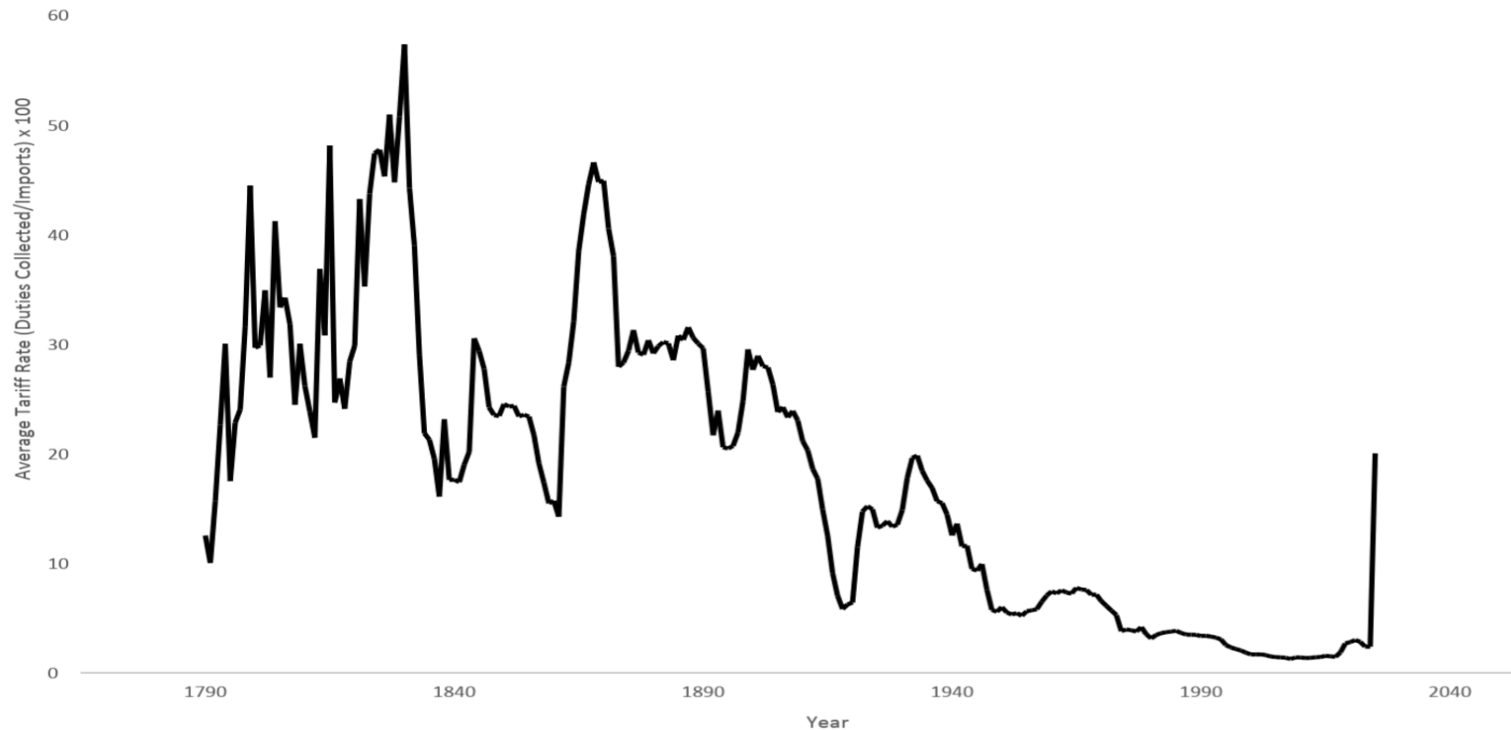
# Trump's Tariffs Repeat a Plethora of Historic Mistakes

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Hoover Economic Policy Workshop

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# Average U.S. Tariff Rate, 1790 to Present



Sources: 1790-2000: Historical Statistics of the United States; (20001-2024): U.S. imports for consumption, duties collected, and ratio of duties to value, 1891-2024 (Table 1) US International Trade Commission. 2025: author's estimate

