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DISSERTATION

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GLOSSARY

GDP – Gross Domestic Product.

RTAA – Reciprocal Tariff Agreements Act.

GATT – The General Agreement on Tariffs and Trade.

WTO – World Trade Organization.

IMF – International Monetary Fund.

UN – United Nations.

Abstract

The world is changing at a fast pace, with geopolitical and economic uncertainty posing serious challenges to global stability and prosperity. The centuries old debate that opposes mercantilism to liberalism is resurfacing after the post-Cold War optimism that saw globalization and full-scale free trade as unquestionable. In order to shed a light on the present and future of the global economic architecture, this thesis does not underestimate the importance of the past, focusing on three main areas of analysis that are, in several ways, intertwined: economics, geopolitics and history. This work proposes to study the international economic architecture, exploring with more depth the American approach on trade, from the late 19th century to the present day, based on case-studies such as President McKinley's tariffs, the Smoot-Howley Tariff Act of 1930, the Great Depression and the Liberal International US-led Order that saw the creation of multilateral institutions such as the GATT – now WTO –, the IMF and the World Bank. This research, based on a blend of qualitative analysis with quantitative data, shows that the rise of American protectionism in the last decade is, *de facto*, a leap backwards in terms of trade architecture, discarding the post-war multilateral system in favour of unilateral or bilateral dynamics. But it is also true that opportunism, economic nationalism, and unilateral movements have been a reality throughout the history of American trade policy, even in those times where the Unites States were the great sponsor of the so-called Liberal International Order, now going through an evident crisis.

KEYWORDS: United States; Multilateralism; Bilateralism; Economic Nationalism; Protectionism; Liberalism; Trade policy.

JEL CODES: F13, F14

Table of Contents

Table of Figures

List of Tables

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1. INTRODUCTION

> "Harmony, liberal intercourse with all nations, are recommended by policy, humanity, and interest. But even our commercial policy should hold an equal and impartial hand; neither seeking nor granting exclusive favors or preferences; consulting the natural course of things; diffusing and diversifying by gentle means the streams of commerce, but forcing nothing. (…) There can be no greater error than to expect or calculate upon real favors from nation to nation. It is an illusion, which experience must cure, which a just pride ought to discard."

In: Washington's Farewell Address to the People of the United States (p.28)

Economic nationalism has been on the rise throughout the world in recent years, and the United States of America is no exception. Even though this concept, to be explored in the next section, is under the spotlight due to current events, it is not new. Nor is it the first time the U.S. is experiencing it. The history of American trade policy is complex, very nuanced and has been carved by specific moments. The present work aims, after presenting a theoretical framework, to analyse U.S. trade policy from the administration of William McKinley – the first to implement a significant economic nationalist agenda – until today. In every section of this work a period that has been deemed crucial to understand the American trade architecture throughout this historical arc is presented, followed by an exploration of the trade policies that have been implemented and their impacts on the overall economy.

The methodology, which will be presented next, was key to answer the fundamental question of the work: is adopting economic nationalism today a great leap backwards? The question does not just try to juxtapose current policies with those of the late nineteenth century, but also to analyse their impacts in order to ascertain whether the progress made mainly in the last 70 years is being thrown away. In the current international economic and political landscape, with rising geopolitical tensions in various latitudes, this question stands as a crucial starting point to address, and to, at least, try to comprehend why policy makers, particularly in the United States, have been turning their backs on a trade system that has proved to be one of the most prolific tool, mainly through the economic interdependence it allows to flourish, in the process of war containment and, at a final stage, a solid peace.[1]

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[1] This idea, that trade and interdependence fostered a peaceful system, was explored by the great thinkers of the eighteenth century. See, for example, Montesquieu (1748), Smith (1776) and Kant (1795).

1.1. Methodology

The methodology of this dissertation relies on a mixed-methods approach to analyse the resurgence of American economic nationalism from the 1890's to 2025, and the trade architecture comprehended in this same period. Qualitative historical analysis will be accompanied by a quantitative data framing to address the following research question: is this resurgence of American protectionism a return to the 1890's or 1930's trade policy, throwing away almost seven decades of diplomatic efforts to liberalize trade, or is it justified by current pressures posed by globalization and the rise of other great powers? Given the interdisciplinary nature of this master's degree in International Economics and European Studies, and the subject that I chose to study, I find this methodological approach the most adequate, blending the synthesis of economic data with applied history to better understand the current pressing geopolitical and economic events.

As for the qualitative historical analysis, I have focused on specific case studies, such as William McKinley's tariffs in the last decade of the nineteenth century and the 1930s Smoot-Hawley Act, weaving them through this 130-year historical arc and establishing, whenever possible, parallels with today's protectionism surge. This research led to a comprehension of the economic and political implications of economic nationalism. Relying on primary sources, such as McKinley's own book and last speech in 1901, and Congressional records on the Smoot-Hawley debate, have been used to understand the evolution of trade policy throughout the 130-year historical arc in question.

To cement the thought line of this work, I had to rely also on the quantitative component. Descriptive statistics and graphical analysis were indispensable to the framing of trade policy trends, and they were sourced from solid databases like FRED, WTO, IMF, World Bank, and Statista, to mention a few. U.S. manufacturing employment, export shares, and GDP-trade correlations were crucial to give this thesis a solid, evidence-based narrative. Combining these two approaches was the best way to conduct work with this historical scope, respecting the 35-page limit without sacrificing the robustness that is expected from and fundamental to this kind of dissertation.

1.2. Theoretical framework

First, delving into the centuries-old debate between mercantilism/protectionism and *laissez faire*/free trade[2] is inevitable, as it is the theoretical framework that serves as the cornerstone of this dissertation. To start with, and as Heckscher (1934, p.45) put it, "the most important difference [between mercantilism and *laissez faire*] did not lie in the choice of ends, but in opinions as to the best way of achieving those ends". Building on this premise, the author makes clear that mercantilism, besides the fact that it is a specific type of economic policy, became in itself a "characteristic body of economic ideas", opening the door to a whole new economic theory (Heckscher, 1934). Heckscher (1934, p.45) also identifies two main tendencies that led statesmen between the beginning of the sixteenth century and the middle of the eighteenth century down the path of mercantilism: "unification of the territory of the State economically and the use of the resources of their countries in the interests of the political power of the State".

To better understand the whole theoretical framework of protectionism, there are some fundamental thinkers that are worth referencing. Jean-Baptiste Colbert and Friedrich List definitely make that grade.

Jean-Baptiste Colbert's time in the French government, in the mid-seventeenth century, is an important starting point to understand overall government control. That is mainly because, as Kurtzleben (1997) argues, Colbert was the precursor of interventionism in various areas, such as taxes, commerce, industry and trade, in an effort that was pretended to lead to the auto-sufficiency of France. It can be argued, as Kurtzleben (1997) does, that France was prosperous during his tenure, despite the big regulatory machine, but it is also true that it was his "stubbornness" (p. 24) that led him to close the door, via unbearable tariffs, on imports from the Dutch and the British. But while he closed that door, he opened another for the war that occurred in 1672.

Having shown Colbert's contribution to protectionism, List's work is a crucial addition because, more than an executive contribution that must not be understated, it gave the doctrine theoretical heft. His main book, *The National System of Political*

[2] Mercantilism and protectionism, as well as *laissez faire* and free trade, will be used interchangeably.

