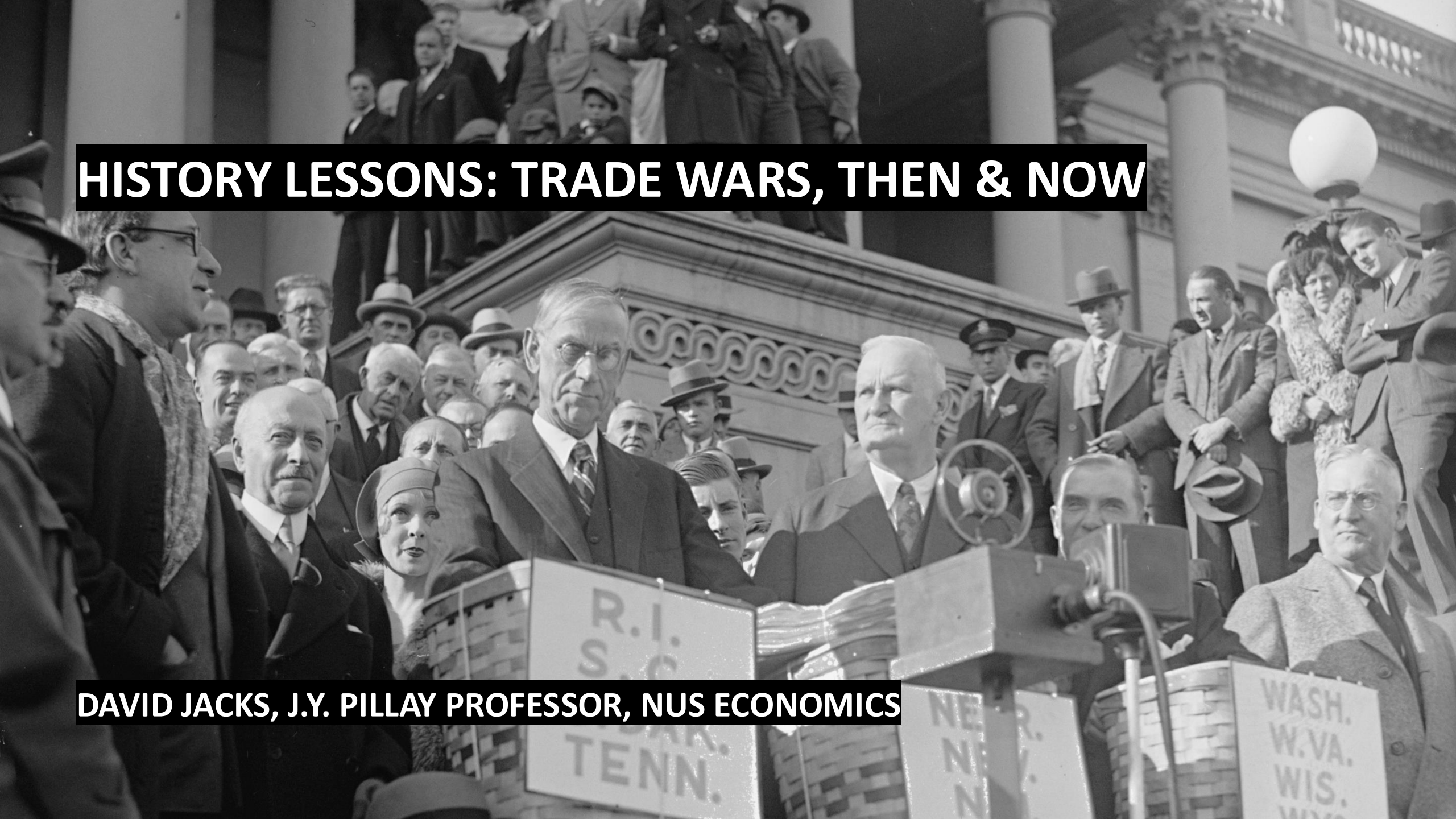


HISTORY LESSONS: TRADE WARS, THEN & NOW



DAVID JACKS, J.Y. PILLAY PROFESSOR, NUS ECONOMICS

“Put brutally...the whole world is in for the worst dose of economic nationalism that it has ever seen.

