

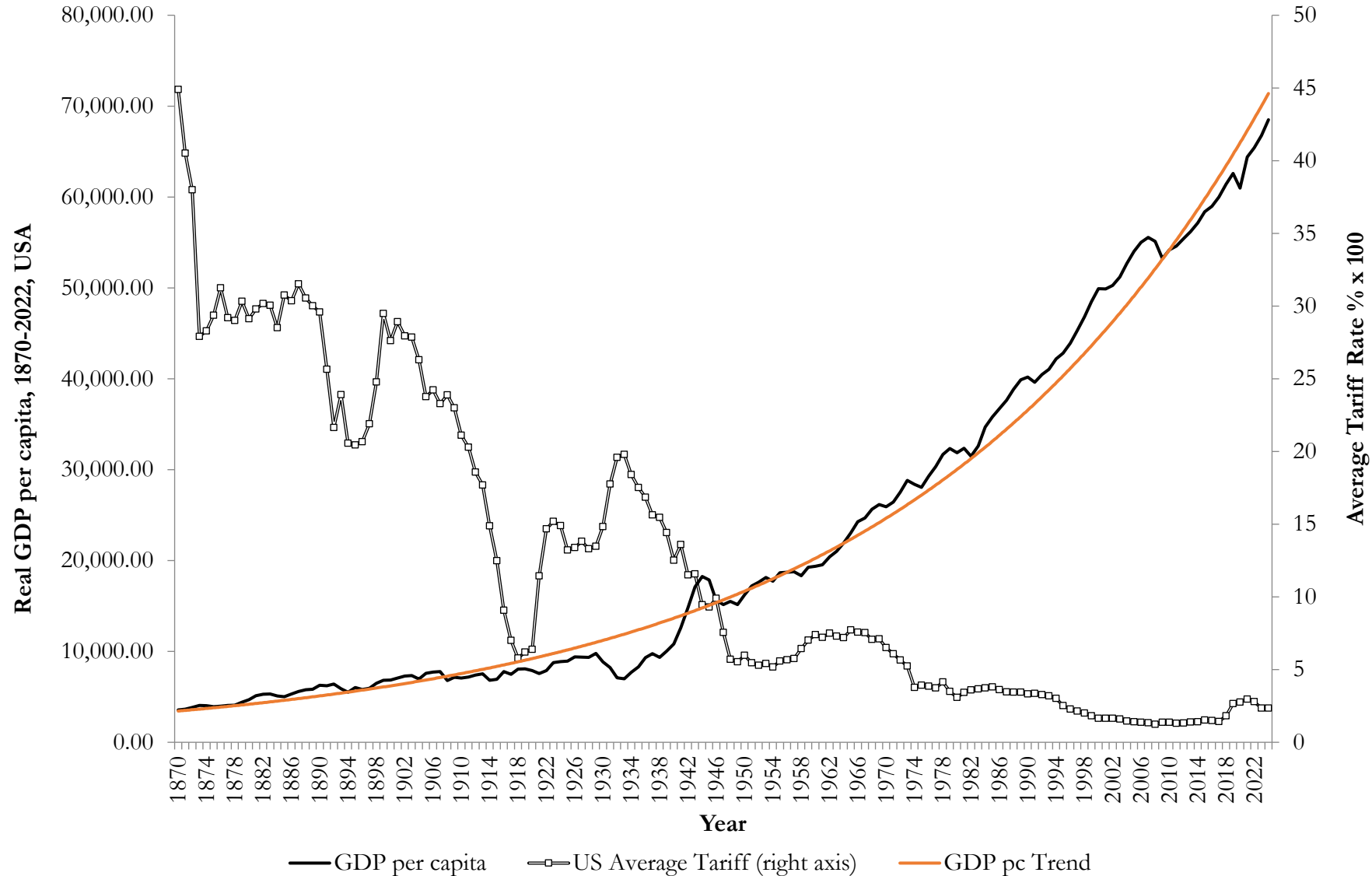
Tariffs, Trade Wars, and Economic Policy in Historical Perspective

Christopher M. Meissner
(University of California, Davis & NBER)