Economy (1841), is pivotal and it was mainly through it that he was described by Landreth and Colander (2002, pp. 324), cited by Palacio (2011), as "the father of American Protectionism" since his "protectionist views were warmly received in the United States". This does not mean that protectionism was created in the nineteenth century – as it was mentioned before, it was a reality before *laissez faire*. But List, a German professor concerned that all-out free trade was benefiting the already powerful industrialized economies, such as Britain's, was the author that provided the theoretical depth that the protectionist doctrine was lacking. He lamented, in the preface for the first edition of his seminal work, that the dispute between free trade and protectionism was being played "with unequal weapons" (p. xl). "On one side", List said about free trade, "a theory thoroughly elaborated and uncontradicted, a compact school, a powerful party which had advocates in every legislature and learned society, but above all the great motive power – money" (p. xl). On the other hand, the author wrote, there was "poverty and want, internal divisions, differences of opinion, and absolute lack of a theoretical basis" (p. xl). It would be an obvious conclusion that List's work is an attempt to provide theoretical ground to mercantilism, but he refused the title of mercantilism's theoretical father. He defined his proposed system, that was based on the concept of nationality, not as an attempt to revive the mercantilist system, but rather as an attempt to provide an economic theory that balanced the verifiable aspects of both mercantilism and cosmopolitism, as he called free trade, scrapping what he deemed untrue of both approaches (List, 1841).

List's national-based system sets the stage for one of the main concepts of the present dissertation: economic nationalism. This nationalist approach to the economy and, more precisely, to international economic relations is associated with, and it is safe to say that it is also inseparable from, protectionism. By placing the nation at the centre of political decision-making, discriminating in its favour (Macesich, 1985, as cited in Baughn and Yaprak, 1996), economic nationalism advocates for the creation of barriers, in form of tariffs, quotas, regulatory standards or countervailing duties (Reich, 1991, as cited in Baughn and Yaprak, 1996). Discrimination in favour of national workers and products to the detriment of foreign ones, when not guided by technical or quality standards, is another cornerstone of economic nationalism (Burnell, 1986, as cited in Baughn and Yaprak, 1996).

Having said that, and despite all the theoretical ground that classic protectionists tried to provide, Heckscher (1934) identified a simple, but fundamental, problem that arises by carrying such protectionist mechanisms: protecting some productive sector will create a burden that will inevitably be carried by the consumers that purchase its products (Heckscher, 1934). This, allied with the fact that free trade, with little effort, achieved what mercantilism was intended to achieve, but could not materialize, is why the author identifies *laissez fare* as "the real executioner of mercantilism".

So, the question of where, and when, does *laissez faire* appear is inevitable. According to Douglas A. Irwin (1996), free trade as a concept appeared for the first time when British Members of Parliament were discussing foreign trade monopolies in the sixteenth century. However, the author stresses the fact that the concept did not carry the same meaning that it carries today. In modern economic literature, free trade is well established as a mechanism that advocates for the abolition of import tariffs or other trade barriers, but, in the beginning, calling for free trade meant to free trade from government intervention, a call to abolish medieval controls (Irwin, 1996).

The validity of the argument put forward by Heckscher, that *laissez faire* was the executioner of mercantilism, can be confirmed by analysing the phenomena of the late eighteenth century. To be more precise, the phenomena that occurred in 1776. And there were two in particular. Firstly, it was in 1776 that the United States had just won its independence from the British Empire, a struggle that broke out mainly, as Eammon Butler[3] wrote, because of British mercantilism, which was trying to take advantage of its colonies. And as the epigraph of this chapter evidences, free trade was one of the pillars of the political economy of the founding fathers[4]. It was also in this year that Adam Smith, a Scottish scholar, published *An Enquiry Into The Nature And Causes Of The Wealth Of Nations*. So it's safe to say that this work, which was responsible for dissecting the myths and inconsistencies of protectionism, was fundamental in fostering free trade and dealing a significant blow to mercantilism.

[3] URL: https://www.adamsmith.org/blog/thinkpieces/free-trade

[4] It is important to note that support for free trade did not cut across all the founding fathers. Alexander Hamilton was the most vocal in support of protectionist measures, but others such as James Madison and Thomas Jefferson, despite showing clear sympathy towards free trade, acknowledge the uses of protectionist measures in some specific moments and sectors.

Although he wasn't the inventor of free trade, Adam Smith was responsible for providing it with a strong theoretical backbone. It is therefore natural that his work is an inevitable primary source when we try to define free trade. Smith (2012) states that the common economic policy in European nations was to accumulate as much silver and gold – because these two metals were seen as the mains, if not the only, measure of wealth – in times of peace. This premisse made them follow a path that ended in severe penalties, and, at worse, prohibition, to those who exported silver or gold. However, and naturaly, this kind of policy started creating obstacles when those nations became commercial because the process of acquiring foreign products was easier using such commodities (Smith, 2012).

Following this train of thought, Smith summarizes the economic system of free trade:

> "We trust, with perfect security, that the freedom of trade, without any attention of government, will always supply us with the wine which we have occasion for; and we may trust, with equal security, that it will always supply us with all the gold and silver which we can afford to purchase or to employ, either in circulating our com- modities or in other uses".
>
> In: Smith (2012, p. 425).

Going further in his *Enquiry*, he makes clear that if all nations adopted a liberal system of trade, i.e, a system where all importations and exportations faced no barrirers, the scarcity of a certain product in one nation would be compensated by the abundance of that same product in another, improving the situation of everyone involved in this free and dynamic interchange (Smith, 2012).

Adam Smith's work is vast. A whole dissertation could be constructed around it. However, it is not the goal of this work to do that. The superficial mention serves as a theoretical anchor for the free trade movement. But before moving forward, there is still one passage of the *Wealth of Nations* that is important to quote in full, since it will serve as a guiding thread for the next author under study:

> "It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a tailor. (…) All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a

part of its produce, or, what is the same thing, with the price of a part of it, whatever else they have occasion for.

What is prudence in the conduct of every private family, can scarce be folly In that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage".

In: Smith (2012), p. 446.

In other words, Adam Smith seeks to explain that it is not worth aspiring to a state of self-sufficiency in which you try to produce everything. There will always be a neighbour, and this applies to both individuals and nations, who can do it better or cheaper and that, in the end, the exchange of products between the various individuals or nations benefits the whole. Starting from this Smithian premise, it is possible to move seamlessly on to David Ricardo's contribution.

Ricardo states that trade itself will not instantly increase the value of a country, "altough it will very powerfully contribute to increase the mass of commodities, and therefore the sum of enjoyments" (p. 128). This is, of course, an evident argument for freer trade. But his crucial contribution, one that made him an inevitable name in every International Economics and Political Economy class, is the theory of comparative advantage. In this theory, which presupposes that there are no trade barriers, Ricardo relies on the example that Portugal was more efficient than England in the production of both cloth and wine (Siddiqui, 2018). Intuitively, one would think that this advantage held by Portugal would not translate into an incentive to trade with England, since it has an advantage in the production of both goods. But that is precisely the argument that Ricardo tries to prove wrong. As Siddiqui (2018) summarizes, relying on Ricardo (2004), both countries would benefit from the division of labour, specializing in the production of the good in which they had a greater comparative advantage.

With the theoretical foundation established, it is important to dive into the data. According to the World Bank (2023), trade was responsible for a 24 percent increase in worldwide income since 1990, a growth that allowed more than 1 billion people to escape poverty. However, the same World Bank report notes, protectionism is rising and the geopolitical turmoil is raising alarms about the globalization process. So, besides the main question presented before, the present work aims to answer the following additional ones:

1) what happened to the convictions, supported by empirical evidence, that shaped the international economic architecture since World War II?; 2) why is the United States, the primary champion of free trade in the second half of the twentieth century, retreating in this regard, adopting policies that date back to the late nineteenth century or the 1930's?; 3) was the Liberal International Order led only by ideological convictions of the United States, an opportunistic stance, or a blend of both? 4) were the United States a victim of the Liberal International Order, as President Donald Trump claims?; 5) if not, what can be expected if this protectionist rise continues?