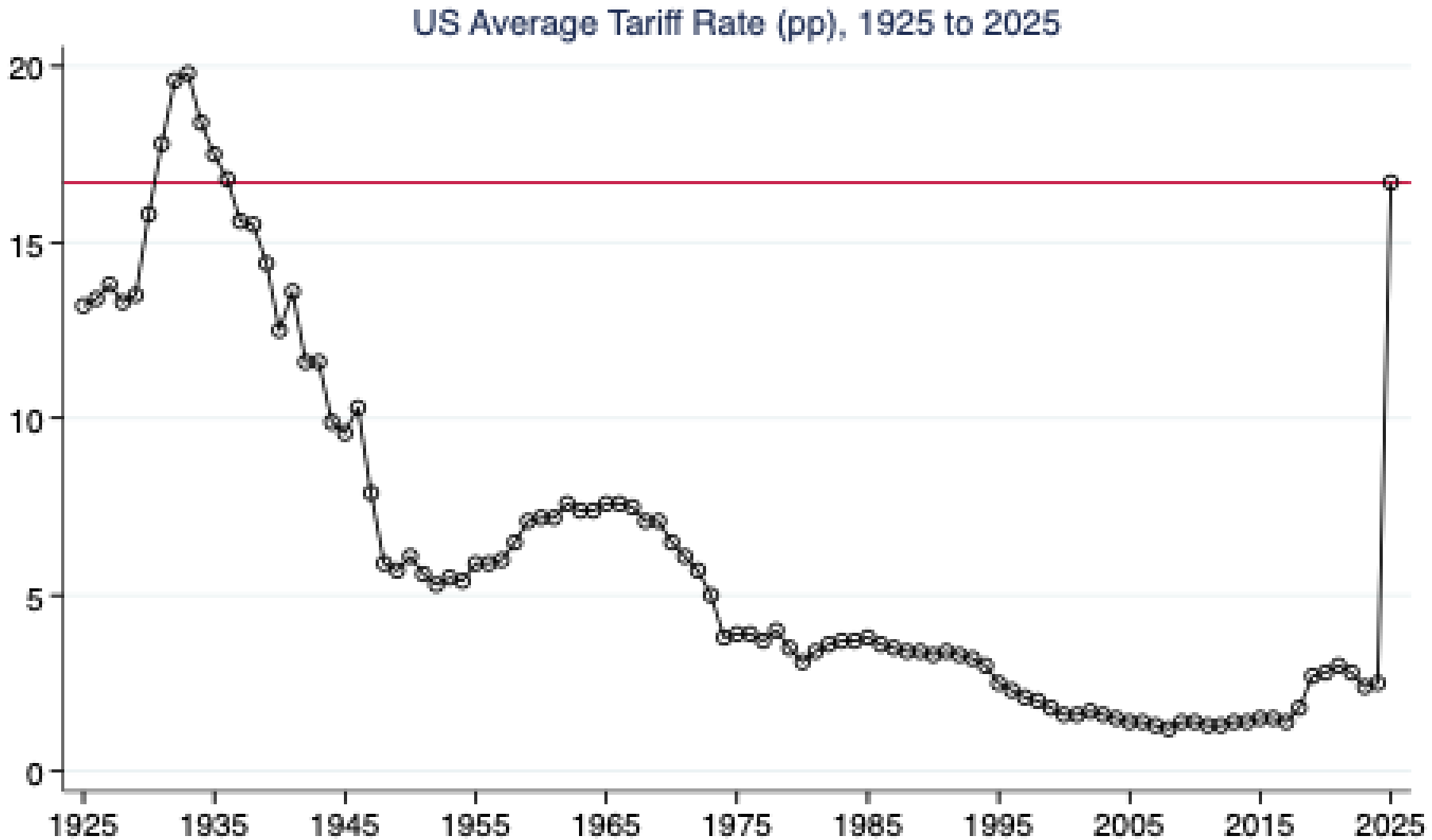
Worst because it will be deliberate; because the tools are at hand to make it more absolute than ever before; and because conditions at present will make the resulting dislocation of economies more painful than ever before.”

- W. Y. Elliott, October 1933

“Shipyards, ironworks, get them all jacked up. We’re just going to throw it up against the wall and see if it sticks.

It will be as exciting as the 1930s, greater than the Reagan revolution — conservatives plus populists in an economic nationalist movement.”

- Steve Bannon, 18 November 2016



Nine years late but mission now accomplished!



Thus, trade wars no longer consigned to academic studies of disastrous interwar period as they have (re-)reemerged as a topic of interest to the market and policymakers.