Introduction

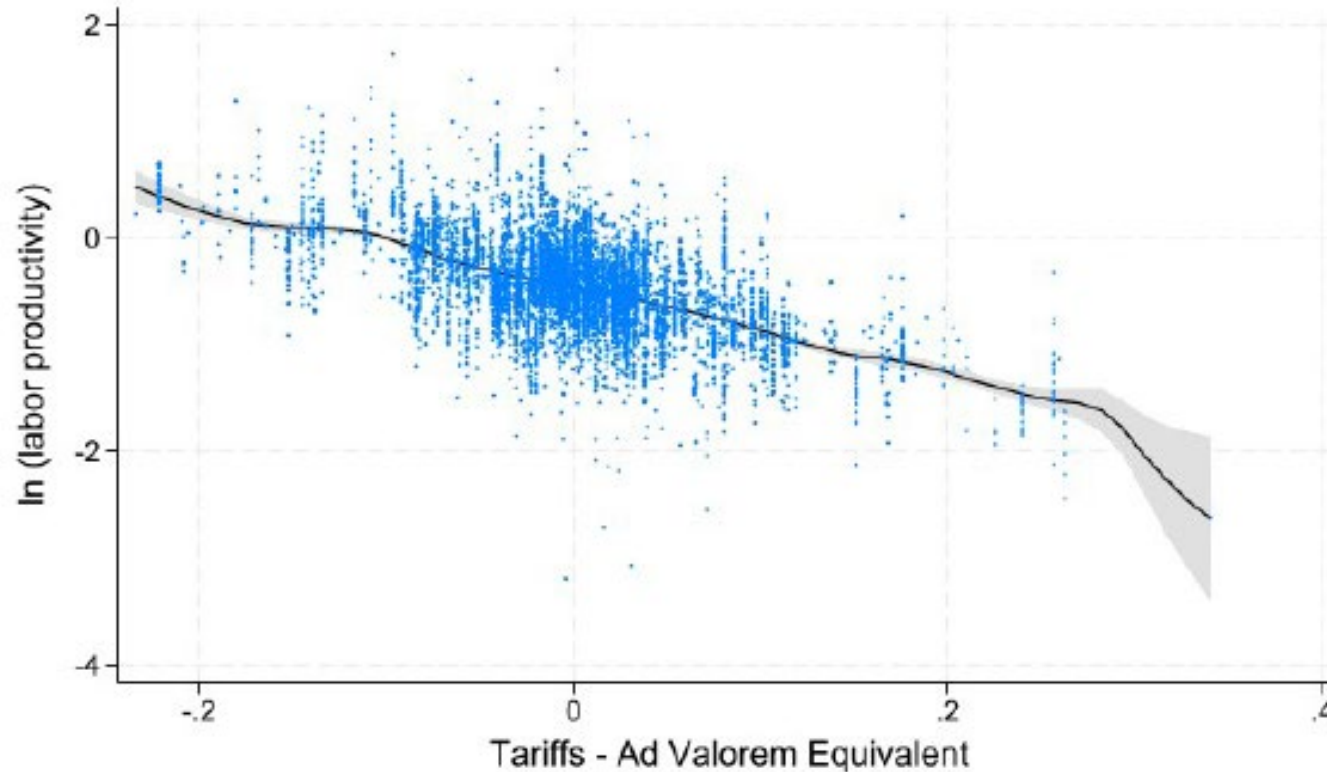
- Observation # 1: tariffs and trade costs make countries poorer while openness to global markets makes countries richer
- Observation #2: Trade wars are losing propositions and have been for over 200 years
 - As a means to gaining leverage, integration can be as or more successful than sanctions and protracted conflict
- Scenarios for the American and global economy
 - Most likely outcomes: higher prices, lower employment, lower investment and consumption
 - Best case scenario: re-boot of globalization with better terms for the US

The US has gotten richer as tariffs declined



Source: Author's calculations from Historical Statistics of the United States.

US industries with higher tariffs were less productive, 1870 - 1900



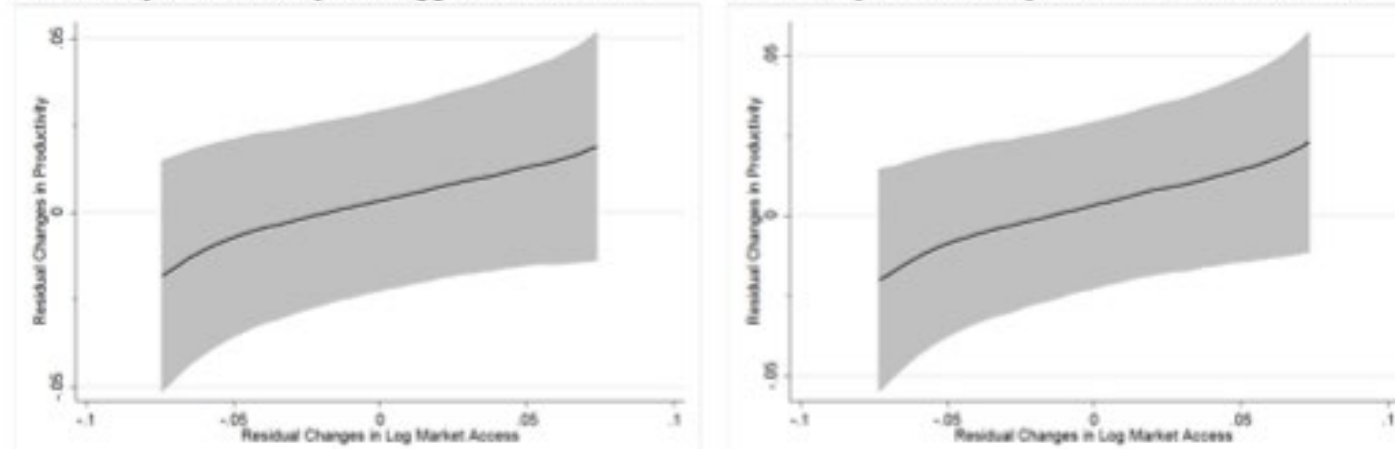
Source: Klein, Alex and Meissner, Christopher M. "Did Tariffs Make American Manufacturing Great? Evidence from the Gilded Age. NBER working paper 33100 <https://www.nber.org/papers/w33100>

Tariffs and American Economic Development

- The US was not “at its richest” in the 1880s and 1890s under a regime of high tariffs
 - 19th c. tariffs were about lobbying *not* about focused industrial policy
 - Automobile industry c. 1900 was sheltered and “US (auto) engineers and designers continued to address into the twentieth century problems already solved in Europe,” attributing this backwardness to “lack of market integration and competition compared to Europe...and the 45% protective tariff ”(Foreman-Peck, 2019)
 - Literature argues: without tariffs the US would have developed in a very similar way
- America grew rich despite its high tariffs. Growth more due to abundant natural resources, innovative activity, industrial clustering, and significant immigration.