After the introduction, the first chapter – Prosperity at home, prestige abroad – will analyse American trade policy at the end of the nineteenth century, focusing on the presidency of William McKinley and his protectionist attitude towards trade. Trade barriers, national incentives, and trade patterns will be the main object of study in this chapter, as well as addressing the question of whether the protectionist policies were the main driver of the registered prosperity in the U.S. during that period. Next, in the Depressing 30's chapter, the 1920s and 1930s will be analysed, from the roaring 20's to the depressing 30's, and the answer to whether the Smoot-Hawley Tariff Act helped deepen the consequences of the Great Depression will be presented. In the following chapter – A new order is born –, it is the system, its creation and development, of international trade that will be the object of study, delving into its main goals and achievements, as well as into the main obstacles it faced in this process of "multilateralization", including those imposed by the United States. This chapter also explores the end of the Cold War and the impact it had on the system, with globalization and free markets achieving a new degree of popularity and adherence. After all, the socialist rigid, centralized planning had failed. China's entry in the WTO in 2001 contributed to lifting the spirits, and the overall consolidation of an international economy based on free markets was only a matter of time. But it did not turn out as expected. The WTO is struggling, and the patterns started to change. The last chapter – A (new) fork in the road – shows that, as stated before, protectionist measures are rising, and so are the challenges posed by geopolitical events and trade frictions, and all these realities call into question the role of globalization in the future of the international economic architecture. The new American administration trade policy will be analysed, and the recent statements will be exposed to the data. Finally, the conclusion will summarize the results drawn from the research process of each chapter and present the answer to the main questions of the present work.

2. Prosperity at home, prestige abroad

> "A tariff which protects American labor and industry and provides ample revenues has been written in public law. We have lower interest and higher wages; more money and fewer mortgages. (…) The public faith has been upheld; public order has been maintained. We have prosperity at home and prestige abroad."

In: William McKinley's Address Accepting the Republican Presidential Nomination (1900)[5]

William McKinley came to power in 1897 after beating the Democratic candidate William Jennings Bryan. However, his impact on American commercial policy started seven years prior, when he was a Representative for Ohio in charge of the Ways and Means Committee and sponsored the Tariff Act of 1890, widely known as the McKinley Tariff. The argument in defense of this Act, which enacted a protectionist trade policy mainly through rising import duties, was based on the fact that such measures would catapult the United States to industrial power status (Irwin, 2017). As Irwin (2019) shows, the average tariff on dutiable imports reached 50 percent. But this approach to trade was not new. On the contrary, it was a maintenance of the *status quo* of the post-Civil War period (Irwin, 2017), but it stands out as a moment where American protectionist history entered a new phase (Taussig, 1931). It may seem counterintuitive, since the Act of 1890 is a continuation of an almost century-old approach. But, as Taussig (1931) explains in the entry of Chapter V, the surprise resided not in the maintenance of protectionism itself, but in its deepening: "After the passage of the tariff act of 1883, few persons would have expected, for a long series of years, a further extension of the protective system" (p. 251). In the conclusion of that chapter, Taussing pushed the argument even further, deeming the deepening process of the protection system as "radical" (p.283).

[5] URL: https://www.presidency.ucsb.edu/documents/address-accepting-the-republican-presidential-nomination-1

2.1. Protectionism and growth: a causal relationship?

McKinley's protectionist views were highly influenced by Henry Clay's thought. In a book called *The Tariff In The Days Of Henry Clay And Since*, published in 1896, McKinley expresses his admiration for Clay, stating that it was due to the protectionist measures he supported as the Speaker of the House of Representatives that the United States had managed to overcome the financial burden imposed on the country in the sequence of the second war with England. To McKinley, the increasing list of duties upon foreign goods allowed the American market to be reserved "for the American manufacturer" (McKinley, 1896, p.2). Also, according to the soon-to-be president, it was from that policy that the U.S. "emerged more prosperous and wealthier than it had been in the beginning" (p.2).

Protectionists, naturally, viewed the relationship between protectionism and prosperity as being of a causal nature. In fact, the United States showed strong signs of prosperity between 1860 and 1900. The railroad system grew by a factor of more than 8 in that period, from 13,000 miles to 258,000 miles, and pig iron output and coal production skyrocketed, with the former expanding by a factor of 16 and the latter by a factor of 23 (Irwin, 2017). Also, Head (1994), as cited in Irwin (2019), found that the protection had learning-by-doing effects assumed to spillover between national companies, allowing them to reduce costs. With free trade, estimates Head (1994), again as cited in Irwin (2019), these effects would only be seen in 1913.

This growth allowed the United States to lead the world when it came to the production of manufactured goods and made the country an economic superpower, with one of the highest *per capita* incomes in the world (Irwin, 2017). So, it seems safe to state that protectionism, by achieving important goals in some sectors, was actually turning America prosperous.

However, a large portion of the literature in economic history, as Irwin (2017) also argues, is more reluctant in accepting that proposition as a fact, i.e, economic historians have shown a skeptical stance when it comes to attribute the prosperity of the late nineteenth century to the imposition of tariffs. North (1960b, p.199), as cited in Irwin (2017), is one of those skeptics: "on balance, it is doubtful if the tariff promoted American industrialization much more rapidly than would have occurred in its absence, and it is even more doubtful that it resulted in any net addition to national income over this period".

If the protectionist trade policy wasn't the cause for the increase in American incomes and the establishment of their industrial might, then what was it? Irwin (2017) points to a set of explicative factors. The author, who sustains his analysis on a comparative exercise between the U.S. and Great Britain, attributes the growth in GDP to a rapid increase in population and the increase in per capita income to a "more rapid capital accumulation" (p. 278). Irwin (2017) also notes, relying on a table of comparative growth performance elaborated by Maddison (1995, p.255), that the total-factor productivity of both countries was similar. 0,33 in the United States and 0,31 in Great Britain. These results lead the author to subtract a potential increase in productive efficiency from the equation of America's relative growth, and, even though he states that it is "difficult to argue that the high-tariff was costly and inefficient" (p.284), he doesn't attribute the economic success to tariffs:

> "In sum, it is difficult to make the case that high import tariffs were an important factor driving late nineteenth-century US economic growth. The reallocation of labor brought about by the tariff was relatively modest, and the productivity consequences were small as well. The service sector, which was not directly affected by import duties, generated much of the growth in employment and productivity, and played a key role in increasing the US lead over Britain in per capita income in the late nineteenth century."

In: Irwin (2017, p.284).

Other literature, such as Lee (1993), Sachs and Warner (1995), and Harrison (1996), as cited in O'Rourke (2000), deepens Irwin's argument by concluding that, in fact, protectionist measures in the late nineteenth century were responsible for slowing growth.

2.2. Political implications, retaliation, and the 180-degree turn

Besides that, the McKinley Tariff of 1890 had political implications. In that same year, just over one month after the passing of the bill, Midterm elections took place, and the results may suggest the negative impacts of the rise in prices that tariffs provoked, even in such a short time span. The Republicans managed to hold the Senate despite losing two seats to the Democrats, but lost both the House and six Governors. The loss in the House was the most contundent, with the Republicans losing 86 seats for the rival party. In 1893, Benjamin Harrison failed to achieve reelection, being defeated by the Democrat Grover Cleveland, who ran on an anti-tariff platform:

> "We denounce Republican protection as a fraud, a robbery of the great majority of the American people for the benefit of the few. We declare it to be a fundamental principle of the Democratic party that the Federal Government has no constitutional power to impose and collect tariff duties (…)"

In: 1892 Democratic Party Platform[6]

There is still another important aspect: international retaliation. In England, conservatives and protectionists were already alarmed by a perceiving economic decline when compared with rising nations (Palen, 2010). This sentiment was accentuated by the McKinley Tariff, and the demands for a British imperial federation rose (Palen, 2010), but its impact was not circumscribed to Great Britain. Spanish Cuba was forced to close several small tobacco factories, which, when mounted togheter with other factors, sparked anti-colonial revolts, Indians started to call for protectionist measures as well, and France, despite wanting to avoid a trade war with the United States, adopted retaliatory measures (Palen, 2010). Despite international frictions, the volume of trade – the sum of exports and imports – *per capita* grew by a factor of 25 from 1800 to 1913, and world output per capita increased by a factor of 2.2 (Estevadeordal et al., 2002). That means, as the authors state, that the ratio of trade to output grew by a factor of roughly 11. If these figures were achieved in a time when the largest economic powers were going through a commercial scrap, it is not risky to consider that in a free trade international environment the numbers would be even higher. But that counterfactual is a subject for further research.

