There is arguably no proposition more widely held among economists than the free trade of goods across countries generally benefits the citizens of both the exporting and the importing countries. Yet, support for trade often faces resistance among the public and policymakers. In the United States and other developed countries with broadly liberal trade policies, such skepticism, at least rhetorically, seems to have gained momentum recently.

Douglas Irwin, an economist at Dartmouth College, argues that nations would be well advised to retain or to adopt a commitment to free trade. The overall benefits remain large — and the costs of protectionism are often understated.

Moreover, Irwin notes, the arguments that proponents of protection frequently advance are many times questionable. For instance, he acknowledges that the United States had relatively high trade barriers during the late 19th century, a time of rapid industrialization. But it seems likely that such economic growth was due to a number of other factors instead. In other cases, Irwin argues, protectionist policies, while unwise, have not been as destructive as some have claimed. For instance, the importance of the Hawley-Smoot Tariff of 1930 to the deepening of the Great Depression generally has been overstated.

Much of Irwin’s work falls at the intersection of economic history and trade theory. His most recent book is a comprehensive, more than 800-page history of U.S. trade policy, Clashing over Commerce. In addition to authoring and editing many other books and publishing widely in professional journals, Irwin occasionally writes for the popular press. He started his career at the Federal Reserve Board of Governors, moved to the University of Chicago’s Graduate School of Business, and has been at Dartmouth since 1997.

Aaron Steelman interviewed Irwin on the Dartmouth campus in August 2017.

EF: Why did you decide to write a general history of U.S. trade policy — the first, as you note in the introduction, since the early 1930s?

Irwin: I have long had a general interest in trade and history, but what solidified my interest in U.S. trade policy in particular was spending a year at the Council of Economic Advisers (CEA) while in grad school. That was in 1986-1987, and it was a momentous period for U.S. trade policy. There were trade disputes with Japan, a lot of protectionist pressures to block imports of textiles and steel, and many other trade issues on the agenda. So that CEA experience, seeing how policy is made, and learning from people at the U.S. Trade Representative’s (USTR) office, got me very interested in how U.S. trade policy functioned. And then, pretty naturally, I became very interested in looking to the past.

The last major book of this sort was The Tariff History of the United States by Frank Taussig. It’s a great book, a classic, but it’s been a long time since his last edition. And I thought it could be updated on multiple dimensions — first of all, to discuss the Great Depression and then bring it up to the present. We have also learned a lot more about the trade history that he did cover. He was writing before cliometrics, before the use of statistical methods to test a lot of the propositions he was discussing, such as the effects of protectionism in the late 19th century. In addition, economists have become interested in the political economy of policy formation. There’s not a lot of political
Those are the three Rs: revenue, restriction, and reciprocity. When I looked at the broad canvas of U.S. history, those three categories really apply to three different periods of U.S. trade policy history.

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EF: Regarding regional cleavages surrounding trade policy, how important do you think the tariff issue was to the frictions that led to the Civil War?

Irwin: You do see the argument out there that trade restrictions were one of the principal reasons the South seceded, not so much among academic historians but among others who write on the topic. I think the tariff issue had very little, if anything, to do with the Civil War. After the 1828 Tariff of Abominations, South Carolina essentially said we’re not going to enforce this law and we may withdraw from the union unless the policy is changed. That precipitated a real crisis, and it was defused with the Compromise of 1833 proposed by Henry Clay, which gradually reduced tariffs. From 1833 until the Civil War, tariffs were basically on a downward path. We reduced the tariff further in 1846 and then again in 1857. A year before the Civil War, the average tariff was below 20 percent, which was about the lowest it had been in the entire antebellum period. So the South and the Democrats really held the cards in terms of trade policy right up to the Civil War.

What the revisionists of the Lost Cause group will say is, well, the Republicans assumed power and passed the Morrill Tariff in 1861 and that led to the conflict. But the only reason the Morrill Tariff passed was because most of the South had already seceded after the election of Lincoln. If their representatives had stayed in Congress, they could have stopped it. It wasn’t that the South left the Union because of the Morrill Tariff; we got the Morrill Tariff because they left. In fact, it wasn’t Lincoln who signed it but the Democrat James Buchanan before Lincoln took office. So I think there’s basically no evidence the tariff was a major cause of the Civil War.