Chris Meissner, *From One to Many: The Global Economy Since 1850*,  
Oxford University Press, 2024

# Ignoring an Abundance of Historic Analogies

- Trump is a mercantilist who views the world as a zero-sum game
- He wants to restore U.S. manufacturing as it was in the mid-20<sup>th</sup> C
- He believes in import substitution like Nehru's India and Prebisch of Argentina
- Like Smoot-Hawley, Trump's tariffs provoke retaliation and threaten global recession
- In limited government 19<sup>th</sup> C, tariffs were primary source of revenues and used as protection; accentuated schism between North and South
- Introduction of income tax (1913) in response to inefficiencies of tariffs
- Trump aims to end 2<sup>nd</sup> era of globalization that has featured emergent power China and hollowing out of U.S. manufacturing
- This will isolate U.S.

# Trump's Compounded Misguidance and Miscalculations

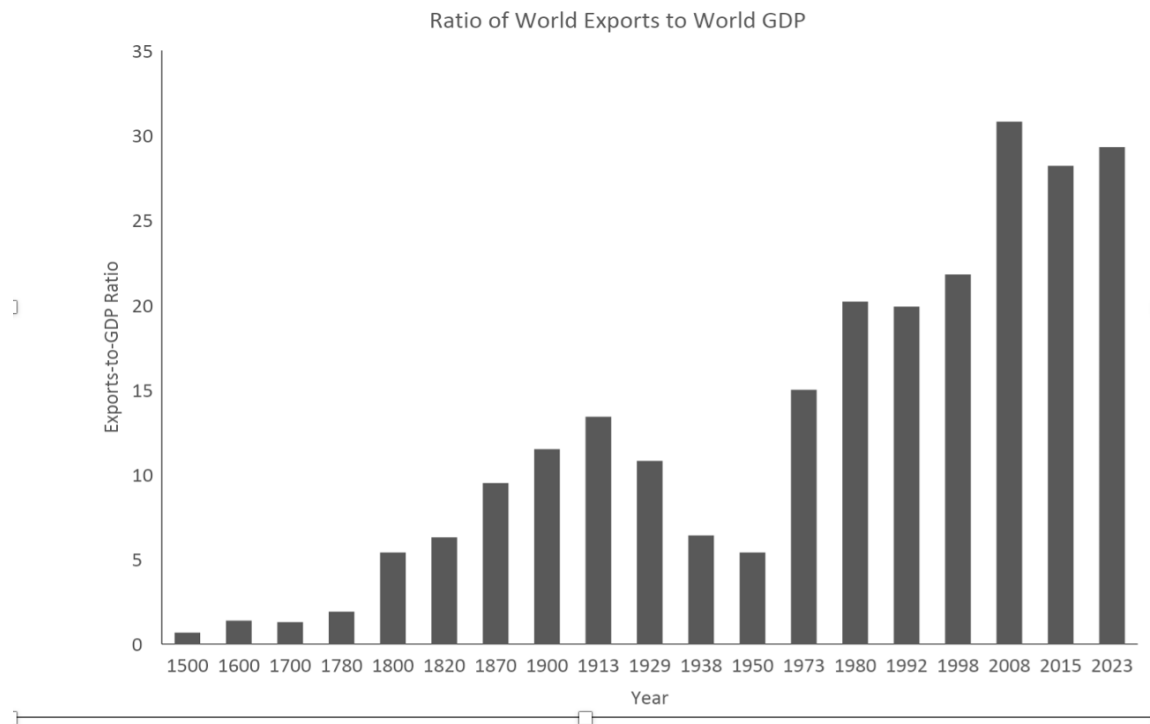
- Doctrines of mercantilism, perception of world as zero-sum game and maximizing balance of trade surplus refuted by Adam Smith's *Wealth of Nations* and Ricardo's Law of Comparative Advantage
- Infant industry argument (Hamilton) led to protected monopolies and rent seeking
- Tariffs' revenues would be insufficient to finance current deficits and would harm economy and generate significant inefficiencies
- Hope of returning to mid-20<sup>th</sup> C era of labor and capital-intensive U.S. manufacturing makes no sense—ignores technological advances and evolving U.S. comparative advantages and services replacing goods
- The U.S. benefits from intl trade and relies on capital inflows to finance innovations; tariffs address symptoms and not causes of U.S. problems