Another interesting aspect of McKinley's stance towards trade is that in the final days of his term, before being assassinated, his convictions about protectionism began to look less compelling. The speech he gave in Buffalo, in 1901, is a paradigmatic example:

> "[The United States] invites the friendly rivalry of all the powers in the peaceful pursuits of trade and commerce, and will cooperate with all in advancing the highest and best interests of humanity. The wisdom and energy of all the nations are none too great for the world's work. The success of art, science, industry, and invention is an international asset and a common glory. (…) The world's products are exchanged as never before , and with increasing transportation facilities come increasing knowledge and larger trade. Prices are fixed with

[6] URL: https://www.presidency.ucsb.edu/documents/1892-democratic-party-platform

> mathematical precision by supply and demand . The world's selling prices are regulated by market and crop reports."

In: Last Speech of William McKinley at the Pan-American Exposition (p.5)[7]

The 180-degree turn on trade is finally confirmed when he states that competition, not enmity, is crucial, and that "isolation is no longer possible or desirable" (p.5). The President also makes a strong case for the Liberal Interantional Order that would emerge after World War II, implicitly saying that economic interdependence is unescapable and the international system must be rules-based, when he says that "as we are brought more and more in touch with each other, the less occasion there is for misunderstandings" (p.7), completing the sentence with a call for a system in which the disputes are resolved by an impartial third party. The nod to Adam Smith, and other historical thinkers such as Castel de Saint-Pierre or Immanuel Kant, is also worth noting: "A policy of good will and friendly trade relations will prevent reprisals." (p.9).

Finally, the existing literature shows that the American economy grew significantly in the late nineteenth century, even though the growth was not directly related to protectionist measures, and that McKinley's continuation, and deepening, of protectionism boosted some productive sectors that otherwise would have taken longer to develop as they did. But what the literature also shows is that, in the end, it acted as a restraint on growth, which under ideal conditions of free trade could have been higher than it was, and that sent shockwaves worldwide. It is, then, possible to conclude that yes, in the period of McKinley's time in policy making, first as a Representative and then as President, the U.S. registered some levels of prosperity at home. However, stating that during those times America was prestigious abroad, especially in Great Britain, is more difficult.

2.3. Chapter's synthesis and conclusion

This chapter leads us to the conclusion that President McKinley's era left some sort of a mixed legacy. In other words, the country did prosper in this period, but it was in spite of protectionism, rather than because of it. These measures dampened the growth process and sparked international retaliation, mainly from the British. This tension was

[7] URL: https://play.google.com/books/reader?id=9_E_AAAAYAAJ&pg=GBS.PA2&hl=pt_PT

maintained in the beginning of the twentieth century and culminated in the interwar period's economic upheavals. With that said, the 30's, charachterised by the Great Depression and, in the context of commercial policy, the Smoot-Hawley Tariff, are an indispensible case study to address the damage caused by protectionism in the economic landscape, leading the United States to reevaluate its own strategy.

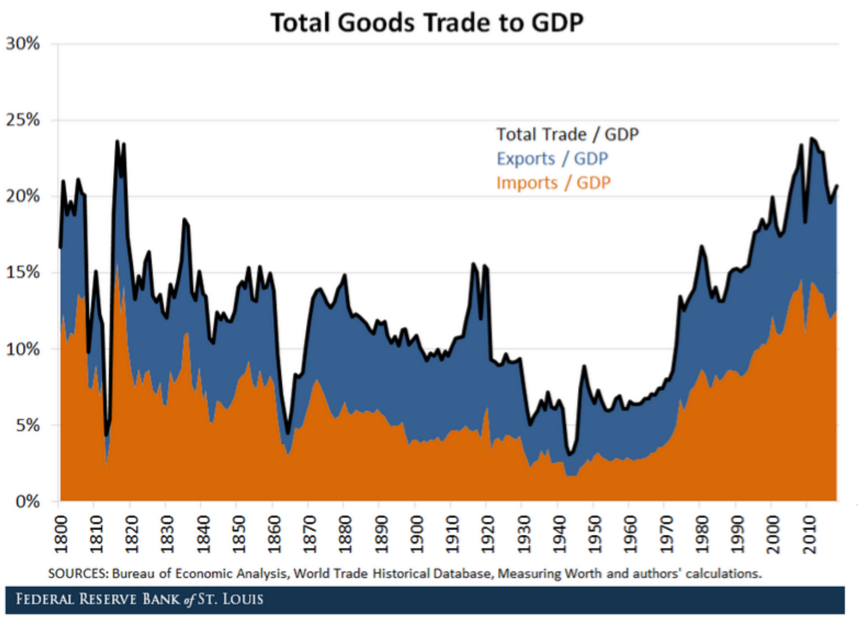
3. THE DEPRESSING 30'S

"(…) [W]orld trade has declined with startling rapidity. Measured in terms of the volume of goods in 1933, it has been reduced to approximately 70 percent of its 1929 volume; measured in terms of dollars, it has fallen to 35 percent. The drop in the foreign trade of the United States has been even sharper. Our exports in 1933 were but 52 percent of the 1929 volume, and 32 percent of the 1929 value."

In: Franklin D. Roosevelt Message to Congress Requesting Authority Regarding Foreign Trade, 1934.[8]

In the decade after McKinley left office, the American trade-to-GDP ratio remained relatively stable at around 10 percent. However, from 1910 to 1920, a spike to a level above 15 percent occurred, even though the period of World War I had a negative impact (Figure 1).

Figure 1



Source: Federal Reserve Bank of St. Louis (2020)[9]

[8] The American Presidency Project. URL: https://www.presidency.ucsb.edu/documents/message-congress-requesting-authority-regarding-foreign-trade

[9] In: Wen and Reinbold (2020), "The Evolution of Total Trade in the U.S.," *St. Louis Fed On the Economy*, March 2, 2020. URL: https://www.stlouisfed.org/on-the-economy/2020/march/evolution-total-trade-us

After the global conflict, it seemed as if the "return to normalcy", the slogan that led Warren G. Harding to the White House, was achieved. "The roaring 20's" is how the first decade of the interwar period is renowned, especially in the United States. Even with the 1920-1921 depression posing a minor setback, the U.S. got its first taste of what it was to be a superpower, with the British Empire in slow but constant decline. The real Gross National Product (GNP) grew by 4,2 percent a year from 1920 to 1929, with real GNP per capita growing at a 2,7 percent yearly rate in the same period, even though there was a contraction in American economy in 1920, leading to a depression that lasted a year, and minor depressions in 1924 and 1927 (Smiley, 2004). According to this same author, the American population experienced access to a wide range of consumer goods, from automobiles to housing, with the new industrial mechanisms, such as the wider use of electricity and the adoption of the moving assembly line in manufacturing, driving the productivity of not only labour, but also capital, up.

In terms of trade, the world exports between 1920 and 1930 grew by 1,5 percent a year, with GDP also rising by more than 2 percent, reversing the previous decade trend, where the world exports fell 1,5 percent yearly[10], highlighting the decade's economic boost. However, and even though the United States became the strongest economic power in the world and underwent an easing of trade barriers during previous Democratic administrations (most notably the Underwood-Simons Tariff, which reduced tariffs and created an income tax), high tariffs on imports were still a reality, mirroring once again the classical Republican trade policy since the Civil War[11]. Also, it is important to note that in this period, albeit adopting an interventionist stance on trade policy, the United States, under Harding's leadership, promoted *laissez-faire* in the national economy[12]. This can also be an explaining factor of the economic roar of the decade.