US counties with better “market access” were *more* productive

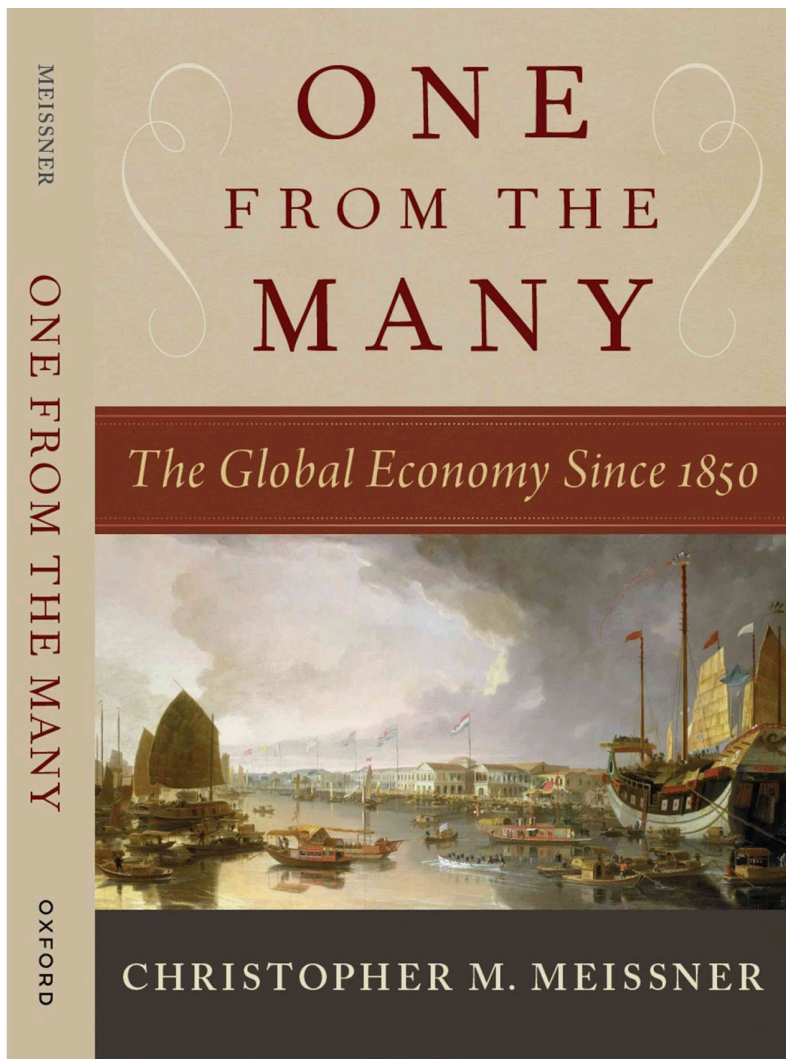
**Figure 4. Local Polynomial Relationships Between Productivity and Market Access,
Using Approximated Market Access and Model-Defined Market Access**
A. County Productivity and Approximated MA B. County Productivity and Model-Defined MA



Source: Hornbeck, R. and Rotemberg, M., 2024. Growth off the rails: Aggregate productivity growth in distorted economies. *Journal of Political Economy*, 132(11), pp.3547-3602.

The First Wave of Globalization

Globalization 1.0



"Meissner provides an impressive tour d'hORIZON of the world economy over the past century and more, covering both international finance and trade. Students and scholars will learn and profit from this succinct and informative book."

—**Douglas A. Irwin, Dartmouth College**

"This excellent book covers the long sweep of the history of globalization from a well-researched, state-of-the-economics-art perspective. It will be the standard reference on this subject for a generation."

—**Michael D. Bordo, Rutgers University**

"At a moment of intense debate about the future of globalization, Meissner has written an elegant and comprehensive history of the phenomenon, based on sound economic theory, that explains powerfully and convincingly the ways in which the present is shaped by institutions and developments of the past."

—**Harold James, Princeton University**

Amid a recent surge in arguments that the global economy has begun to "de-globalize," a question has emerged: will globalization survive? In *One from the Many: The Global Economy Since 1850*, Christopher M. Meissner argues that based on the long-run of history, globalization will not be easily vanquished.

