

Nineteenth-century trade policy

Paul Krugman

The big story: trans-Atlantic divergence

Britain moves to free trade with repeal of the Corn Laws

US moves to high protection with tariff

Both countries move to favor manufacturing over agriculture ...

English-speaking bias: I won't try to discuss France, other Europe

Largely illusory decline due to rising imports of raw cotton

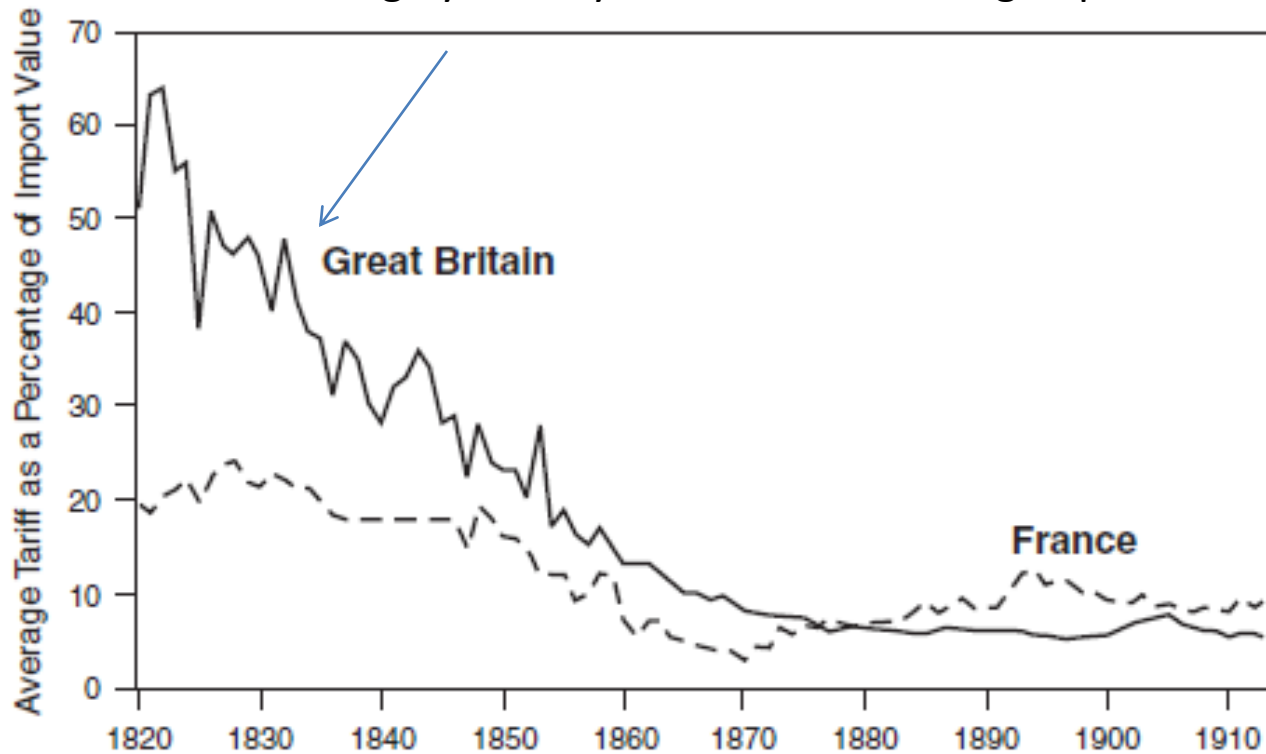
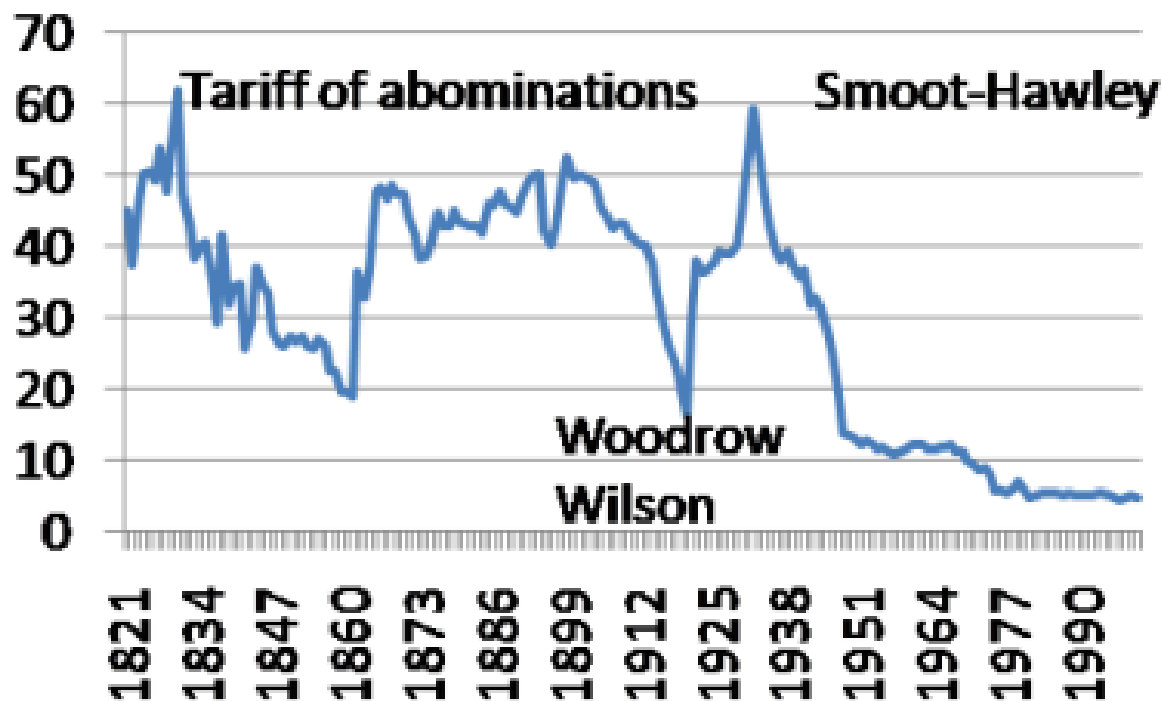