And lacking other precedents, observers have been quick to draw parallels between recent changes in commercial policy and experience of the world economy in the 1930s.

The world faces its worst trade wars since the 1930s

Parallels to the 1930s: US trade policy could trigger global economic crisis

Trump's trade war returns America to the 1930s

The president's tariffs have hammered US small businesses and fuelled uncertainty

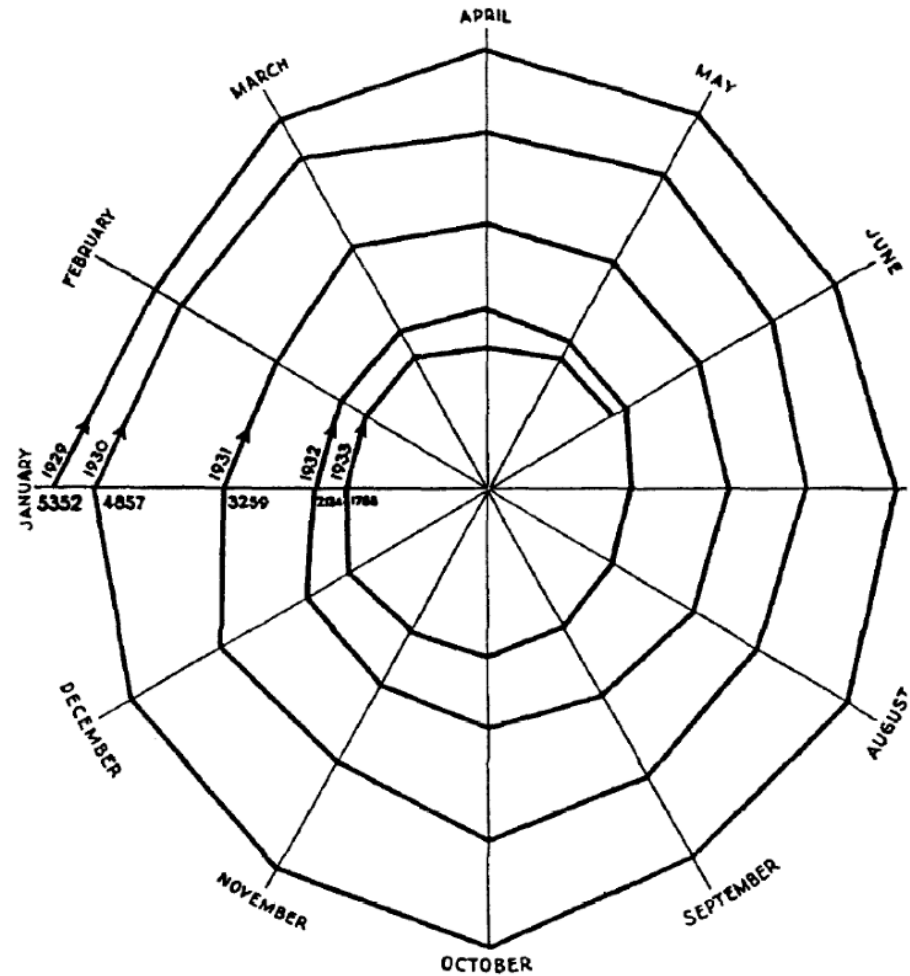


Fig. 1. The contracting spiral of world trade, month by month, January 1929–June 1933 (in millions of U.S. (gold) dollars).

Trade wars spiked costs & induced downward spiral in flows



But what are limits/lessons of historical parallels across periods with some similarities but very different origins?

The limits of historical parallels

First, this is not (yet) a generalized trade war:

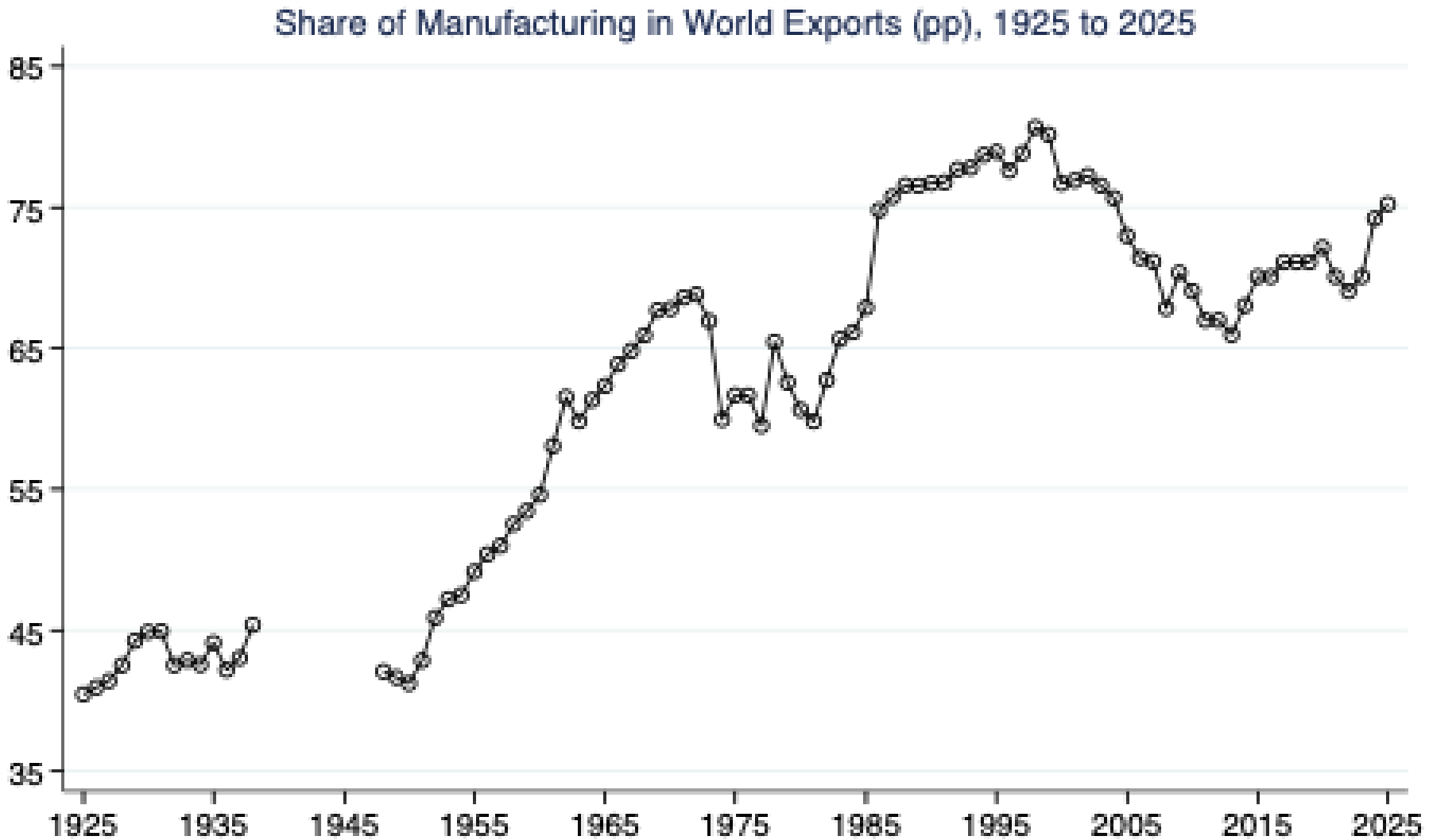
(a) trade wars of 1930s enacted primarily against all partners