# Historical Perspective: 1<sup>st</sup> Era of Globalization

- Free trade movement in UK (repeal of Corn Laws in 1846 and Cobden-Chevalier Treaty of 1860), rise in intl trade benefit UK, Europe, U.S.
- U.S. ran large trade and current account deficits during industrial revolution 1865-1914 when rapid growth was driven by capital investment, productivity, and immigration
  - Imports of capital goods and financial capital inflows were critical to economic progress
- Pre-WWI backlash: U.S. workers felt threatened by immigration; Europe landowners threatened by New World agriculture
- Lead to tariffs and restrictions on immigration (U.S., Canada, etc.)

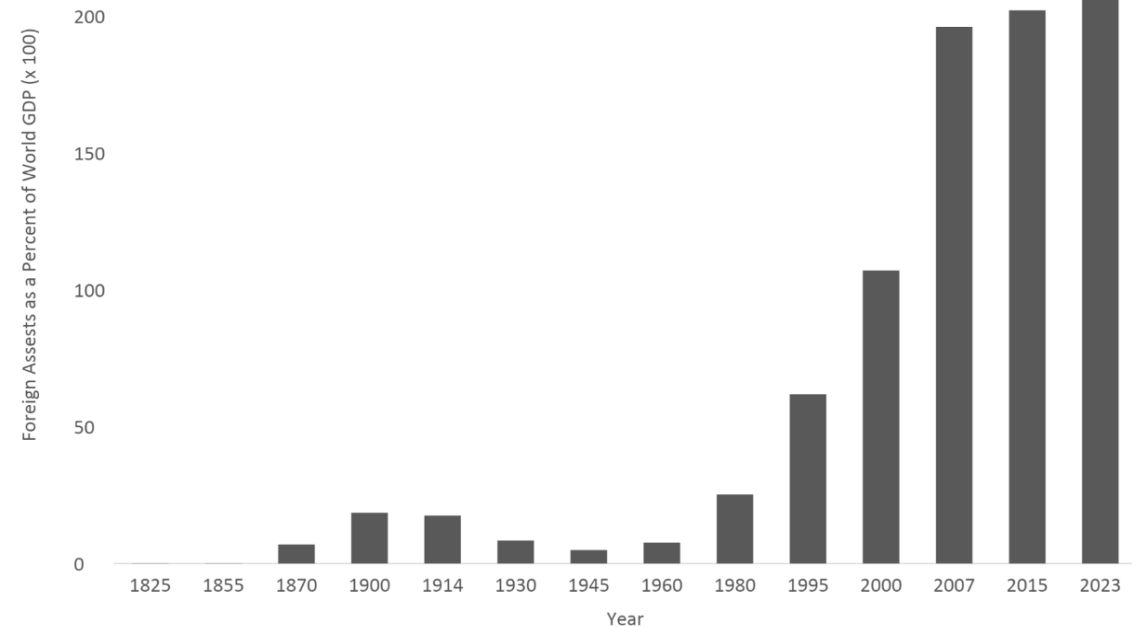
# Globalization in trade and capital

World Exports/World GDP , 1500 - 2023



Chris Meissner, From One to Many: The Global Economy Since 1850, Oxford University Press, 2024