Figure 1.1. Average Tariff Rates: Tariff Revenue as a Fraction of All Imports (Imlah, 1958; Lévy-Leboyer and Bourguignon, 1985).

Average tariff rate on dutiable imports



Comparative advantage: Ricardo's example

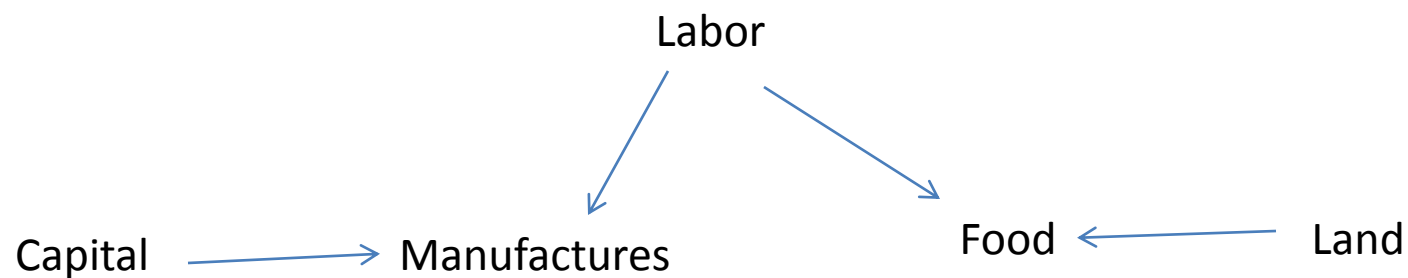
Unit labor requirements

	Cloth	Wine
Britain	100	120
Portugal	90	80

Suppose prices such that 1 unit of cloth trades for one unit of wine. Then Britain can use 100 men to acquire wine through trade – cheaper than producing itself; and Portugal can use 80 men to acquire cloth – cheaper than producing itself. Mutual gains from trade

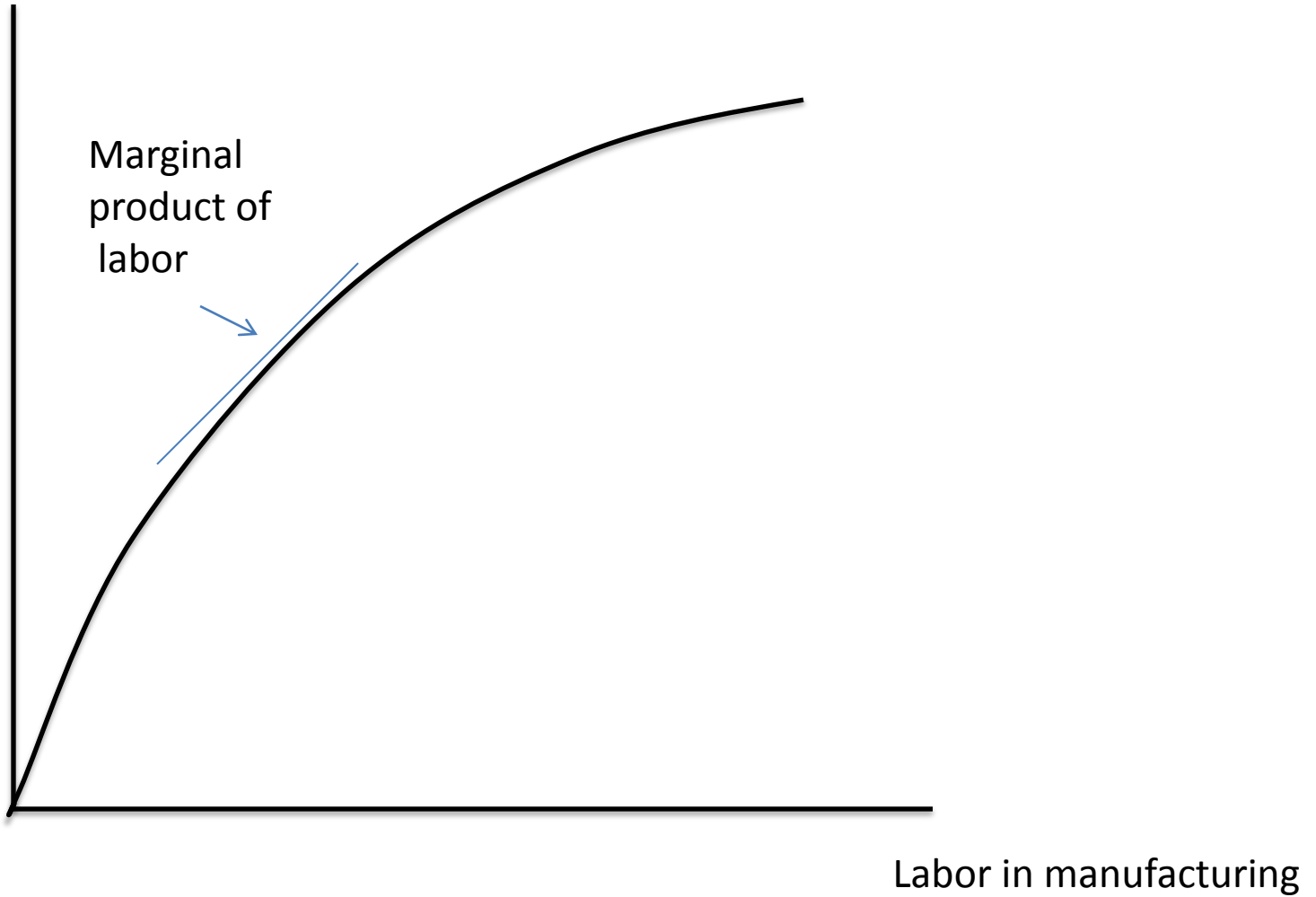
But not at all a realistic picture for Britain ...