[10] Jacks, Meissner, and Novy (2011); Jacks and Novy (2018), cited by Jacks, Tang (2018).

[11] Office of the Historian, United States Department of State. URL: https://history.state.gov/milestones/1921-1936/protectionism

[12] An intention made clear in his Inaugural Adress, in which he stated he spoke "for administrative efficiency, for lightened tax burdens, for sound commercial practices, for adequate credit facilities, for sympathetic concern for all agricultural problems, for the omission of unnecessary interference of Government with business, for an end to Government's experiment in business, and for more efficient business in Government administration". In: Harding, Warren G. (1921): Inaugural Address, March 4. URL: https://avalon.law.yale.edu/20th_century/harding.asp

But this somewhat protectionist approach did not undermine trade expansion throughout the decade. American foreign trade (exports plus imports) reached its highest level since 1920 by 1929, totalling nearly 7 billion US dollars (Boeckel, 1930). Although, as Figure 1 also shows, American trade to GDP reached one of the lowest levels since 1800, sitting under 5 percent.

In his Inaugural Address to the nation, in March 1921, President Harding said that mankind needed “a world-wide benediction of understanding”, letting the Wilsonian idealism, fuelled by the creation of the League of Nations in the previous year, shine through his words:

> “It is needed among individuals, among peoples, among governments, and it will inaugurate an era of good feeling to make the birth of a new order. In such understanding men will strive confidently for the promotion of their better relationships and nations will promote the comities so essential to peace.”[13]

In: Warren G. Harding Inaugural Address, March 4, 1921.

But then 1929 came along, and with it one of the darkest moments in recent economic history, allowing, now, as it will be explored next, to state that it was a somewhat hasty prediction.

As Boeckel (1930) showed, the United States' foreign trade was roughly 5,4 million dollars during the first nine months of 1930, which meant that the figure was almost 2 million dollars lower than that of the previous year. Trade barriers – which assumed the form of tariffs, import quotas, exchange control, and trading blocks, favouring bilateral agreements with preferential partners, rose considerably, with almost every country scrambling to set them higher (Eichengreen; Irwin, 2009). That leads us to one of the main protectionist events of the twentieth-century commercial policy architecture.

3.1. The Smoot-Hawley Tariff Act

On June 17, 1930, the American President Herbert Hoover signed into law the Smoot-Hawley Tariff Act, a bill that confirmed the American decisive shift towards

[13] Harding, Warren G.: Inaugural Address, March 4, 1921. URL: https://avalon.law.yale.edu/20th_century/harding.asp

protectionism (Lake, 1988). Carrying the name of its main sponsors, Senator Reed Smoot and Representative Willis Hawley, the Tariff Act of 1930, as it is also widely known, was created and justified in the same terms as almost all other protectionist bills of the past. It was created, as the first sentence of the official document demonstrates, “to provide revenue, to regulate commerce with foreign countries, to encourage the industries of the United States, to protect American labor, and for other purposes”[14].

Considering the challenging economic circumstances, a protectionist bill may seem justifiable. However, Irwin (2017a) does not follow that line. He argues that, besides agriculture, the overall economy was in good shape, the level of imports was not at some extraordinary rate (as Figure 1 also shows), and businesses were not pressuring for a tariff increase. The stock market crash of 1929 undoubtedly changed the economic circumstances for the worse, but Irwin’s case lies in the fact that the discussion around the bill started before the crash. Therefore, “it was unusual for the Republicans to take up the tariff at this time” (Irwin, 2017a, p. 373). The main conclusion that can be drawn from this protectionist bill is that it was enacted to appease the agricultural sector (Irwin, 2017a), shifting the protectionist focus from the manufacturing sector to agriculture. This is a logical assumption and one that is crystallised in the words of President Hoover:

> “The increases in tariff are largely directed to the interest of the farmer. Of the increases, it is stated by the Tariff Commission that 93.73 percent are upon products of agricultural origin measured in value, as distinguished from 6.25 percent upon commodities of strictly nonagricultural origin.”

In: Herbert Hoover’s Statement on the Tariff Bill[15]

After the bill was passed, the average tariff on dutiable imports rose from 40% to almost 47% and provoked retaliatory responses, even from the largest trading partners such as Canada and some European countries, according Eichengreen and Irwin (2009). Two years after the imposition of Smoot-Hawley, according to Irwin (1997), the volume of U.S. imports fell by over 40 percent, and the Act has been “blamed for turning a modest recession into the Great Depression” (p. 1). This question of whether the bill worsened the depression has been widely approached, but it seems appropriate to rely on Irwin

[14] Smoot-Hawley *Tariff* Act of 1930. Accessed at: https://loveman.sdsu.edu/docs/1930Smoothawleytariff.pdf

[15] URL: https://www.presidency.ucsb.edu/documents/statement-the-tariff-bill

(2017a), since the author dedicated a whole paper to this issue. While examining the period between 1929 and 1932, Irwin (2017a) presents some data that highlights the dire economic and, of course, commercial, American landscape: the value of trade (exports and imports) fell nearly 70 percent; exports and imports fell, in quantity terms, 49 percent and 40 percent, respectively; real GDP dropped 25 percent. These figures led the author to conclude that during the period under study, “the United States experienced one of the worst peacetime collapses of its trade in history” (Irwin, 2017a, p. 394). All these factors notwithstanding, Irwin (2017a) concludes that the Smoot-Hawley Tariff Act’s influence in the crisis was, indeed, small when other factors, such as monetary and financial, are taken into account.

With the literature pointing towards a modest influence of the Smoot-Hawley Act in the Great Depression, it is important to conduct the research to another ground: trade patterns. What happened to trade during and after Smoot-Hawley and the Great Depression?

3.2. The downward spiral

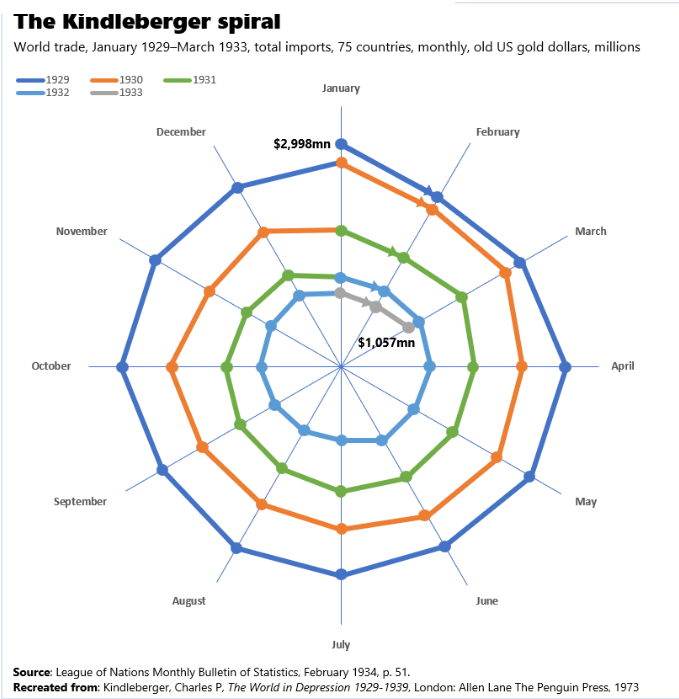
Retaliation has been a constant throughout history when it comes to raising tariffs. The reaction to Smoot-Hawley was no exception. The 1930 Tariff Act was a driver of a more intense protectionist stance internationally and, as expected, sparked retaliation measures against the United States (Lake, 1988). Lake (1988), after noting that thirty-three countries protested Smoot-Hawley, also mentions some specific cases. Given its relevance and how it will be used in comparison to today’s commercial scenario in the last chapter, it is worth quoting in full:

> In July 1930 Spain raised its tariff and, in November of that same year, entered into bilateral treaties with France and Italy which effectively withdrew most-favored-nation status from the United States. Italy increased its duties on automobiles in July 1930 and, in September 1931, raised nearly all duties on automobiles in July 1930 and, in September 1931, raised nearly all duties by 15 percent *ad valorem* and those on radios and radio equipment to virtually prohibitive levels. Italy also quietly began to balance trade on a bilateral basis. Soon after the passage of Smoot-Hawley Act, Switzerland began a public boycott for American products. Beginning in July 1931, France gradually placed quotas on 1,131 formerly dutiable items, or one-seventh of all goods subject to tariffs. Great Britain returned to general protection in 1932. In short, after 1930 government barriers to trade increased and trade flows came to be organized on a bilateral basis.”