This brief introduction to the economic history of the global economy and the process of globalization since 1850 tracks and explains changes international trade, migration, and capital flows over time. A long-run view suggests that rising integration and growth of the global economy can generate economic benefits and raise welfare. However, globalization can only survive if humanity continues to recognize its common interests and the untapped potential of further integration. At the same time, the potential adverse effects of greater integration must be acknowledged, mitigated, and minimized. Meissner's brief history of the global economy offers economics, political science, and history students a new perspective on the history of its subject matter, with an eye on a future where globalization has the potential to persist as an integrative force.

CHRISTOPHER M. MEISSNER is a professor of economics at The University of California, Davis.

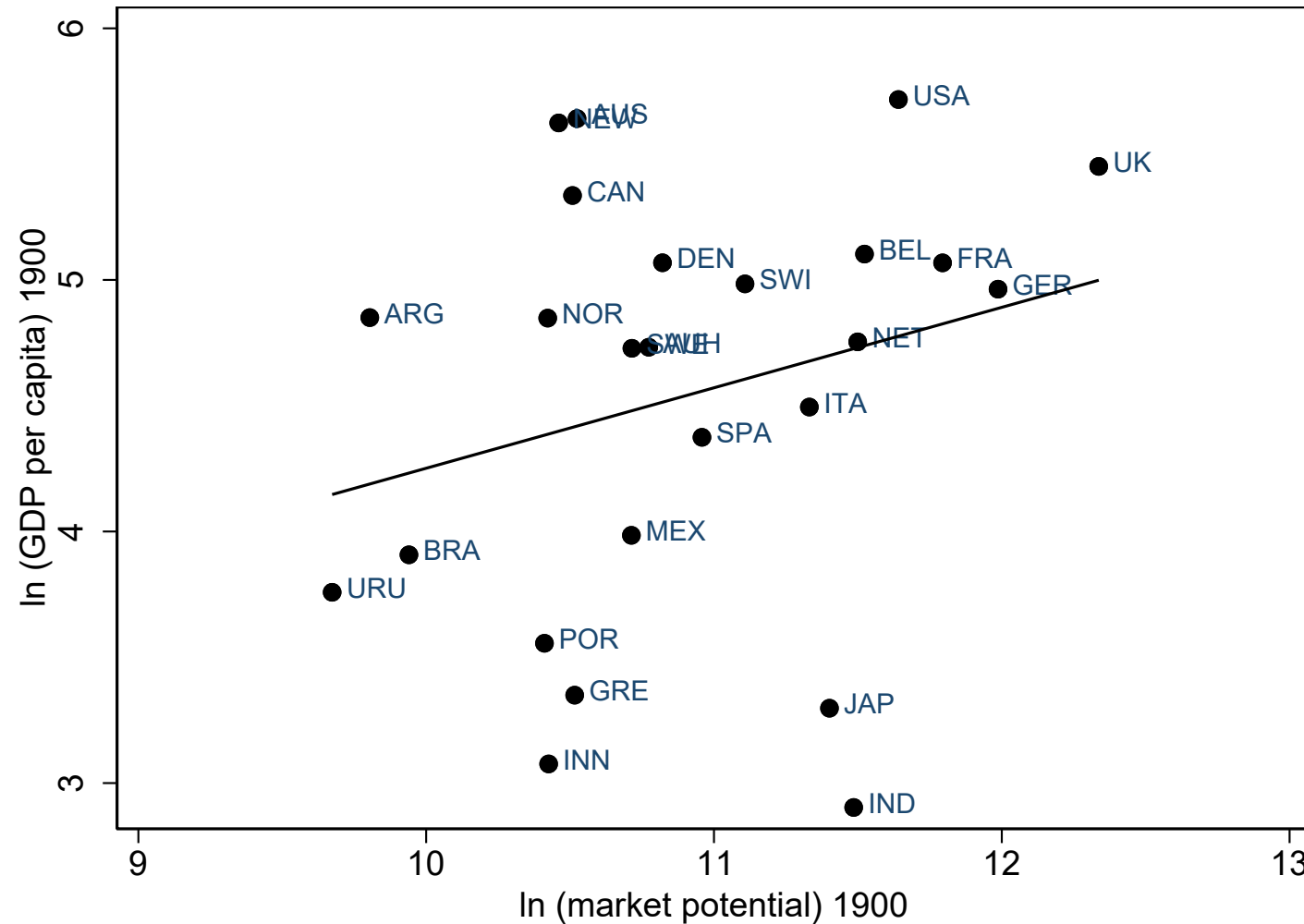
Cover image: William Daniell, View of the Canton Factories. Public domain, via Wikimedia Commons. From the National Maritime Museum collection