(b) bilateral retaliation relatively minor in comparison

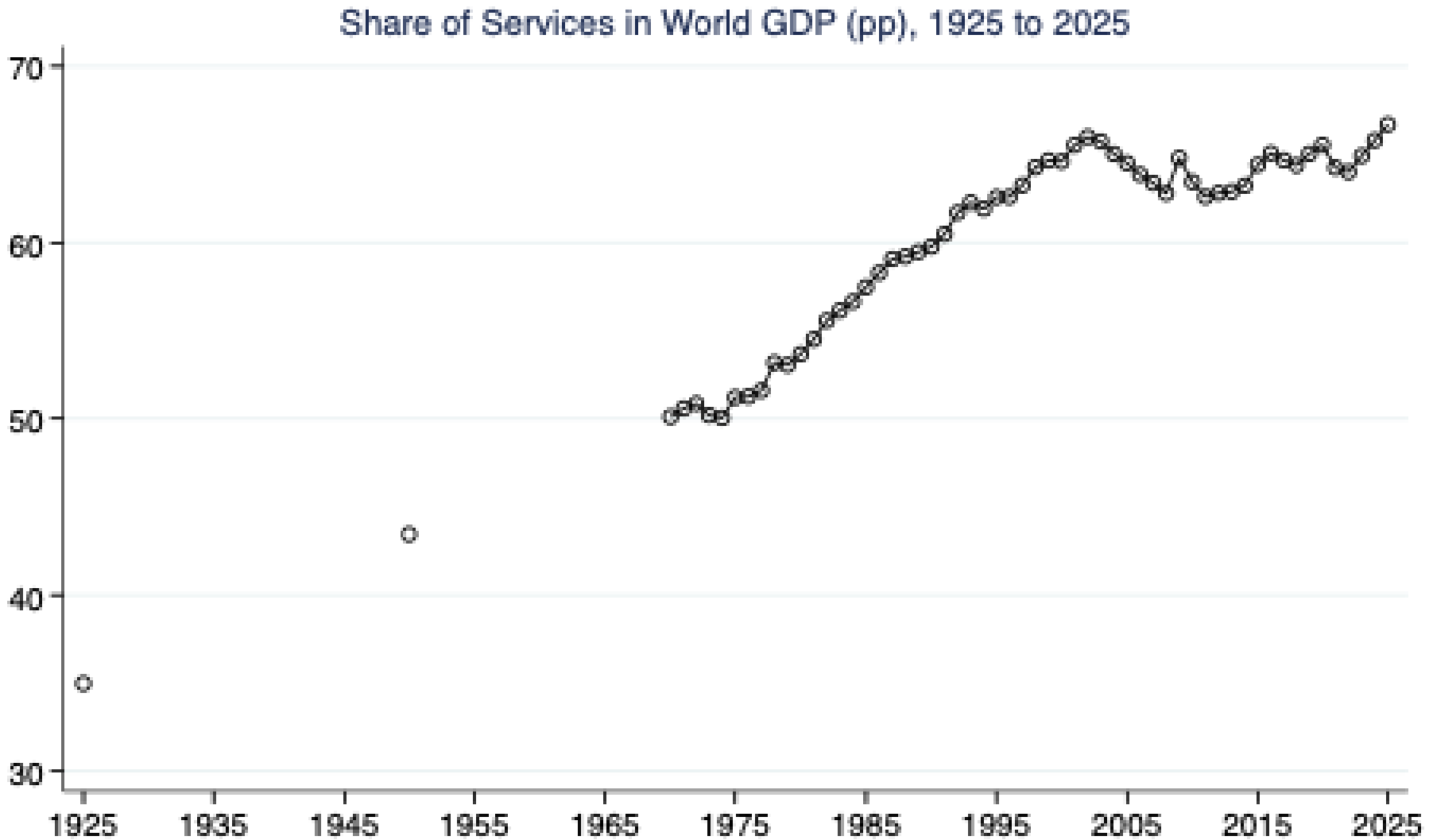
Instead, overwhelming aim was to erect very high walls as a defense against a rising tide of deflationary forces.

This is (so far) a singular trade war of “one against all”, but it remains to be seen if similar tendencies will emerge.