EF: At the end of the book you discuss how predictions for U.S. trade policy have been really dire. But you offer some caution about such claims.

Irwin: It was a tricky matter for the book because I completed the manuscript in September of 2016. And I had every expectation that Hillary Clinton was going to be elected and there would be significant continuity in trade policy. When Donald Trump was elected, given his extreme rhetoric on trade, many people expected big changes in trade policy. I did have the opportunity to add a few paragraphs on Trump, and as you can see I tried to hedge my bets. If you listen to the rhetoric, it might be reasonable to think that there is a big shift coming for U.S. trade policy. But I also noted that if you look back over the past 250 years, you see that we have had these periods where trade policy sort of veers off and then eventually returns to the old status quo. For example, Democratic President Woodrow Wilson slashed tariffs dramatically and tried to introduce much freer trade, but the Congress soon reimposed high tariffs when the Republicans were returned to power. When you look at what Franklin Roosevelt did with the RTAA, the introduction of trade agreements was a policy of evolution not an overnight revolution. The Reagan administration imposed a lot of protectionist measures in the 1980s, but those restrictions soon faded away.

As a result, I try to suggest in the book’s conclusion that there’s still a lot of status quo bias in the system. We can’t always believe the strong rhetoric, and maybe things won’t change as much as promised. And so far, as of August 2017, I think Trump hasn’t changed much in terms of U.S. trade policy. Yes, he pulled out of the Trans-Pacific Partnership, but maybe Hillary Clinton would have done so also; Bernie Sanders too. Trump did say he wanted to renegotiate bilateral agreements with these countries. There’s no evidence we’ve moved forward with that but that’s at least saying that he’s open to the idea of trade agreements. He hasn’t pulled out of the North American Free Trade Agreement (NAFTA), although the renegotiation of it is not likely to go well. He might go after China a bit, but consider his announcement: He signed an executive order for the USTR not to initiate an investigation but to look into initiating an investigation. So there’s nothing there yet. I think the administration is quickly learning that there is a process, there’s a reason why things operate slowly, and you have to work within the laws we have.

Also, any big change in trade policy — in any direction — is going to generate a lot of opposition. In relation to NAFTA, when you look at a map of where U.S. agricultural exports are produced, you see that a lot come from areas that the president carried and a lot head to Mexico. So hopefully government officials begin to realize pulling out of NAFTA would not only reduce imports to the United States, it would also lead to reduced market access for U.S. exporters. There are a lot of trade-offs in any policy change. It’s not a black and white process of you stop imports, you create jobs here, and that’s the end of the story.

Douglas Irwin

Present Position
John French Professor of Economics, Dartmouth College (at Dartmouth since 1997)

Previous Positions

Education
Ph.D. (1988), Columbia University; B.A. (1984), University of New Hampshire

Selected Publications
EF: What do you think about Brexit and what it portends for trends in trade policy?

Irwin: A lot of people have said that it’s an indicator of an antiglobalization backlash. Yet I don’t believe it represents a backlash against trade per se because Brexit proponents want to maintain Britain’s access to the European Union (EU) market and have actually argued for even freer trade outside the EU. So it wasn’t an anti-trade movement. I think immigration, regulatory, and sovereignty concerns about the EU were dominant.

If they go through with it, however, Britain could be making a big mistake. First, Europeans are not going to give them free and easy access as they had before. Britain has no trade negotiators because they outsourced that to the EU. So all of a sudden they’re looking for qualified staff to negotiate new trade agreements. Second, trade agreements these days are much more about regulatory harmonization and coordination than tariff levels. If you were dealing with only tariffs, that would be much easier to address. But these are really complicated policy measures where you really need a lot of expertise. To pull out of the EU and try to replicate that — not just with the EU but with a whole bunch of other countries — it’s going to take a long time to repair those networks. With global supply chains being so important, that can do big harm to one’s country if you stand outside the system for a while and then try to get back in.

There’s actually a cautionary tale here from the American Revolution. After the United States won its independence from Britain, American leaders thought that the political settlement would restore U.S. access to the markets of the British Empire. They were sorely mistaken: Britain sought to punish the United States by keeping it out of its markets, and the United States paid a hefty economic price.