www.oup.com

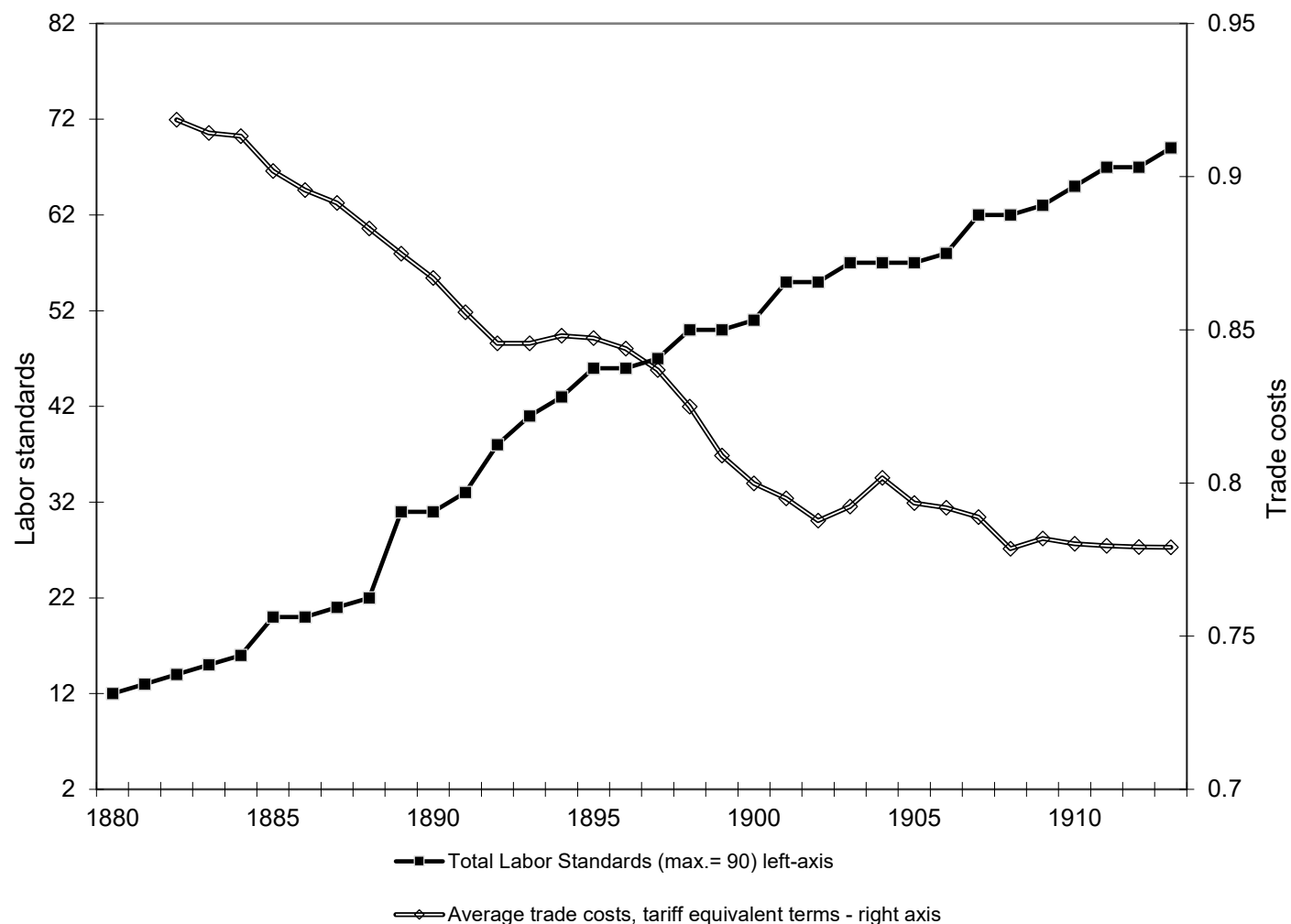


Countries with better market access were richer, 1900



Source: Meissner, C.M., 2024. One from the Many: The Global Economy Since 1850. Oxford University Press.

Labor Standards and Integration, 1880- 1913



Source: Huberman, Michael and Meissner, Christopher M. 2009. New evidence on the rise of trade and social protection. VOX EU <https://cepr.org/voxeu/columns/new-evidence-rise-trade-and-social-protection>