Foreign Assets/World GDP, 1825-2023

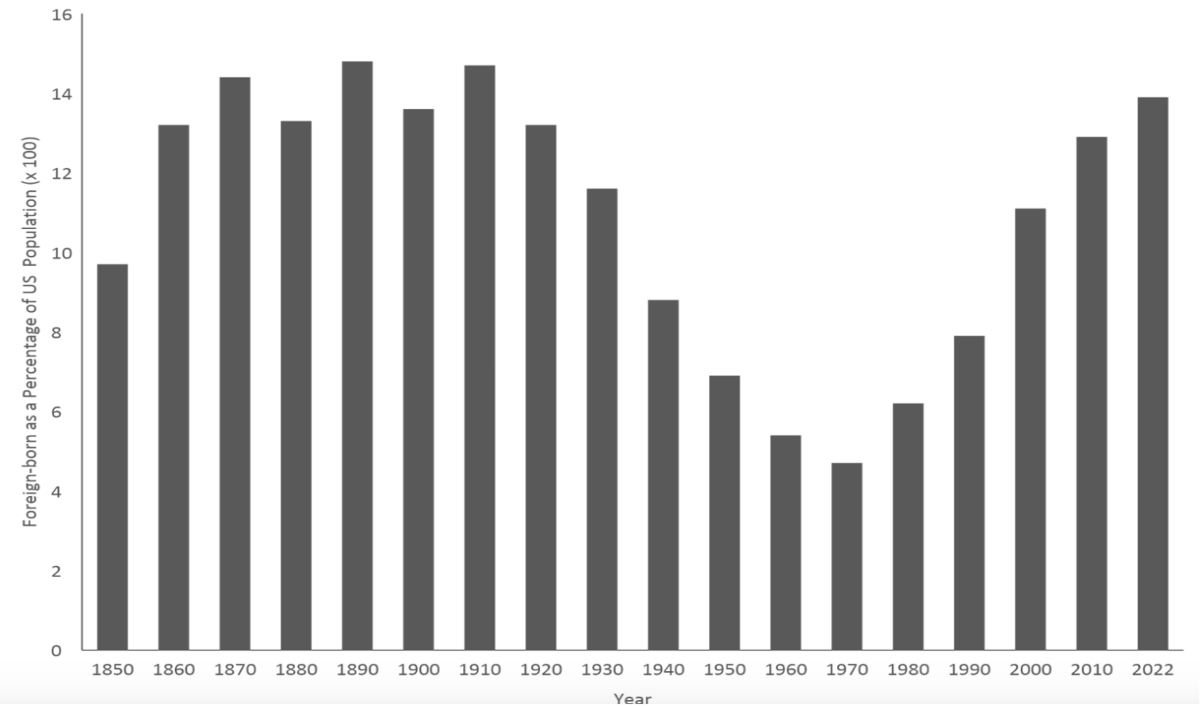


Chris Meissner, From One to Many: The Global Economy Since 1850, Oxford University Press, 2024

# Foreign Born Share of U.S. Population

- In addition to tariffs, will Trump's immigration policies end the era of rising foreign-born share of U.S. population?

Foreign Born in the US (share of population), 1850 - 2022



Chris Meissner, From One to Many: The Global Economy Since 1850, Oxford University Press, 2024

# International Trade Interrupted

- Capital controls and other restrictions during WWI
- Post WWI: Fordney-McCumber Act of 1922 (14% on all U.S. imports) and then Smoot-Hawley (20% high)
- Leads to retaliation by Canada and creation of new trading blocs that exclude U.S. (Ottawa Agreement of 1931)
- Great Depression and collapse in global trade

# Second Era of Globalization

- Booming trade and global growth; U.S. advances
- U.S.-led intl reforms: GATT, Bretton Woods, IMF, World Bank, WTO
- Notable departures:
- Import substitution (Raul Prebisch of Argentina)--Latin America's economies stagnate under tariffs
- Ditto India and select other Less Developed Countries (LDCs)
- Their economies floundered