Specific factors model (aka Ricardo-Viner)



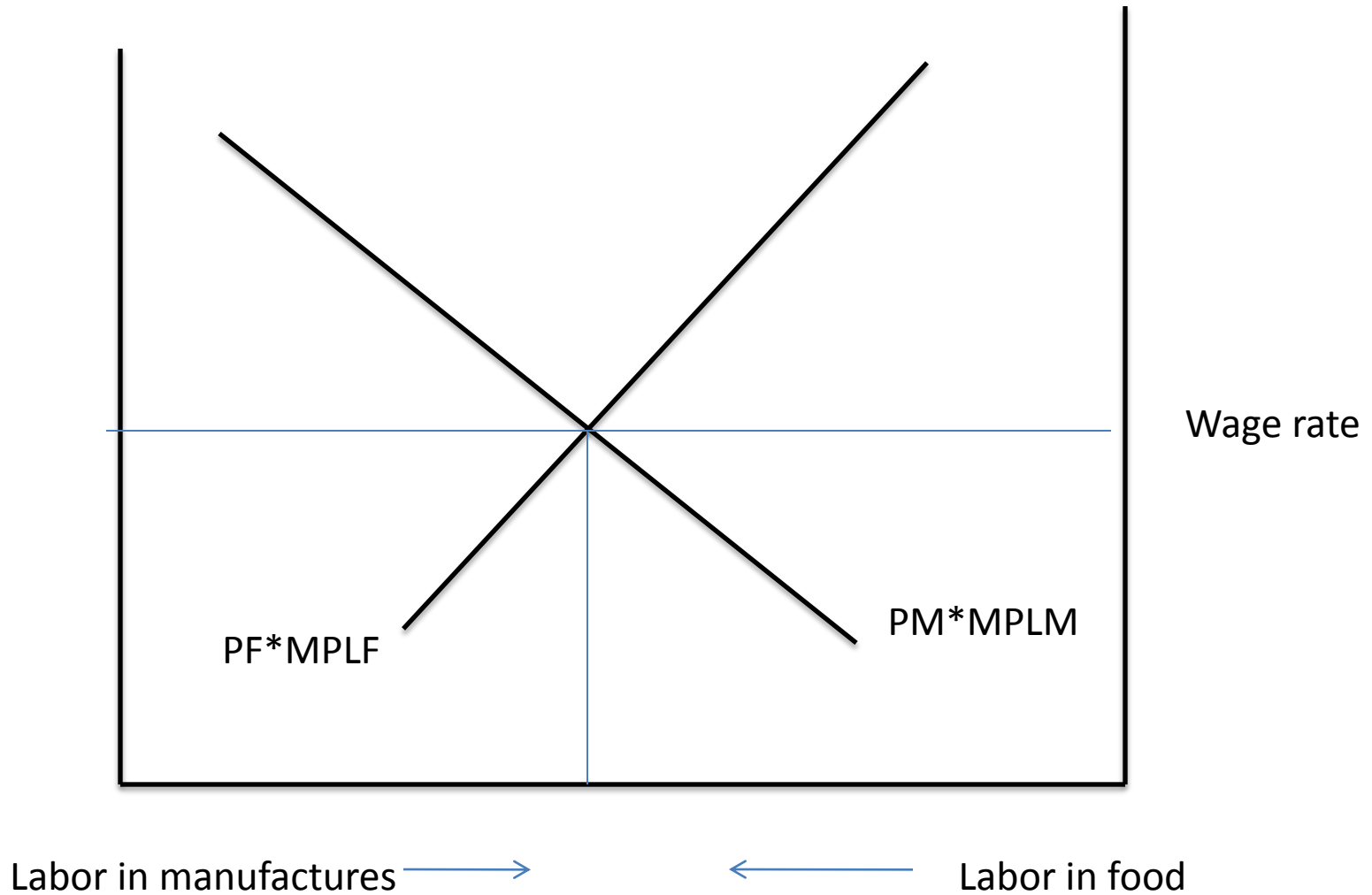
Production function for a given capital stock