The Great Depression

The Costs of a Global Trade War

Tariffs in top 3 economies, 1925 - 1936

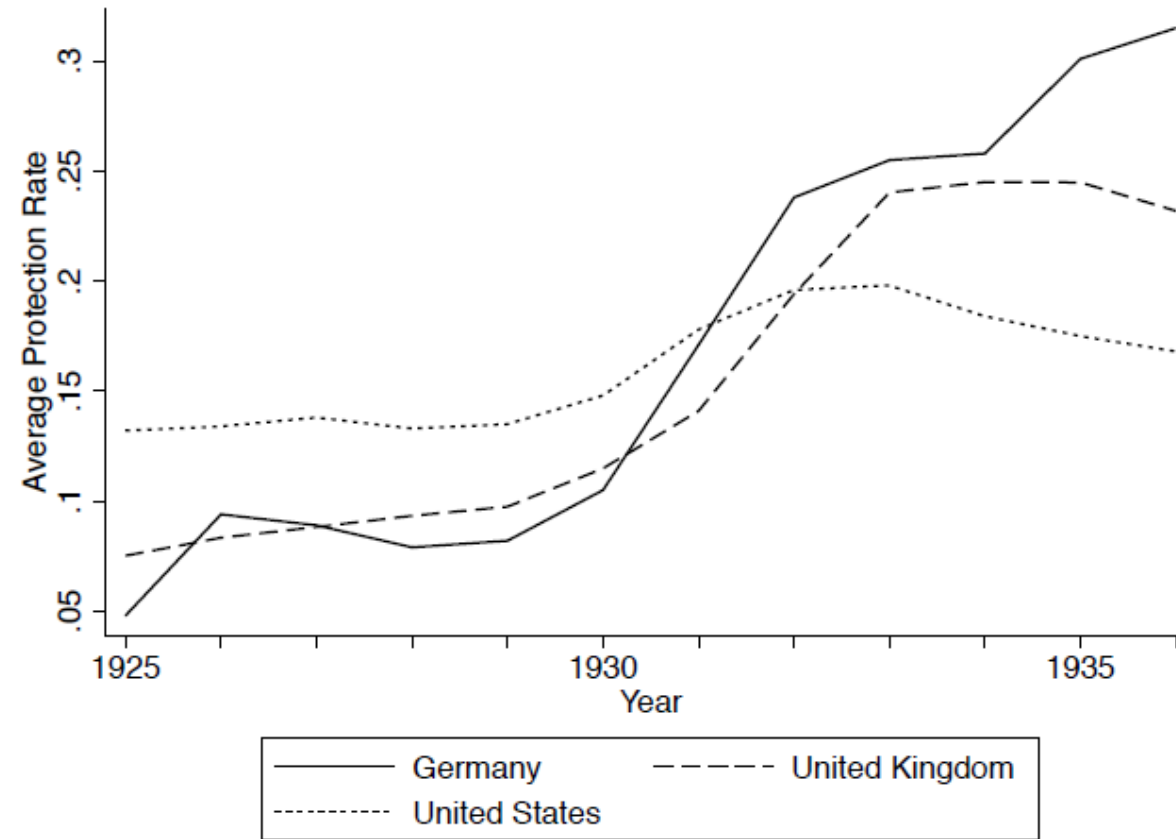


Figure 4: Average protection rates in Germany, the United Kingdom, and the United States

Country	% Chg GDP	% Chg Exports	Predicted fall in GDP	Share of chg in GDP explained by chg in exports
<i>Explanatory power of trade channel > 100%</i>				
BEL	-20	-42	-31	153
EST	-6	-12	-9	146
DNK	-12	-18	-13	110
<i>Explanatory power of trade channel 50-99%</i>				
NOR	-9	-11	-8	89
NLD	-25	-29	-21	85
CZE	-23	-26	-19	83
HUN	-16	-16	-12	73
CHE	-16	-15	-11	68
ZAF	-19	-16	-12	61
AUT	-34	-28	-20	60
FIN	-10	-8	-6	58
SWE	-25	-18	-13	53
<i>Explanatory power of trade channel < 50%</i>				
YUG	-26	-17	-12	48
CDN	-42	-26	-19	45
CHL	-64	-39	-28	44
AUS	-24	-14	-10	43
ITA	-16	-9	-7	41
MEX	-18	-8	-6	32
ESP	-27	-11	-8	30
NZL	-39	-15	-11	28
ROM	-21	-7	-5	24
POL	-32	-5	-4	11

Notes: Table shows the predicted fall in GDP using a trade multiplier of 0.73.

Source: Albers, Thilo 2018 "Losing the gains from trade: Evidence from the trade multiplier of the Great Depression"