# Trump's Policies Aim to Change World Order

- In addition to tariffs, Trump favors intervention into markets to achieve desired outcomes for US dollar and interest rates
- Wishes to maintain USD as world's reserve currency but favors a weak USD to aid U.S. exporters
- Favors low bond yields and wants ability to influence Federal Reserve
- Such interventions would involve costly distortions and uncertainties
- Changes in U.S. policies and tone alter perceptions of U.S. and its global role:
  - Cuts in U.S. subsidies to European defense and soft-dollar subsidies to LDCs
  - Belligerence toward allies and U.S. backing out of global trade agreements
- New world order; new alliances would form, isolating the U.S. as they did in 1930s

# Tests for Economy, Markets and Credibility

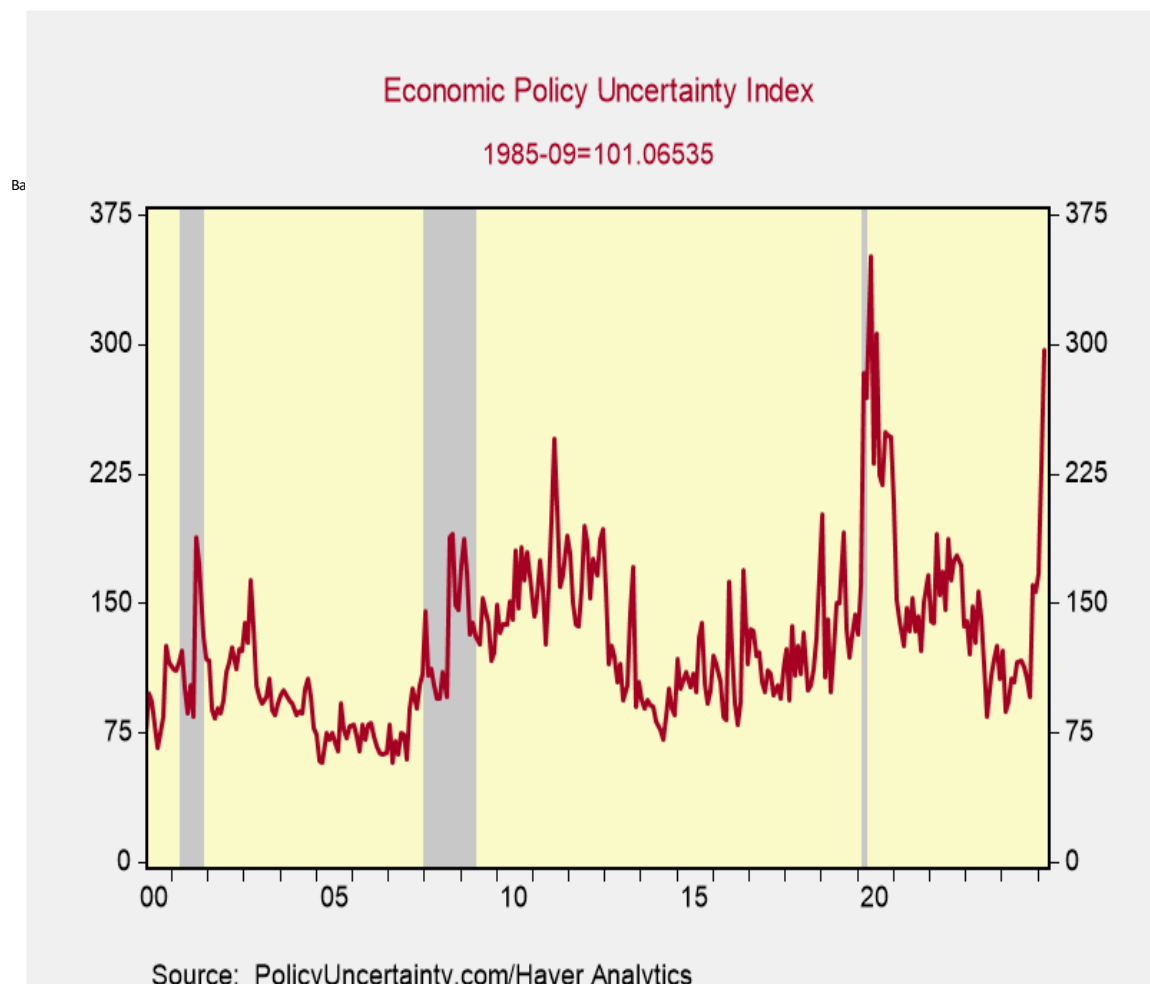
- Markets appropriately price in expectations of U.S. recession and lower profits
- Current tariffs on imported goods = \$820 bil or 2.8% of current GDP (145% on China minus iPhones, etc.; 10% on global; 25% on steel + aluminum; 25% on autos)
- Impacts on real economy more than tax of same amount, reflecting heightened uncertainties + supply chain disruptions + retaliation
- Trump's erratic behavior and policymaking has spiked harmful uncertainty about path of policies and economic & inflation impacts
- Potential large impacts on small and private businesses