Output of manufactures

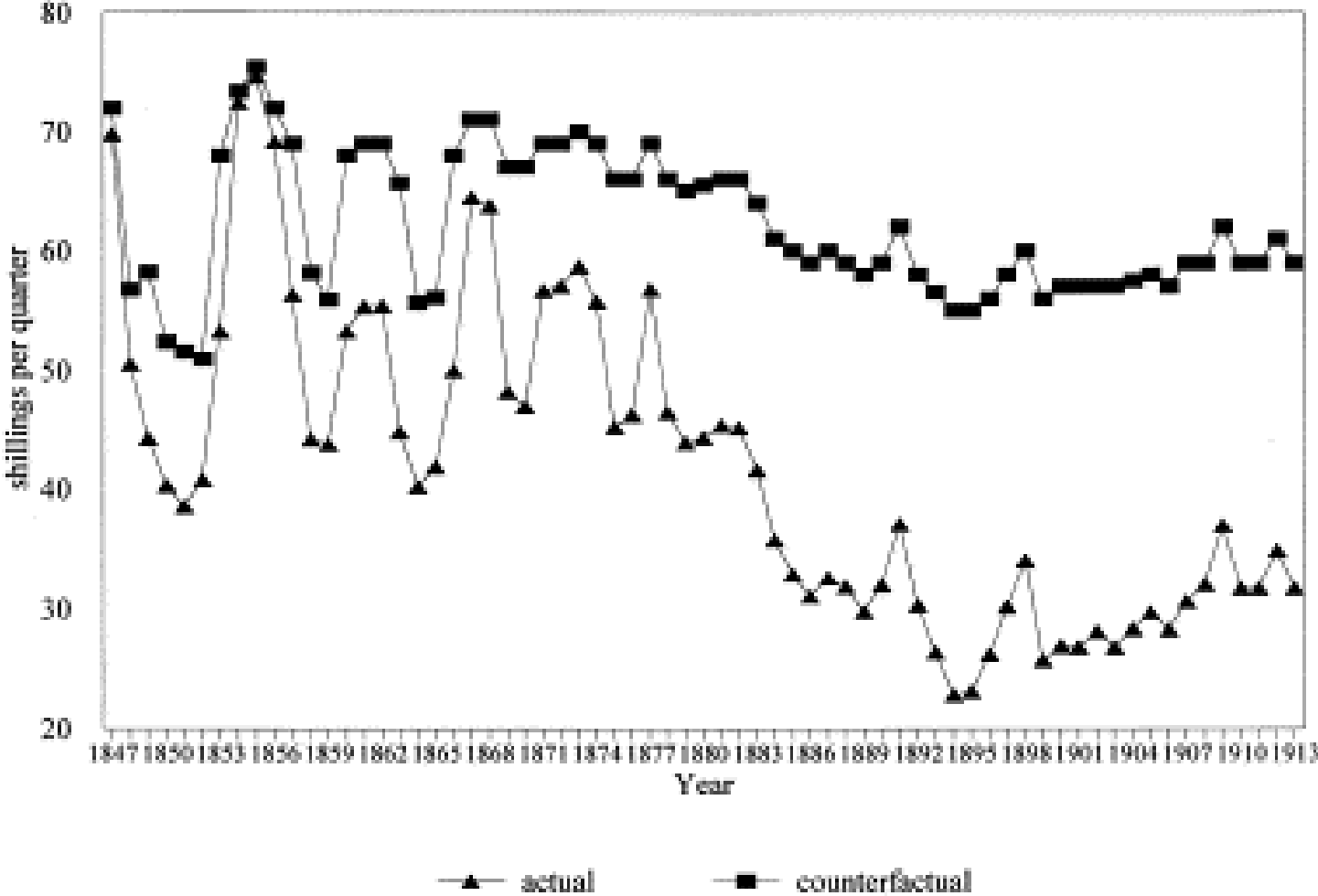


Similarly for food

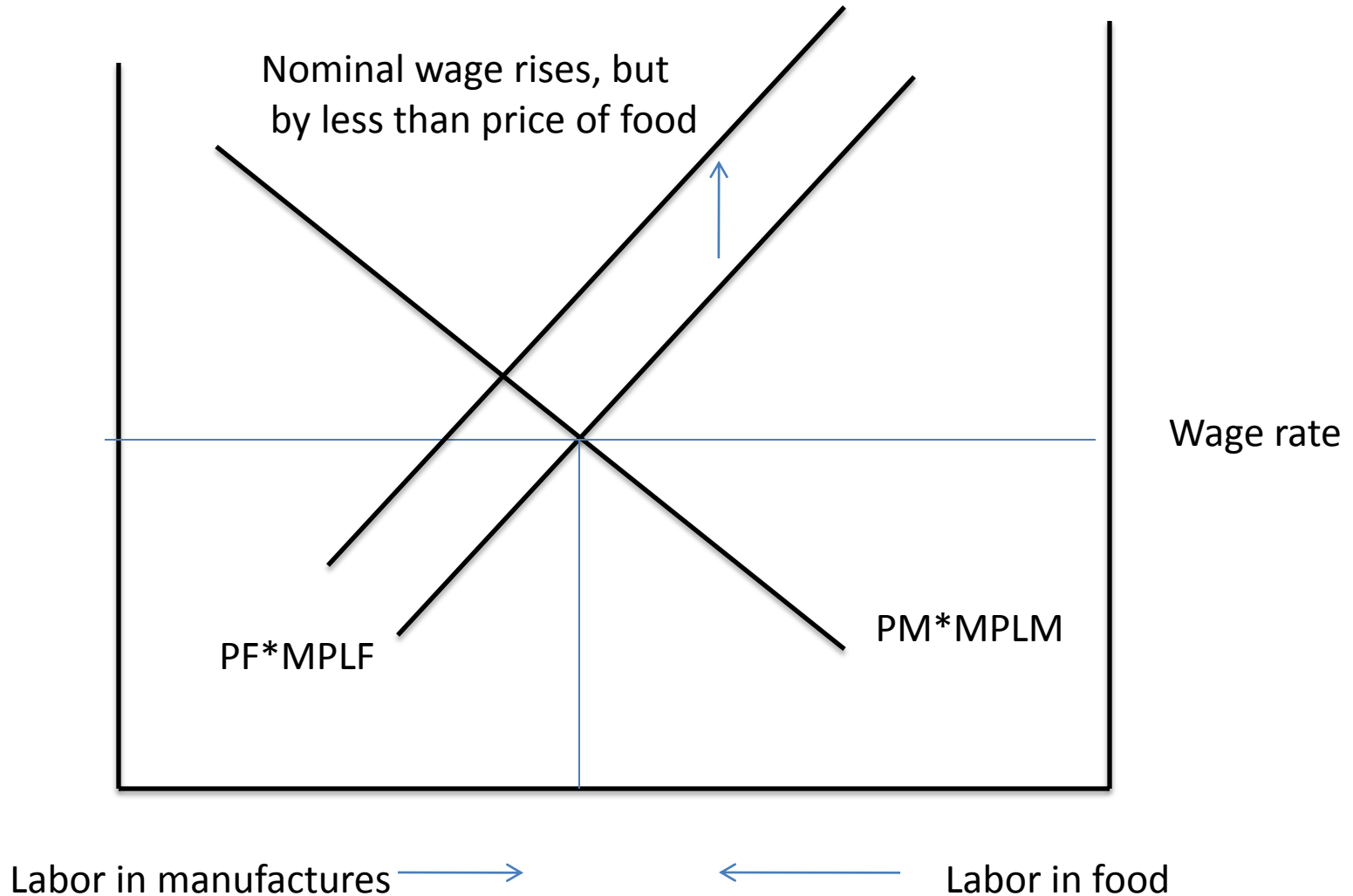
Equilibrium given prices of manufactures, food



Wheat prices



Effect of rise in the price of food, e.g. due to Corn Laws



Effects: Landowners clearly better off

Capital owners clearly worse off

Workers: ambiguous, since real wage falls in terms of food but rises in terms of manufactures