In: Lake (1988), p. 202.

The shrinking of global trade in this period is best visualized through the Kindleberger Spiral (Figure 2).

Figure 2



Source: Trade β Blog[16].

This consistent closing of the international economy paved the way for what Lake (1988, p.203) called the "single opportunist". In other words, in an ever more closed international trade architecture, the United States "chose to lead other countries unilaterally back to a modicum of openness" (p. 203). And then the author makes another statement that is incredibly similar to what the United States is doing today: "the United States could be expected to bargain away its own tariffs, at least some of which were superfluous, to induce others to lower theirs." (Lake, 1988, p.203). The opportunistic approach culminated in 1934.

16 URL: https://tradebetablog.wordpress.com/2025/04/07/subscriber-alert-updated-kindleberger-spiral-back-from-the-dead-and-who-pays-the-tariffs/

3.3 The Reciprocal Trade Agreements Act

Just four years after Smoot-Hawley came into effect, a Democrat, this time Franklin D. Roosevelt, was back in the White House and trade policy was naturally affected. A period with which it is also possible to draw parallels with current American economic policy, as will be seen in Chapter 4. After the renowned New Deal, believing that the economy should be solved from within, and the creation of an Export-Import Bank, FDR put forward the Reciprocal Trade Agreements Act, which gave him the power to negotiate tariff reductions with foreign countries [17]. The shift in commercial policy was made, and efforts were made to ensure that trade barriers began to be lifted.

However, this initiative did not turn the United States into the champion of free trade that one may be led to believe. Again, protectionism was still an important piece on the board of American commercial strategy. As Lake (1988, p. 204) put it, the RTTA "was a tactical and pragmatic response to the international closure precipitated in part by its own earlier actions" and "demonstrated only the willingness of the United States to trade limited reductions in its own tariff wall in return for substantial reductions by others". According to Lake (1988, p. 204), the Act had two main objectives: the first was to "restart the wheels of international commerce"; the second was "to sharpen America's own weapons of economic warfare". This creates a dichotomy that succinctly defines American trade policy. One could call it opportunistic liberalism.

Regardless of the American objectives and their already described opportunism, it is possible to ascertain that the RTAA was responsible for reducing trade barriers – the U.S. closed deals with 19 countries – and paved the way for GATT[18], the pillar of a new international economic order that emerged in the aftermath of World War II, even though the mechanisms – the former bilateral and the latter multilateral – were different.

3.4. Chapter's synthesis and conclusion

Finally, the 30's served as a lesson. Although the Smoot-Hawley Act did not play a central role in the deepening process of the Great Depression, it was responsible for pushing world trade down the plug hole. This collapse made the United States reconsider its strategy after World War II and, building on the already existing RTAA, the Americans

[17] Office of the Historian. URL: https://history.state.gov/milestones/1921-1936/export-import-bank
[18] *Ibid*.

ended up leading the process of establishing multilateral institutions such as the GATT and, in Bretton Woods, the IMF and the World Bank. The next chapter will address this newborn order and how its openness delivered prosperity and an overall stable peace while still retaining elements of strategic opportunism.

4. A NEW ORDER IS BORN

> "You and I know that the world does not stand still; that trade movements and relations once interrupted can with the utmost difficulty be restored; that even in tranquil and prosperous times there is a constant shifting of trade channels."

In: Franklin D. Roosevelt Message to Congress Requesting Authority Regarding Foreign Trade, 1934.[19]

After the consequences of the 1930's stark economic landscape, paired with the heavy, and rather disproportionate, reparations imposed upon Germany in the aftermath of the Versailles Treaty, resentment fuelled Adolf Hitler's rise to power and, with him at the helm, the Treaty was shredded to pieces and the rearmament plan made Germany the biggest European power again. With all these ingredients mixed, adding Hitler's megalomania, World War II came along.

In the aftermath of the deadliest conflict known to mankind, a new world order was born. It was a rule-based and open order whose principles were reflected by various international and multilateral institutions such as the United Nations (Ikenberry, 2011). It's central architect, the United States, led by a Woodrow Wilson-inspired Franklin D. Roosevelt, "conceived of the Second World War as a war to end empire", as Ferguson (2004, p.172) put it, and "the result was a leap in the number of independent states in the world, which more than doubled" (p.173). Ferguson also condenses the essence of the famously called Liberal International Order:

> "Thus, impelled forward by a combination of European exhaustion, non-European nationalism and American idealism, the world embarked on an epochal experiment, an experiment to test the hypothesis that it was imperialism that caused both poverty and wars and that self-determination would ultimately pave the way to prosperity and peace".

In: Ferguson (2004, p. 173).

And if the end of imperialism was a key feature of the post-war order, what about trade openness? Baldwin (1984, p.5) opens his work with a clear sentence: "Future economic historians will undoubtedly stress trade liberalization as the most distinctive feature of U.S. commercial policy over the past fifty years". Crockett (2010) also wrote

[19] The American Presidency Project. URL: https://www.presidency.ucsb.edu/documents/message-congress-requesting-authority-regarding-foreign-trade

that the rise of the free-market philosophy was one of the two defining trends of the post-war order. And the figures since 1934 (Table 1), when President Roosevelt passed the RTAA and managed to obtain power from Congress in terms of commercial policy, confirm both statements. With the agreements, thirty of them made bilaterally and eight via multilateral negotiations, tariff rates dropped around 20 percent in relation to 1930 (Baldwin, 1984).

In this crucial work to understand U.S. trade policy after World War II, Baldwin (1984) identified five main trends, with two particularly standing out: the use of trade policy to achieve national security and international political objectives and the use of another set of trade barriers while tariffs were being considerably reduced. These two trends are worth highlighting over the others, mainly related to internal political pressures and dynamics, because they point to the opportunist thesis advanced by Lake (1988). Notwithstanding, Baldwin indicates that this will to slash tariffs from the Democratic Party was not just a mere opportunistic approach when he writes, quoting President Roosevelt's Statement to Congress on 26 March 1945, that

> "Well before the end of World War II, the foreign policy leaders of the Democratic party had concluded that the lack of an open world economy during the 1930s was a major contributory cause of the war, and that the United States must, therefore, take the lead after the end of hostilities in establishing an open international trading system to make "the economic foundations of peace (…) as secure as the political foundation."

In: Baldwin (1984, p.7)

For the Democrats, standing for a freer international trading system was also, as Baldwin (1984) argues, a question of principle, since the party, which associated restrictions on trade as being a way to strengthen monopolies at the expense of the consumer, had long pushed for slashing tariffs. After the enactment of RTAA, some economic indicators started to recover (Baldwin 1984); unemployment dropped from nearly 25 percent in 1933 to less than 15 percent in 1937, and even after a short spike in 1938, the trend was maintained, and the rate of people out of work was near 0 percent in 1944 (Figure 3). Also, the volume of exports, according to Statista (Figure 4), went from 2,474 million U.S. dollars in 1933 to 21,438 million U.S. dollars in 1944.