# Effective Tariff Rates and Uncertainty

Average Effective Tariff Rates By Country of Origin

Origin Country	Import Share	Tariffs 2024	January-March 2025	All 2025 Tariffs (Including April 9)
EU	18.5%	1.2	4.4	10.0
Mexico	15.5%	0.2	10.4	10.4
China	13.4%	10.7	31.4	135.9
Canada	12.6%	0.1	8.6	8.6
Japan	4.5%	1.5	10.4	15.8
Vietnam	4.2%	3.9	6.4	15.3
South Korea	4.0%	0.2	10.8	15.4
India	2.7%	2.4	4.1	11.2
UK	2.1%	1.0	6.3	12.1
Switzerland	1.9%	0.6	1.0	6.7
Thailand	1.9%	1.6	3.9	12.6
Malaysia	1.6%	0.6	3.5	10.2
<b>AETR</b>	<b>100.0%</b>	<b>2.3</b>	<b>9.9</b>	<b>27.5</b>

Marina Azzimonti, et al, Tariff Update: Incorporating the April 9 Announcements, Federal Reserve Bank of Richmond



# Tariffs on Collision Course with Fed's Dual Mandate

- Hits to real C & I harm economic growth, raises unemployment rate
- Raise general price level but doesn't add to persistent inflation unless inflationary expectations rise and become embedded
- Tariff harm to economy lowers real expected rates of return and real interest rates
- This raises Fed's current real policy rate
- Fed should not respond to policy-induced negative shock and resist pressure to do so ([“A Trade War Puts Pressure on the Federal Reserve”](#), Wall Street Journal, March 16, 2025)
- But most likely it will lower interest rates in response to higher unemployment
- Trump's threats to Fed's independence exacerbate situation