EF: How would you assess the claim that more restrictive trade policies in the late 19th century fueled industrialization in the United States?

Irwin: This is one of the biggest questions in the history of U.S. trade policy: Did protectionism foster U.S. economic growth and development in the late 19th century? I’m not convinced that we can attribute America’s industrial advance in the 19th century to high tariffs or protection. There are a couple points to make on this. There is certainly a correlation between high tariffs and industrial growth in the late 19th century, but we can’t leave it at that. That would be a post hoc, ergo propter hoc argument. Instead, we need to know the mechanism by which high tariffs might lead to this growth. Usually the mechanism identified is that agriculture is a relatively low value added per worker sector and with the tariff you are going to shift resources into manufacturing, which is a relatively high value added per worker sector. So not only do you industrialize, but you also raise national income because you get workers into more productive activities. I have done some back of the envelope calculations about how much labor could possibly have moved across sectors as a result of the tariff, and the numbers are pretty small in terms of any possible gain. And, actually, this intersectoral switch is happening anyway. It’s a natural process. A lot of the industrialization occurred prior to the Civil War, between 1840 and 1860 when we had low and declining tariffs. A lot of the growth in the late 19th century when we had high tariffs is extensive growth, not intensive growth. In addition, there are so many other things going on. We had open immigration, so there was a lot of growth in the labor force. We revamped our banking laws during the Civil War, finance became very important, and we got capital deepening. That’s not because of the tariff; that’s because the whole financial system of the United States was really developing.

Another point to be made is that when you look at the high productivity growth sectors in the U.S. economy in the late 19th century, John Kendrick and others have shown they’re mostly in the non-traded goods, service sector. Transportation and utilities were growing very rapidly. It’s hard to see how the tariff would help the non-traded goods, service sector of the economy improve its performance. Also, Steve Broadberry has done some work showing that increasing productivity in the service sector was very important to the United States catching up with Britain in the late 19th century. That, too, doesn’t seem to be tariff related. All of this doesn’t lend itself to an easy story where the tariffs are the key factor behind U.S. growth and industrialization.

In addition, when you look at particular manufacturing industries, such as iron and steel or textiles, once again the story doesn’t seem to be particularly strong. For example, I once looked at the tinplate industry. It’s true that we didn’t have tinplate production until the McKinley Tariff, but the reason we didn’t have it was because we had high tariffs on imported iron bar, which is an important input to tinplate. So you had a high cost of production on your intermediate goods and that hurt downstream producers. When you look at the whole tariff code in the late 19th century, it’s not geared toward the production of final manufactured goods. There are high tariffs for everyone, including on intermediate goods, and you’re not really helping out downstream producers when you do that.

EF: It is often asserted that the Hawley-Smoot Tariff played an important role during the Great Depression. What is your view?

Irwin: I would say most economists have been skeptical of the claim that the Hawley-Smoot Tariff led to the Great Depression or even exacerbated it to any great extent. In their Monetary History of the United States, Milton Friedman and Anna Schwartz hardly mention the tariff at all.
Whenever Friedman talked about the Great Depression, he always said that it was a very bad piece of legislation, but it didn’t cause the Great Depression, it didn’t generate 25 percent unemployment. I think that’s basically true. There is something else going wrong in terms of monetary policy or other macroeconomic factors that cause depressions. Tariffs change relative prices and reallocate resources between industries but don’t change the level of activity to that extent. There’s a lot of evidence for that through history. For instance, in 1922 Congress passed the Fordney-McCumber Tariff, which raised tariffs more sharply than even the Hawley-Smoot tariff, and yet an economic boom followed. Now, the tariff certainly had nothing to do with that boom, as the economy was recovering from tight monetary policies after World War I. But the point is we have had a lot of tariff increases in the past that didn’t lead to depressions and a lot of tariff reductions that didn’t lead to booms.

My view of Hawley-Smoot is that it was unnecessary, it was ineffective, and it was harmful. It was unnecessary because it was introduced in the House at a time of almost full employment, the spring of 1929. It was ineffective because the motivation was to help out farmers, but we were a big net exporter of farm goods so the domestic price that they faced wasn’t going to be affected by import duties. It was harmful because it led to a lot of retaliation against the United States, so our farm and factory exports were actually harmed.