London School of Economics PhD Thesis

Trade Collapse and the Rise of Fascism, 1920-1940

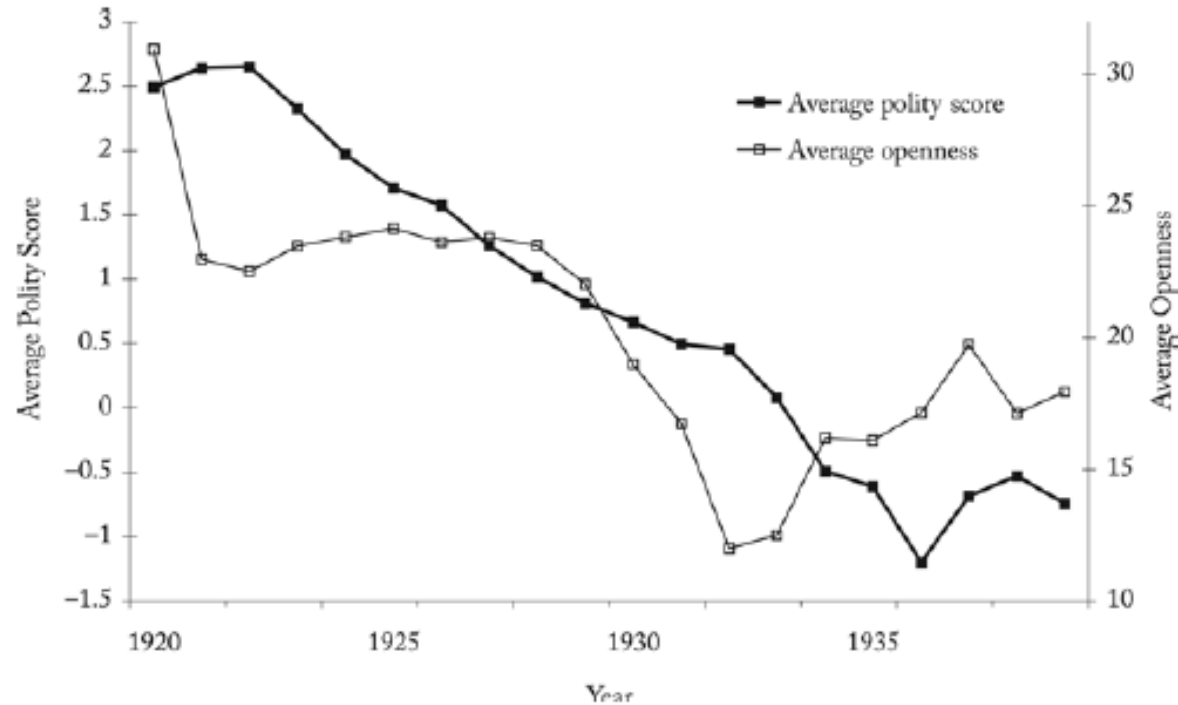


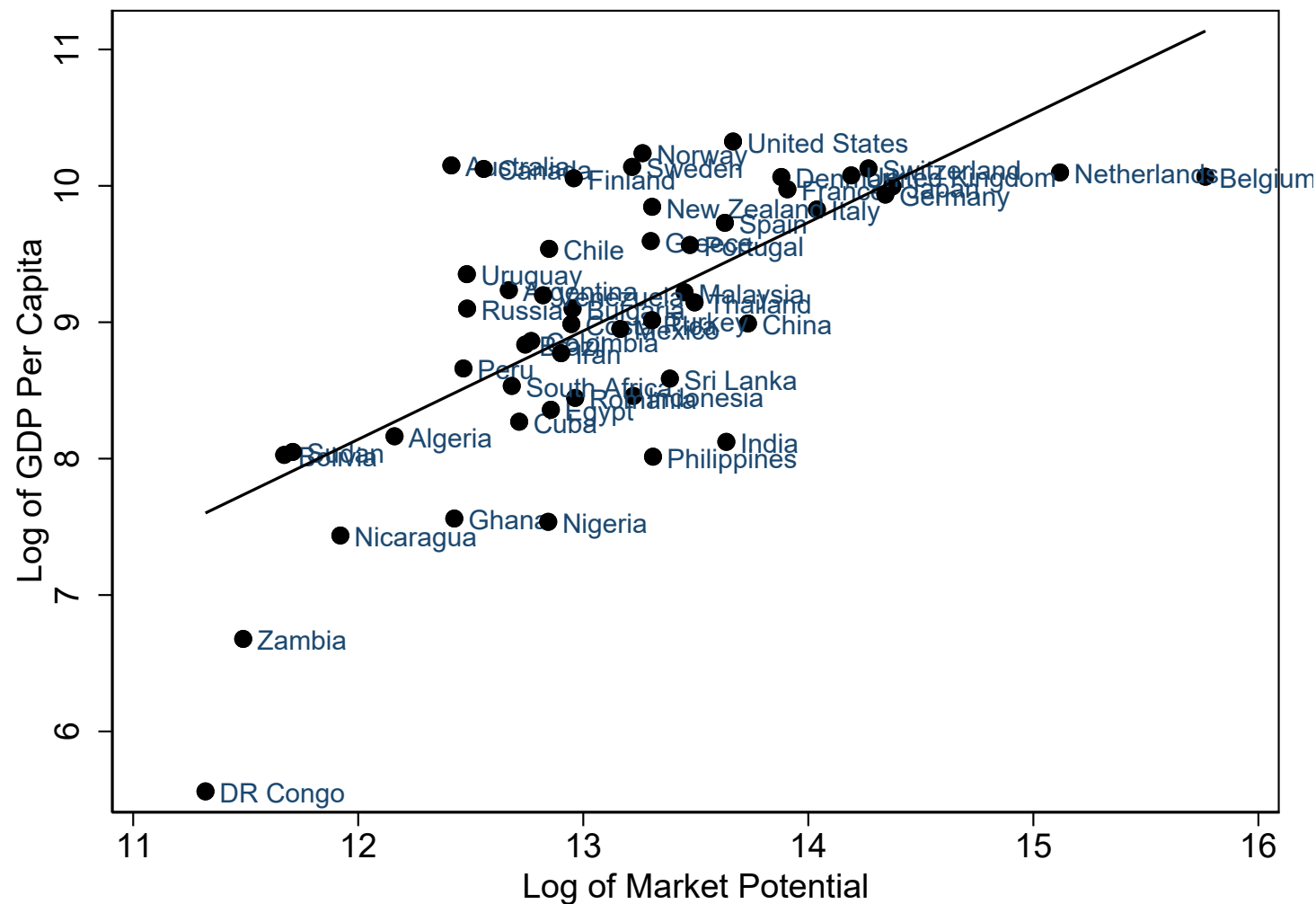
FIGURE 2
GLOBAL AVERAGES OF DEMOCRACY AND OPENNESS
(1920-1939)

Source: López-Córdova, J.E. and Meissner, C.M., 2008. The impact of international trade on democracy: A long-run perspective. *World Politics*, 60(4), pp.539-575.

The Second Wave of Globalization

Globalization 2.0

Countries that trade more are richer, 2010



Source: Jacks, D.S. and Novy, D., 2018. Market potential and global growth over the long twentieth century. *Journal of International Economics*, 114, pp.221-237.