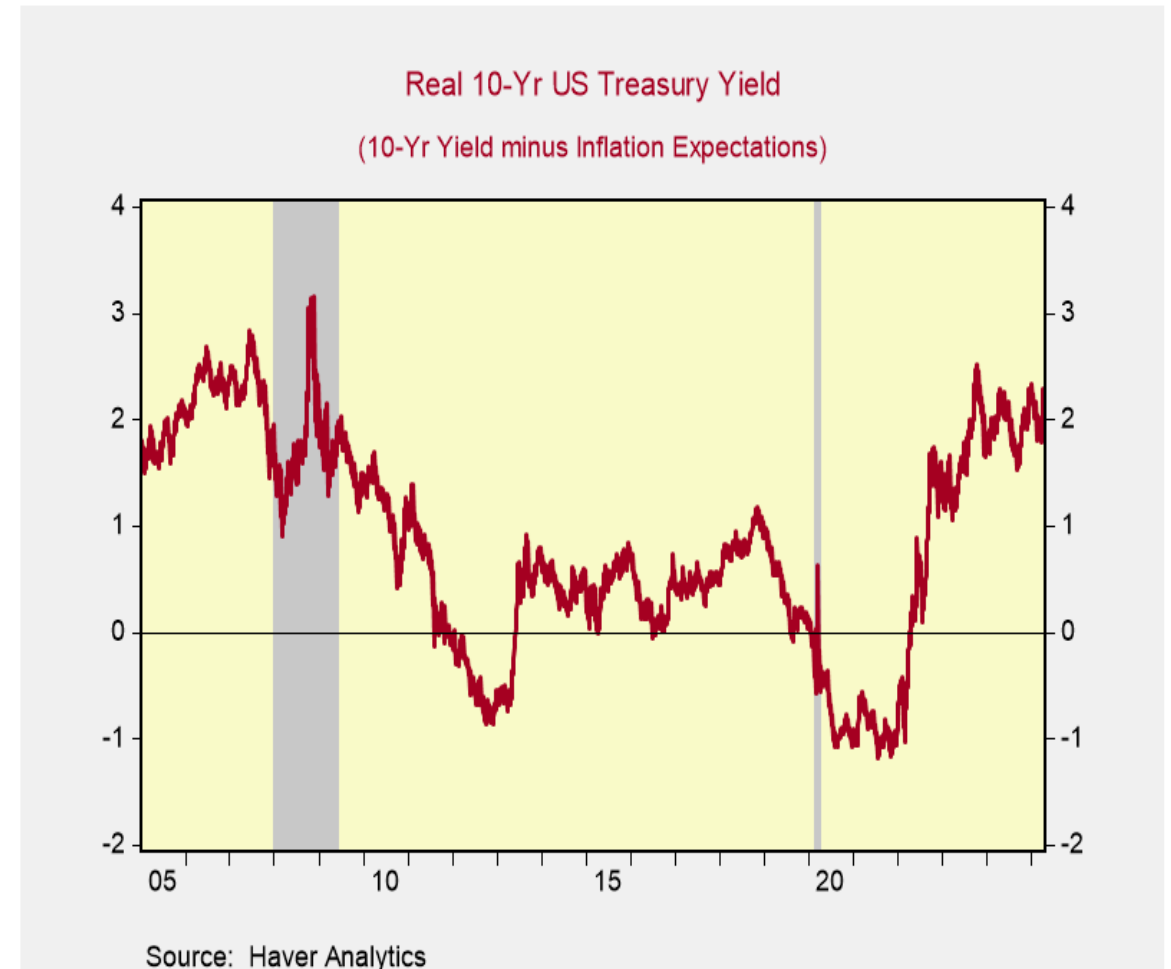
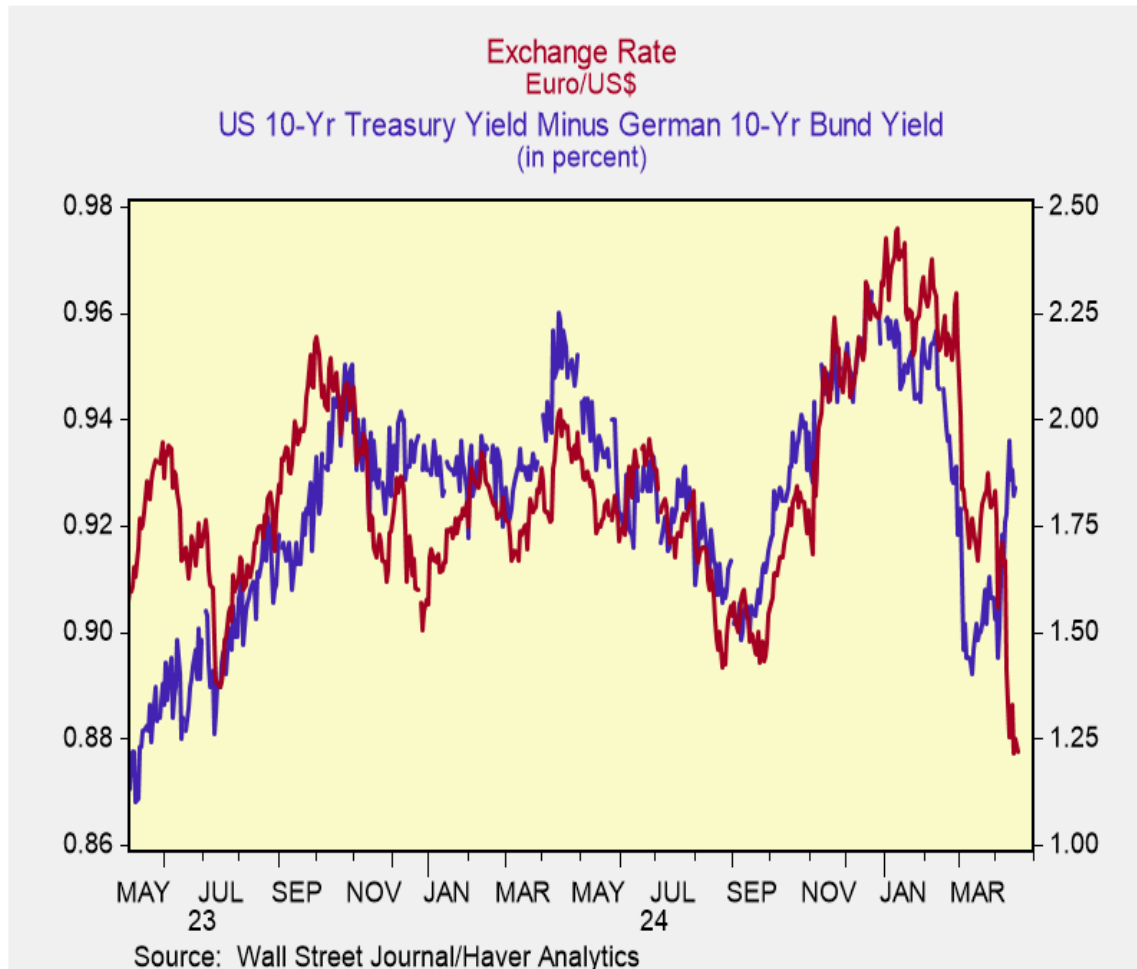
# U.S. Credibility and Fiscal Burdens: A Vulnerable Weak Link