**EF: In addition to legislation like Hawley-Smoot, you and Barry Eichengreen have looked at some other factors in the rise of protectionism during the 1930s.**

**Irwin:** Everyone knows a trade war broke out in the 1930s. But what really caused it? The standard explanation is that there was chaos and that everyone was trying to protect their own market in light of the Great Depression. We found something different. There is a very pronounced pattern in terms of which countries were adopting protectionist policies and which weren’t. That hinged on something that naturally follows from Barry’s work — how long you stay on the gold standard.

There’s a trade-off that different countries made. If you are being confronted with a deflationary shock, you can use monetary policy to adjust to that. But if you’re on the gold standard and the hands of the monetary authorities are tied, you look for other policy instruments to try to prevent gold outflows and reflate the economy. Trade policy is one of them. So what you find is some countries are breaking off the gold standard very early and they pursue reflationalary monetary policies. They are able to mitigate the worst effects of the depression and they don’t face as much protectionist pressure. In contrast, there are other countries that stay on the gold standard and their economies remain relatively depressed. Those are the ones precisely where the protectionist pressures are really strong, and they impose exchange controls and higher tariffs and things of that sort.

**EF: Why do you think protectionism has such enduring appeal, at least rhetorically?**

**Irwin:** I think protectionism has always had a lot of appeal because, politically, it’s sort of an “us versus them” situation. You’re helping out your domestic firms against foreign firms that are stealing our jobs. It is a nationalistic view that many people naturally have a desire to try to help one’s neighbors first.

Also, with protectionism it’s easy to see who’s helped and harder to see who’s hurt. There are tangible benefits to some group when you erect a trade barrier, but it’s much harder to see those who are harmed or pay the price. It’s a bit of a case of the seen versus the unseen. One way I try to illustrate this in my classes is to explain one of the most fundamental theorems of international economics, the Lerner Symmetry Theorem. It states that a uniform tax on imports is equivalent to a uniform tax on exports. But just think about how this plays in the public mind. If you went out into any city and asked people whether we should impose an across-the-board tariff on imports to protect jobs and stop foreign countries from taking advantage of us, a lot of people would support that. But if you went to the same people and asked whether we should impose a uniform tax on all exports, on all farm exports and manufactured exports, there would be very little support for that. But the Lerner Symmetry Theorem says they’re equivalent. So it’s the same policy, but how you frame it determines the response you will get.

**EF: What are your thoughts on the paper by David Autor, David Dorn, and Gordon Hanson arguing that rising Chinese import competition has had significant effects on U.S. manufacturing?**

**Irwin:** I think it’s an important contribution because it shows us some of the real difficulties in terms of labor market adjustments to big shocks. The finding that people drop out of the labor force, retire early, or go on disability and don’t necessarily move on to other jobs is an important finding. While I think economists will debate the number of workers who have been displaced because their estimate is based on cross-sectional evidence, which is not the ideal way to do it, we can be pretty confident that the number is big. That said, here’s my take on it. First, the China shock was a one-time shock. That is, you had big growth not just in trade but in a shift of people from agriculture into industry in China, at the same time as the working-age population was growing. That’s not going to repeat itself. The rural to urban transition has slowed dramatically, and the working-age population in China is now actually in decline.

It also was not an aggregate demand shock. Even though they identify significant harm to certain communities in
the 1990s and 2000s, those were periods of declining unemploy-
ment in the United States. So it really draws attention to
the problem with geographically concentrated produc-
tion and the difficulties of getting workers to move to
different locations or to different industries. In this regard,
I would differentiate between the 1990s and the 2000s.
Autor, Dorn, and Hanson suggest the China shock was
occurring throughout this whole period, but at the end of
the 1990s we had an unemployment rate below 4 percent
with significant wage growth at the lower end of the wage
distribution. There’s actually some evidence that workers
in textile mills in the South who were displaced were get-
ting higher-paying jobs elsewhere. The 2000s is a different
period, the economy was far less robust than in the 1990s,
and the 2008 financial crisis just compounded the problems
for displaced workers. Also in the 2000s you had huge mac-
roeconomic imbalances in China. We had a pretty sizeable
current account deficit during the 2000s, while China had
a current account surplus of 10 percent of GDP. It’s highly
unusual for a large developing country to have a massive
trade surplus like that, which raises the issue of currency
manipulation and so forth. I don’t think that we are going to
see something like that again, in terms of trade imbalances,
and if we begin to go in that direction, there should be
enough warning signs and policy will be different.