But negative if food a large part of consumption basket

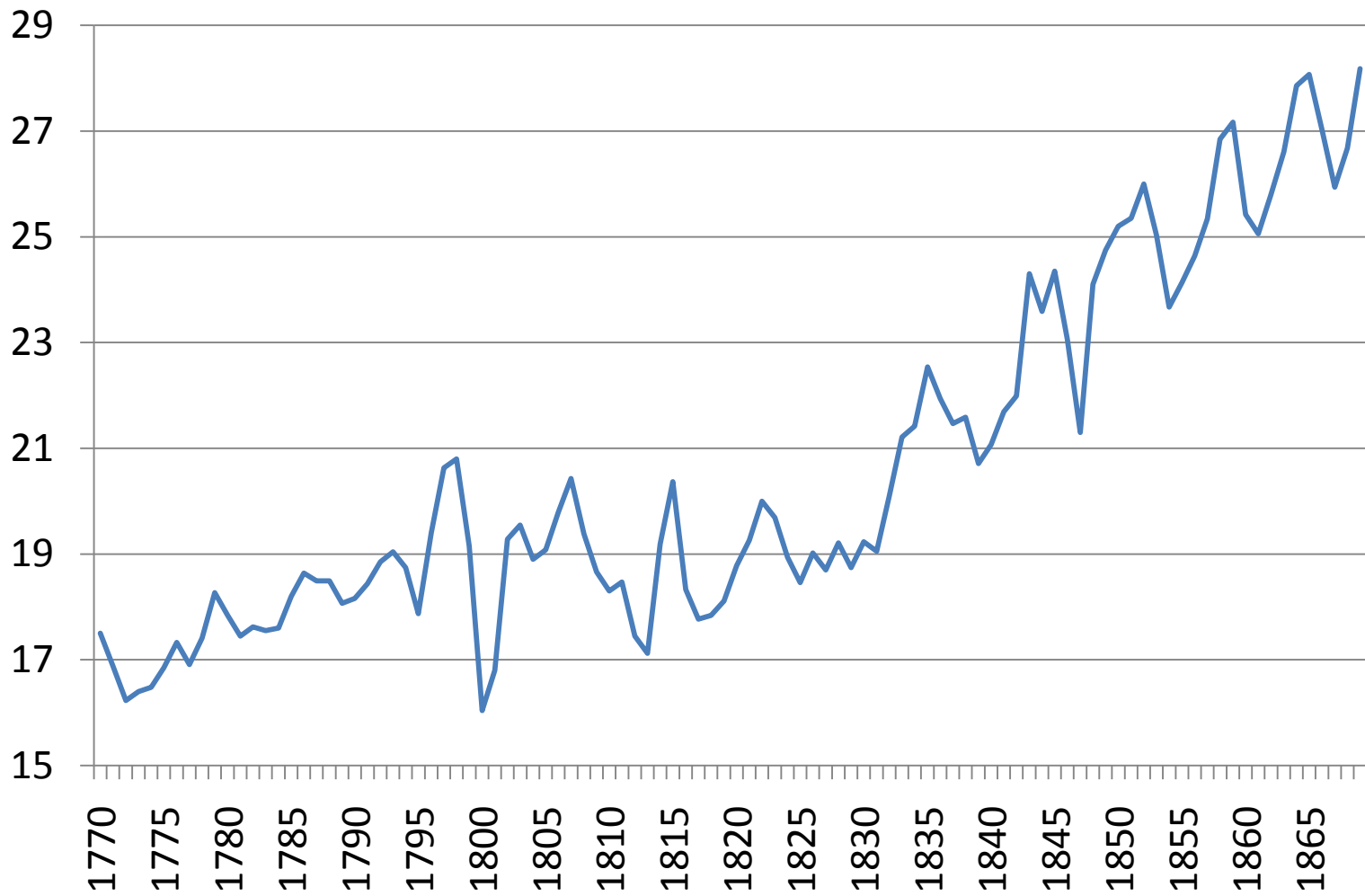
Why repeal of the Corn Laws?

Formation of anti-Corn Law League, centered in Manchester

Role of ideas?

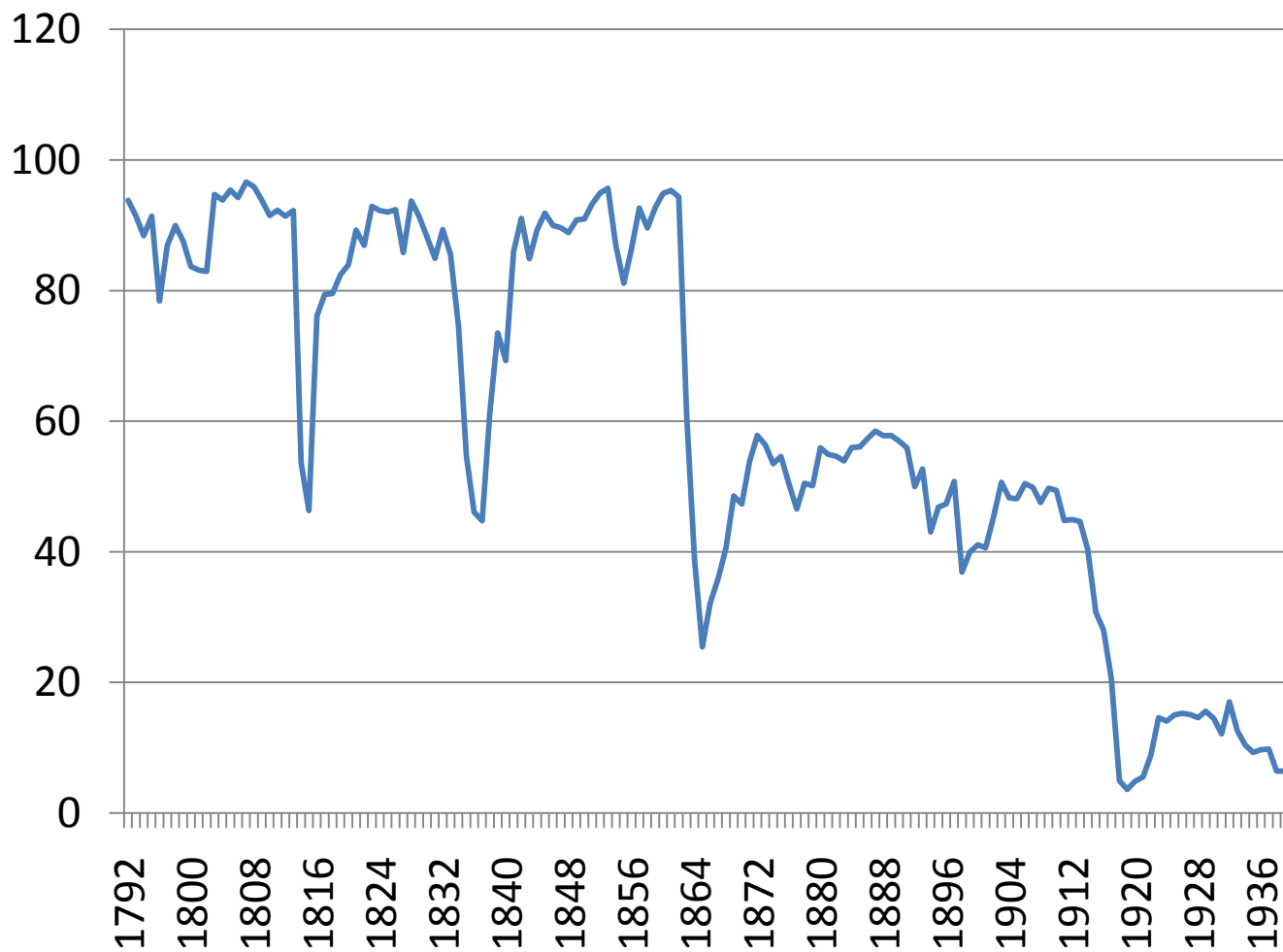
Refutation of “iron law of wages”?