- Concerns about loss of U.S. government credibility/reliability and rising U.S. debt burdens are a potentially a toxic mix
- A material loss in credibility could jeopardize U.S. Treasuries as a safe-haven asset, putting U.S. debt and current account deficit at risk
- The loss of credibility reduces risk-adjusted expected rates of return on USD-denominated assets and has resulted in a falling USD
- Expectations of lower USD and loss of U.S. credibility may reduce demand for US Treasuries at same time Treasury issuance is rising rapidly and the Fed is gradually reducing its ownership of Treasuries

# Credibility and Market Behavior

- Foreigners own  $1/3^{\text{rd}}$  of all outstanding publicly-held debt
- Market and real U.S. Treasury yields remain higher than other leading sovereign debt, but
- The sharp declines in the USD and recent spike in Treasury yields are potentially alarming
- Exorbitant privilege could go in reverse
- It takes a long time to build reputation and credibility but little time to destroy it (Ben Franklin)
- Highly undesired outcome if Fed is forced to stabilize markets

# Interest and Exchange Rate Conditions



# Scenario Analysis

- Scenario 1. **Best outcome: mild negative.** 10% tariffs, negotiations reduce tariffs and trade barriers, economic slowdown/mild recession (prob=15%)
- Scenario 2. **Less-Worse Case:** current tariffs (roughly 25%), moderate retaliation and recession; ongoing uncertainties & distortions to production => moderate hit to longer-run potential growth (prob=70%)
- Scenario 3. **Worse case:** 25% tariffs + loss of U.S. credibility and reputation lead to U.S. Treasury debt and financial crisis with sizable stock declines; U.S. isolation and material harm to potential (prob=10%)
- Scenario 4. **Worse-Worse case:** Scenario #3 plus trade war with China escalates plus U.S. deports millions of immigrants and severely cuts U.S. government funding of research and Trump continues to pressure Fed...U.S. exceptionalism erodes sharply (prob=5%)
- Probabilities are speculative and subject to change