Figure 3

Source: Bureau of Labor Statistics.[20]

Figure 4

Source: Statista (2024).[21]

4.1. Bretton Woods, GATT, and the multilateral order

After setting the overall definition of the post-war order, it's important to take a step back. Particularly to 1944. Allied victory was only a matter of time, and the system that would soon emerge started to be forged in the United States. More specifically, in Bretton Woods, New Hampshire. In this meeting, the architects of the system decided to

[20] In *SHEC: Resources for Teachers*. URL: https://shec.ashp.cuny.edu/items/show/1510.

[21] URL:https://www.statista.com/statistics/1076971/us-imports-exports-historical/.

create a hybrid monetary system, combining the exchange rate stability offered by the gold standard with the independence to carry out national full employment policies – the advantage of floating rates (Bordo, 1993). It was also in Bretton Woods that international institutions such as the World Bank and the International Monetary Fund were created. And even though the system underwent significant modifications throughout the years – modifications that made the system, initially designed at Bretton Woods to be government-led, mutate into a market-led one (Padoa-Schioppa and Saccomanni,1994), cited by Crockett (2010) – it can be seen as the genesis of the order that followed. It is also the end of Bretton Woods in 1971, when President Nixon took the dollar off the gold standard and implemented wage and price controls because of rising inflation and a predictable gold rush (Ghizoni, 2013), which shows that the national interest was deemed more important than the international order led by liberal principles.

Besides Bretton Woods, the well-established conclusion amongst the Democratic foreign policy leaders that an open international economy would contribute significantly to solidify peace, the General Agreement on Tariffs and Trade was signed in 1949. It was a major agreement in a period when the world embarked on a new kind of war. A cold one. So, the most relevant nations when it came to trade in the so-called West were part of it, and, for the United States, it was "its principal trade contract" (Vernon, 1954, p.1).

One of the points that needs to be highlighted from Vernon's work has to do with GATT's genesis. By reading the previous chapter of the present dissertation, one may be led to conclude that the Smoot-Hawley Tariff was not as important as it is normally said. After all, the average tariff rate rose only 7 percent, and it did not have an impact as large as it is believed in the Great Depression, even though it sent international trade down a plug hole. But Vernon exposes why it was a pivotal moment, identifying Smoot-Hawley as the seed that, eighteen years later, would make a project like GATT blossom:

> [It is] impossible to explore its early origins without going back to Mr. Smoot and Mr. Hawley. If there was a single event which set the stage for the American policy which is embodied in the General Agreement, it was the enactment in 1930 of the legislative monstrosity known as the Smoot-Hawley Tariff. This statute has attracted superlative abuse not alone because it set American tariffs so high, but also because the rates were set with such a single-minded concern for the wishes of specific producer groups as to shock the sense of fitness and propriety of many of those who were exposed to the process

In: Vernon (1954, p. 2)

Adding to that, the GATT came to life because the core of the RTAA, i.e., a system anchored in bilateral trade relations and agreements, had various limitations, such as the struggle to address a breach in the agreement (Vernon, 1954). Concerns of this kind, especially in an unpredictable order like the one that emerged from World War II, were the fuel that got the multilateral gears turning.

Vernon (1954, p.2) also stressed the unique role played by the United States in the GATT, and how the latter was an important tool of the former, by arguing that it was a means to govern U.S. trade relations with the world, rather than a means to govern the rest of the world's trade relations "*inter se*". This starting point is fundamental to conclude that the United States was a *de facto* leader of this new liberal international order. And the author makes that argument especially clear when he states that the American stance towards the GATT was what could make it work or break it:

> The American position on the GATT is so critical that it will determine whether or not the Agreement will remain in effect for any nations. Implicit in this American decision is a larger choice; will the United States continue to pursue the general pattern of trade relations with the rest of the world which has evolved as the "reciprocal trade agreements" program, or will it alter that pattern drastically?

In: Vernon (1954, p.1)

After mentioning the genesis and the objectives of the GATT, that mutated, in 1995, to the World Trade Organization (WTO) and started to address trade not only in goods, but also in services and intellectual property, it is important to dive into the data to understand the multilateral order's real impact on world trade and its overall economic implications. Starting with the overall tariff rate reduction – the main objective of the Agreement –, the results are largely positive. According to Staiger (1999, p.16), "the average *ad valorem* tariff on industrial goods has fallen from over 40 percent to below 4 percent". According to the WTO[22], the volume of world trade in 2024 was 45 times higher than it was in 1950, and its value skyrocketed by almost 382 times. The International Monetary Fund (IMF) also provides some important data to make the case for open trade, stating that countries that decided to open their economies to the world experienced faster

[22]URL:https://www.wto.org/english/res_e/statis_e/trade_evolution_e/evolution_trade_wto_e.htm#:~:text=World%20trade%20values%20today%20have,the%20WTO%20was%20first%20established.

growth than those who chose not to, and that trade liberalization benefits exceed its costs by more than a factor of 10[23].

In a speech in 2001[24], Eduardo Aninat, the former Deputy Managing Director of the IMF, outlined briefly but compellingly the benefits of the liberal order that emerged in the post-war period:

> "Since World War II, trade has been a major driving force in economic growth, with global trade expansion proceeding at twice the pace of global output growth. This has gone hand-in-hand with greater internationalization of production, an expansion in the trade of services, the emergence of developing countries as producers and exporters of manufactures, and the explosive growth of international capital flows. "The world as a whole has benefited greatly from this openness. Globally, real per capita incomes have roughly doubled since the mid-1960s, with those in developing countries growing, on average, just as fast as those in industrial countries.
>
> The strong consensus among policymakers and economists today is that outward-oriented strategies are essential for achieving the sustained economic growth needed to raise living standards. Indeed, it is difficult to find evidence of a single country that has significantly raised living standards for its people on a sustained basis, without sharply expanding its trade and investment links with other countries".

In: Eduardo Aninat's Address on China, Globalization, and the IMF, January 14, 2001.

In 2022, the World Bank also made a powerful case for free trade:

> "Since 1990, global trade has increased incomes by 24 percent worldwide, and by 50 percent for the poorest 40 percent of the population. This growth has lifted more than 1 billion people out of poverty. Trade has also played a pivotal role in shaping the global economy and promoting positive socioeconomic outcomes".

In: World Bank Group overview on trade.[25]

4.2. A fragile hope

With the U.S. unilaterality notwithstanding, the overall positive results, with a general increase in economic indicators, clashed with those presented by the Soviet Union that would end up totally collapsing in the early 1990s. Naturally, in this international

[23] URL: https://www.imf.org/external/np/exr/ib/2001/110801.htm#ii.
[24] URL: https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp011401.
[25] URL: https://www.worldbank.org/en/topic/trade/overview .

political circumstance, with the United States emerging from the Cold War as the winner and, consequentially, as the uncontested superpower, there was a perception at the time that multilateralism, globalization, and trade openness were part of a train that could not be stopped.

However, and even if the hope of an ever-globalized world in the early 1990's was at its peak, scepticism did not fade away. Teixeira and Molyneux (1993) showed that polls reflected the public awareness of the country's trade problems, a reality that led them towards protectionist arguments. However, according to the same authors, people were also conscious that the United States could not retreat from global trade. If this was the public perception, then, when American hegemony was deemed unquestionable, it sure is now that there is another giant in the international arena that has been mainly fed by American imports. A 2024 poll conducted by the Pew Research Center shows that 59 percent of American voters say that the U.S. has lost more than it gained from increased trade with other nations. The figure is 3 percent higher than it was in 2021. Only 37 percent believe that the country gained more than it lost, a drop of 4 percent since 2021.