In short, the China shock was a big one-off event that
happened under unusual circumstances and is unlikely to be
repeated. We have learned a lot from it, but going forward
I don’t think it changes the consensus that there are still
large benefits to trade. We have always known that certain
communities or certain types of workers are going to be
hurt by trade. This just happened to be a pretty big exa-
ample. More recent research has also provided some context
or some nuance to what they found. For instance, work by
Rob Feenstra and others has tried to pin down the benefits
to consumers from lower prices, particularly workers at the
lower end of the income spectrum. In addition, some of
the China shock was due to China’s unilateral reductions of
tariff on inputs, which made its final goods producers much
more efficient. That’s not due to a change in U.S. policy —
that’s just China becoming more open and more efficient,
which ultimately is something we want to see.

EF: I know you have just finished a massive book, but
I was wondering what you are working on currently.

Irwin: I’m really excited about my next project, which is
looking at the political economy of trade policy reform
in developing countries. Arguably the biggest change in
the world economy over the past 30 or 40 years is the
increased participation of developing countries and their
unilateral decisions to open up and become part of the
world trading system. The biggest, of course, was China,
which wasn’t because of the World Trade Organization
or external pressure. Rather, in 1978-1979 Deng Xiaoping
decided to open up the economy. It was a unilateral
decision — and that has been the story for a lot of devel-
oping countries.

There has been a lot of work looking at what happens
when you go from a closed to an open economy. Sachs and
Warner had a famous Brookings paper in 1995 that was
improved upon by Wacziarg and Welch. And there are
many others now using synthetic control methods to sort
of simulate what would happen to a country if it hadn’t
opened up. Basically all of these papers identify pretty big
effects to GDP, to investment, and obviously to trade.
There is heterogeneity, of course; not everyone is going
to get a big boost from it, but, on balance, a pretty signifi-
cant positive impact. So the question I want to address is
what was behind the decision of those countries to open
up or not. What I’m doing is looking at various coun-
tries in terms of their political decisionmaking process,
starting with Taiwan in the late 1950s, which was really
the first developing country to open up, then Korea, then
Indonesia, then Chile, and so forth. New Zealand enacts
big trade reform in 1984, and there are a lot of countries
in the late 1980s and early 1990s. My initial read is that it’s
not so much that these countries’ policymakers, backed
by some economist, are thinking about the comparative
advantage gains from trade or things of that sort. What
they’re finding is that they have these import substitution
policies and overvalued exchange rates, which have stifled
their exports, and now their exports can’t pay for their
imports. And it’s not that they want to keep out imports.
They desperately want to import things like food and
fuel and especially capital goods. But they don’t have the
exports to pay for them. So they need to do something to
stimulate exports. That requires a devaluation, usually a
big devaluation, and reducing tariffs, which through the
Lerner Symmetry Theorem acts as a brake on exports.

The reason why Taiwan and Korea initially moved in a
more open direction is that the United States was cutting
back their foreign aid. They had huge trade deficits that
were financed by U.S. foreign assistance. By the late 1950s
the United States was saying we’re in the postwar period
now, you’re not being threatened militarily, and so you’re
on your own. The countries realized, well, we can’t cut our
imports and our exports are virtually nothing. We’ve got
to do something about this, and that’s why they shifted
their policy. It’s fascinating to see the pressure that U.S. aid
withdrawal puts on foreign officials to rethink their poli-
cies. Also, sometimes it’s the International Monetary Fund
(IMF) providing advice but not necessarily a club over their
heads. And often there are policymakers grooping for a solu-
tion who have been influenced by an economist. When you
get that sort of link, you sometimes can bring about these
significant changes in trade policy. So in the case of Taiwan
it was Sho-Chieh Tsiang, who was then an economist at the
IMF and who later taught at Rochester and Cornell. The
chief economic minister asked for a memo on what they
should do. Tsiang went there and said devalue and open up.
That’s what they did, and the results were astounding. EF