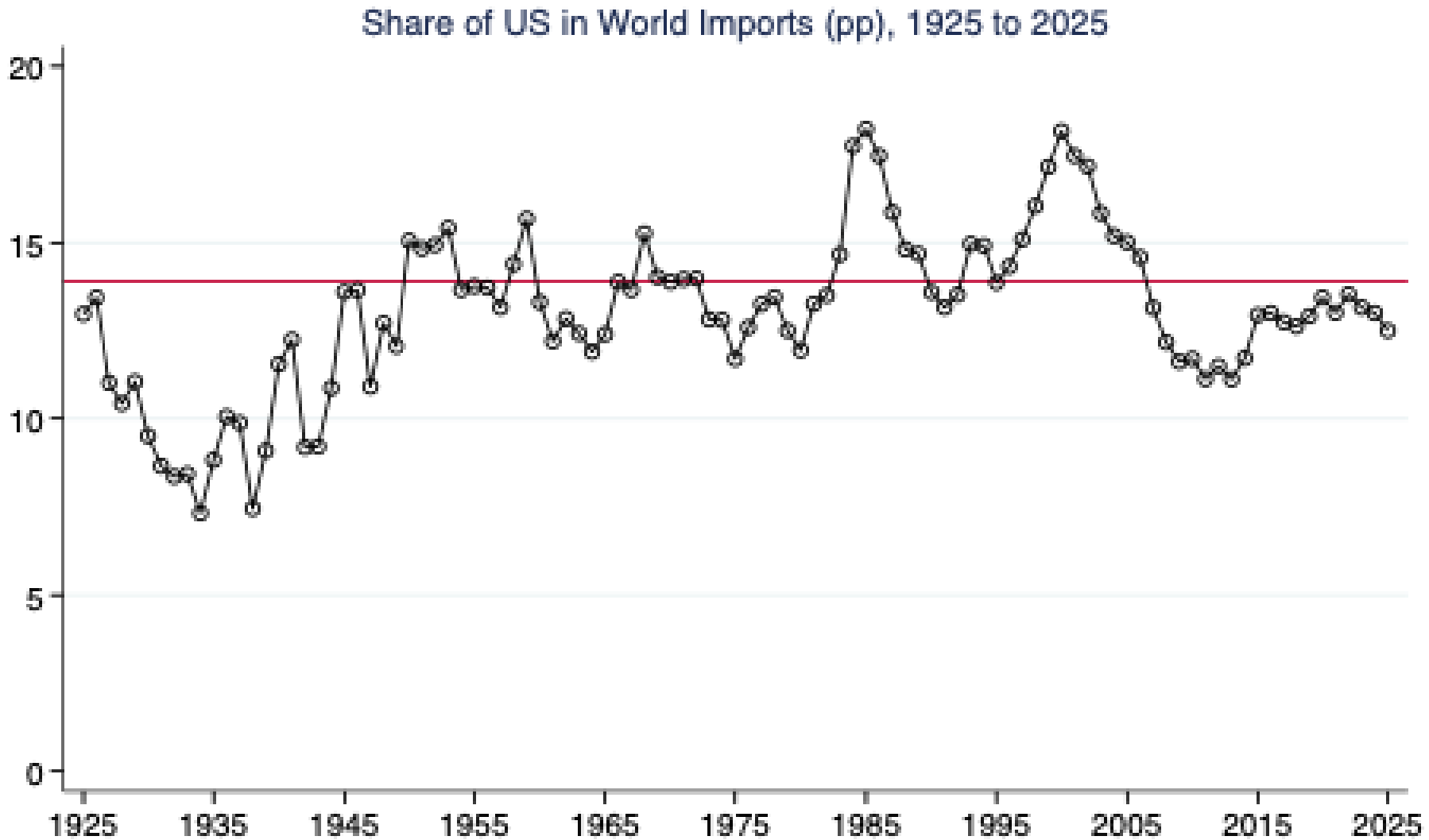
There have also been three important changes in the composition of output & trade, suggesting that Trump’s trade war may land differently...



Larger rise in inputs/parts → a brake on higher US tariffs?



Rise in services → a larger buffer from tariff shocks?



All rhetoric aside, US no more central now than then.

The (duly caveated) lessons of the 1930s

In light of Trump Round I, Jacks and Novy (2019) was a deep dive into causes and consequences of trade wars in 1930s.

LR trends versus SR dislocations: trade wars mainly served to intensify pre-existing efforts towards trade-bloc formation (reorientation of trade towards geopolitically-driven goals).

From Jacks and Novy (2019):

- (1) “prospect that formerly dominant multilateral trading system likely to be replaced by a set of bilateral ‘deals’”
- (2) “prospect that present-day trade wars will serve same purpose as those of 1930s, that is, the intensification of existing and nascent trade blocs”

Past six months have shown how (1) has already transpired and how (2) will only gain strength in Trump Round II.

Further lesson for today: US protectionism is here to stay

- (1) history: “stickiness” of 1930s tariffs; lingered for decades, masked by erosion of specific duties by inflation
- (2) political economy: budget deficits far into the future; “only” 1/3 efficiency losses; easy to maintain support
- (3) vibes (speculative): beleaguered middle class looking for someone to blame and foreigners are an easy target

The trillion-dollar question? Upcoming SC decision a bit of a wildcard, but no reason to expect that Trump will not pursue other means to achieve goals in remaining three years.

Ways forward for SIN & other small/medium countries?

SR: wait it out/don't retaliate (no need to provoke response)

LR: diversification/re-balancing (as total effect may be small)