Real wage in Britain



[Henry Clay](#)'s "American System," devised in the burst of nationalism that followed the War of 1812, remains one of the most historically significant examples of a government-sponsored program to harmonize and balance the nation's agriculture, commerce, and industry. This "System" consisted of three mutually reinforcing parts: a tariff to protect and promote American industry; a national bank to foster commerce; and federal subsidies for roads, canals, and other "internal improvements" to develop profitable markets for agriculture

Customs share of revenue



Gentlemen deceive themselves. It is not free trade that they are recommending to our acceptance. It is, in effect, the British colonial system that we are invited to adopt; and, if their policy prevail, it will lead substantially to the recolonization of these states, under the commercial dominion of Great Britain. And

Henry Clay, 1832

Figure 1: Tariffs and Growth, 1870-1913: Core Countries

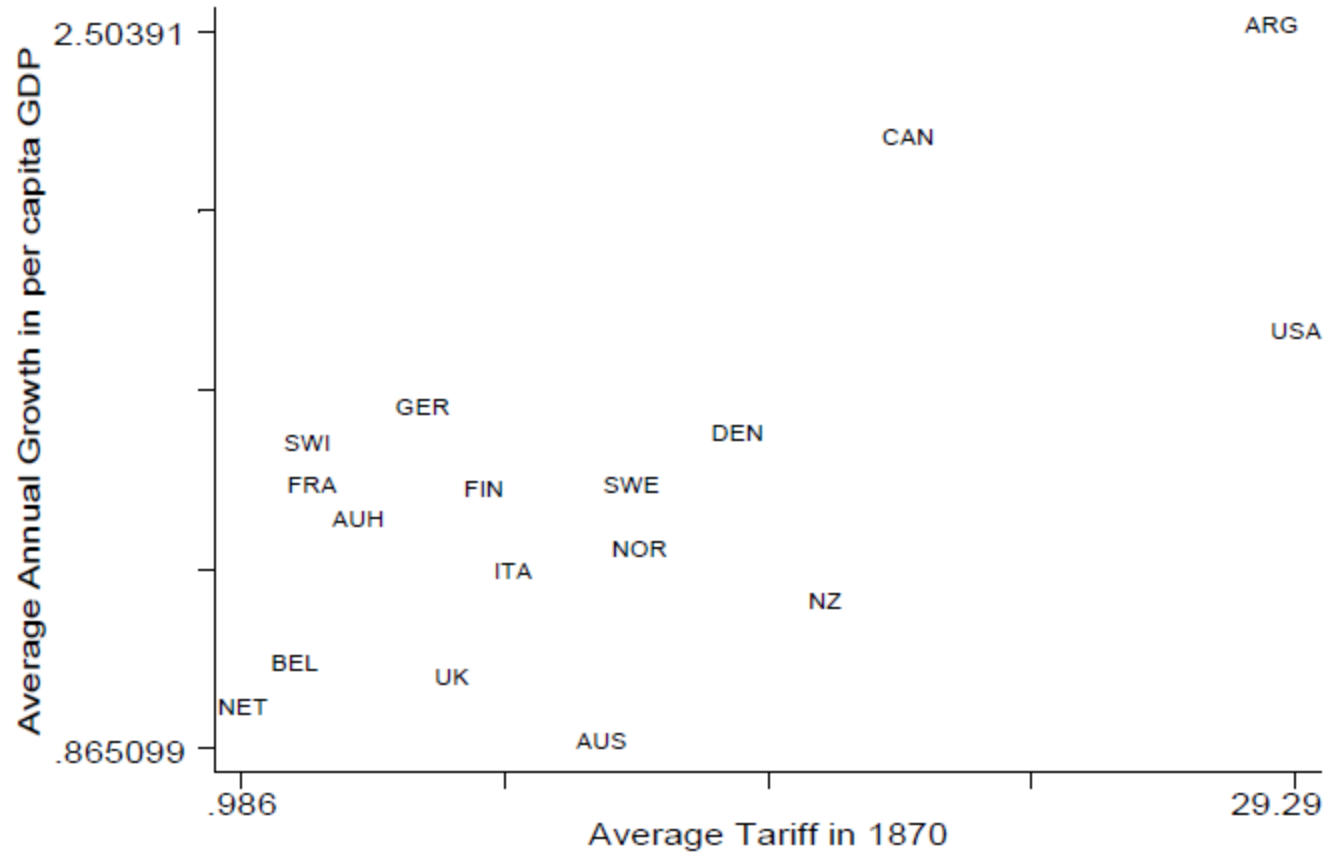


Table 1**The Association between Tariffs and Growth:
Yesterday versus Today**

Included countries	All	All	All	All
Years per period	1	1	1	1
Time Interval	1865-1908	1919-1934	1950-1998	1970-1990
In GDP/capita	-1.50 <i>-7.21</i>	-17.2 <i>-19.8</i>	-6.01 <i>-24.5</i>	-14.1 <i>-30.5</i>
In tariff rate	0.582 <i>4.38</i>	1.31 <i>6.72</i>	-2.88 <i>-7.18</i>	-1.39 <i>-4.44</i>
Country dummies?	Yes	Yes	Yes	Yes
Time dummies?	No	No	No	No
N	1540	519	3255	1968
R-Squared	0.242	0.565	0.412	0.518
Adj. R-Squared	0.224	0.532	0.385	0.482

t-statistics are in italics.

Figure 4: Average Tariffs and Relative Land Abundance in 1890

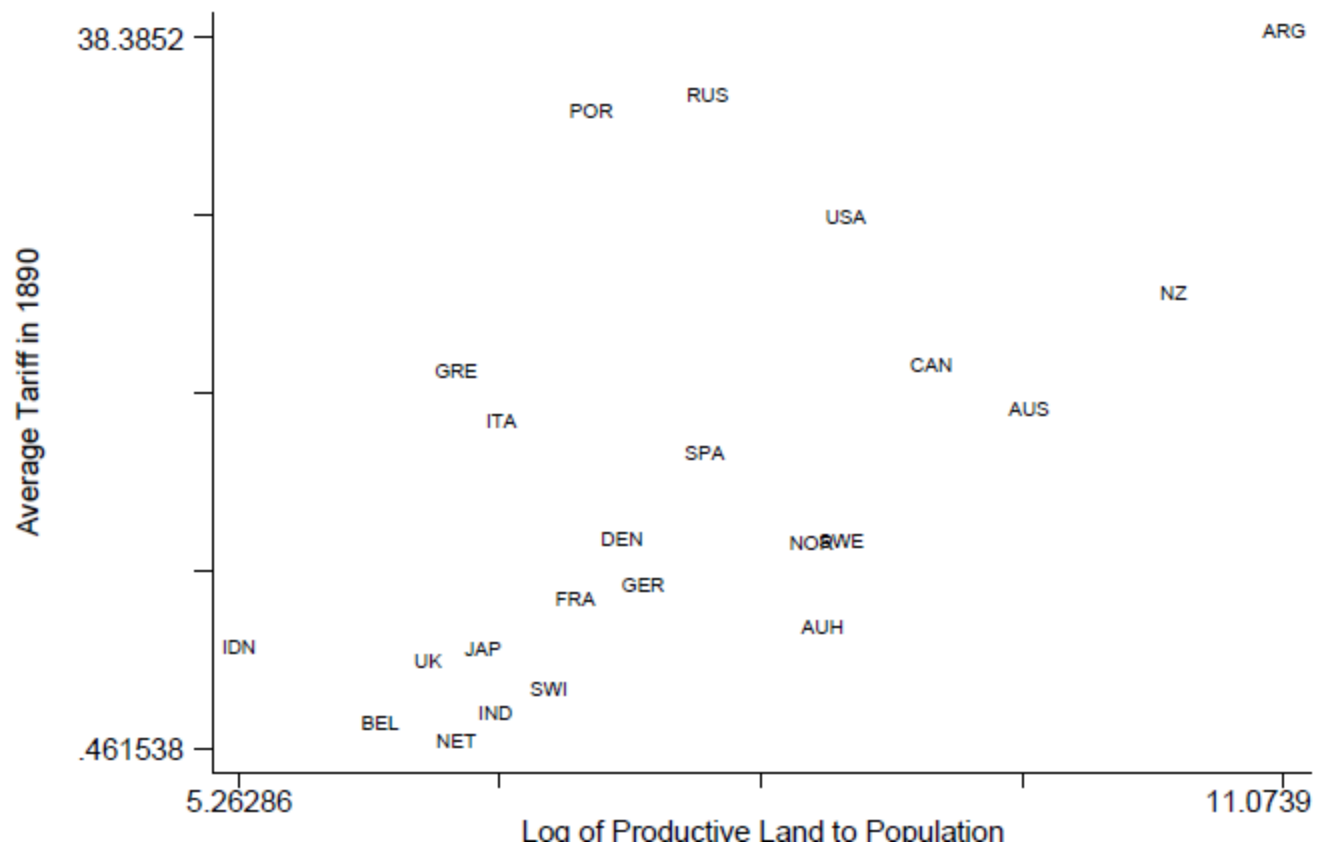


Figure 3: The Fiscal Importance of Customs Duties in 1890