Democracy and Trade Go Together, 1960 - 2015

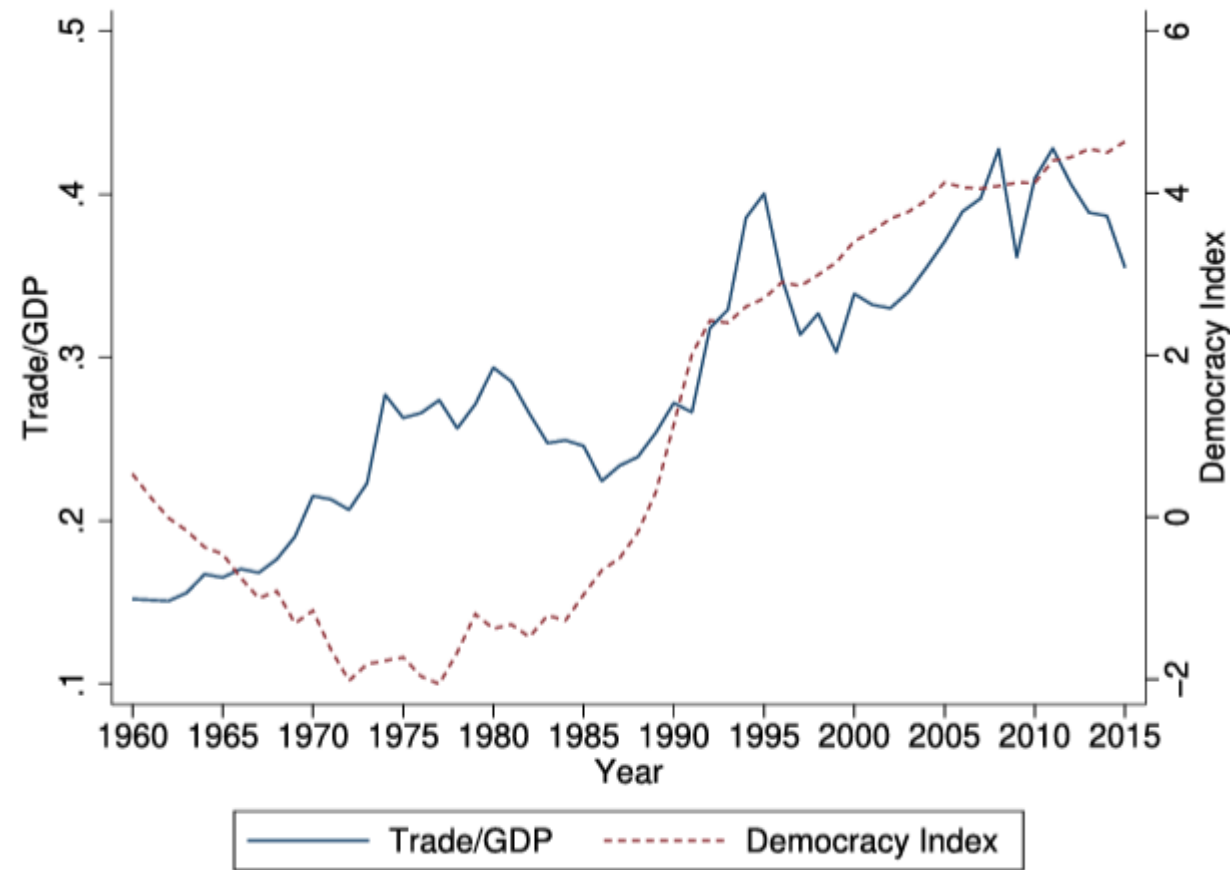


FIGURE 1
Economic integration and democracy: aggregate trends

Source: Tabellini, M. and Magistretti, G., 2024. Economic integration and the transmission of democracy. *Review of Economic Studies*.

Scenario #1: Self-harm

- Higher prices of imported tradable products, lower terms of trade, consumer and producer input shortages, lower quality final goods, lower real incomes
- Reverse “China Shock”
 - eventual sectoral re-allocation but cf. work of Autor, Dorn and Hanson (2013) and local effects
- Investment and consumption decline due to a rise in uncertainty
- Easing of monetary policy in response to lower employment and output

Scenario #2: Retaliation & Drag

- Terms of trade continue to fall, domestic tradeable prices fall due to retaliation, (relative) non-tradeable prices rise and non-tradeable sector has a relatively less severe decline in output
- Lower employment with a less severe decline in non-tradeables
- Uncertainty remains + higher volatility due to less resilient supply chains and trade costs
- Global economic slowdown, lower trade as a share of world GDP
- Further easing in monetary policy due to lower employment

Scenario #3: Globalization 2.1

- Threats of high US tariffs “work.”
 - Non-tariff barriers and tariffs come down globally
 - Variant 1: bilateral US tariffs decline, ex. China
 - Variant 2: global tariffs decline, China rebalances more towards domestic consumption
- US intensifies lead in IT, AI, cloud/data, and other services, resource and ag. recuperates – export and import boom.
- Terms of trade gains, income gains, lower inflation.
- Monetary policy: neutral or easing as liberalization continues to a new phase