So, following this train of thought, when Teixeira and Molyneux (1993, p.3) said that "taken together, these beliefs, fears, and policy preferences represent a new and powerful current in American public opinion: economic nationalism" twenty-two years ago, it is possible to state that a similar trend is now being followed. As the authors argue, economic nationalist arguments are popular, which means that "candidates of both parties are likely to return again and again to the ideas and positions of economic nationalism" (p.4). That is precisely what we are seeing in recent years. The point that is being made here is by no means intended to prove that a protectionist platform is a bulletproof election winner, as there are several factors that tip the scales at each given election. The point is that presenting a ticket that lacks this kind of argument may alienate some important electoral fringes, such as the ones in the traditional manufacturing states like the Rust Belt ones, mainly Pennsylvania, a swing state that can make or break an election.

4.3. Chapter's synthesis and conclusion

The U.S.-led liberal oriented order, as the data from the WTO and the IMF shows, was a success. It expanded trade and lifted millions out of poverty. But the Americans, despite being the creators and the enforcers of the system, had their moments of unilateralism, as President Nixon’s decision shows. Now, at the turn of the twenty-first century, globalization started to show some of its downsides, fuelling the protectionist doctrine once again. Returning to President Franklin D. Roosevelt’s quote that serves as the epigraph of this chapter, it can be interpreted as a warning. A warning that makes clear that all the progress achieved throughout the last seven decades through international agreements and complex diplomatic efforts can easily be undone, but getting back to international trade openness is a tortuous and difficult task. So, let's analyse whether the United States understood the lesson or chose a different path.

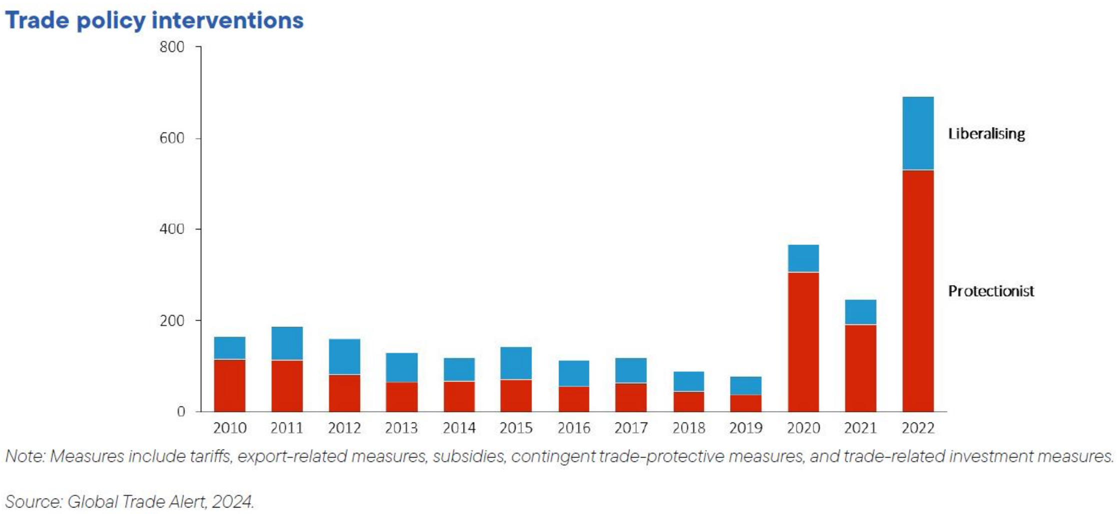
5. A (NEW) FORK IN THE ROAD

> "My fellow Americans, this is Liberation Day. April 2, 2025, will forever be remembered as the day American industry was reborn, the day America's destiny was reclaimed, and the day that we began to Make America Wealthy Again."

In: President Donald J. Trump's speech on "Liberation Day", April 2, 2025.[26]

The first point that needs to be made in this chapter is that protectionist trade policy interventions are on the rise. This is one of the ideas approached by Draghi (2024), accompanied by a figure that crystallises the trend.

Figure 5



Source: Draghi (2024).

As it has been shown throughout this dissertation, protectionism has been a fundamental characteristic of American trade and commercial policy, even if its intensity fluctuated through time. Only after World War II did the Americans understand that trade made them richer, more influential, and that wars were better prevented with an international system based on openness and economic interdependence. However, with the globalization process at full flame at the turn of the twenty-first century, its downturns began to be more and more visible and, naturally, a reaction and a return to protectionist approaches were expected. Here they are. The last decade of American politics made it completely clear.

[26] URL: https://www.whitehouse.gov/videos/my-fellow-americans-this-is-liberation-day-april-2-2025-president-donald-j-trump-%F0%9F%87%BA%F0%9F%87%B8%F0%9F%A6%85/.

In the quote from President Donald Trump presented as the epigraph of the present chapter, nostalgia seems to shine through his words, especially when the President mentions the rebirth of American industrial prowess. A short historical exercise shows that these nostalgic statements are nothing new. In the era of the industrial revolution that paved the way for the manufacturing boom, it was the nostalgia for the agricultural way of life. Now that almost 80% of Americans work in the service sector, there is nostalgia for the great manufacturing-driven way of life. But is it in the present, where the developed economies drift more to the services and technology sectors? And does the trade deficit that Pres. Trump utilizes as a justification for his tariff increase represents a real liability for the U.S., or, on the contrary, it can be an actual asset when it comes to negotiating? But also, could the pressure put on allies via tariffs, using this negotiating advantage, be counterproductive to the point of undermining the United States' own power?

5.1. A victim of globalization?

"Our country and its taxpayers have been ripped off for more than fifty years", said Pres. Donald Trump, in his speech on what he called "Liberation Day". Starting from this assumption, the President, and according to Azzimonti et al. (2025), enacted a set of protectionist measures that made the average effective tariff rate rise from 9,9 percent in the period between January and March 2025 to 27,5 percent in April. This 9,9 percent figure was already a larger one when compared to 2024 tariffs, which sat at 2,3 percent. As Figure 6 shows, this tariff spike is a rupture with the norms of the last two decades, where the average effective tariff rate over time was relatively stable (Azzimonti et al., 2025), even during Pres. Trump's first term when a trade war with China was ignited.

This was a clear sign that he despises the Liberal International Order and sees the United States as being a victim of the order it led for the last several decades. But the data seems to dispute this premise. As seen in Figure 7 (in the appendix), the US GDP, nominal and real, has been steadily increasing in the last fifty years, an indicator that reveals that the years of the Liberal International Order have been prosperous for the US and the increase of GDP is positively correlated to the increase of trade, as Figure 8 (in the appendix) shows. To make the positive impact of the United States' continued openness to international trade even clearer, Figure 9 (in the appendix) shows the Consumer Price

Index for All Urban Consumers, which measures change over time in the prices paid by consumers for a representative basket of goods and services, and has registered a significant decline. Also, when the GDP *per capita* of the poorest American state, Mississippi ($51,355), is larger than that of some of the most powerful economies in the world – United Kingdom ($49,464), France ($44,691) or Japan ($33,767), for example – , according to the World Bank and FRED, it seems implausible to argue that the United States have been "ripped off" in a world that has been mostly based on free trade and multilateral agreements.

Besides the economic benefits measured by the data, the United States significantly augmented its soft power, attracting other nations to its sphere of influence rather the coercing or imposing costs (Keohane, R. O., & Nye, J. S., Jr., 2025, June 2). And soft power is, the authors argue, the cornerstone of American power.

When it comes to the correction of trade imbalances, these two authors also explain, based on their seminal work *Power and Interdependence*, albeit paradoxically, that a trade surplus can be a vulnerability:

> "The paradox of trade power is that success in a trading relationship – as indicated by one state having a trade surplus with another – is a source of vulnerability. Conversely, and perhaps counterintuitively, running a trade deficit can strengthen a country's bargaining position. The deficit country, after all, can impose tariffs or other trade barriers on the surplus country. That targeted surplus country will have difficulty retaliating because of its relative lack of imports to sanction".

In: Keohane, R. O., & Nye, J. S., Jr. (2025, June 2, p. 71)

So, building on this argument, Keohane, R. O., & Nye, J.S., Jr. (2025, June) wrote that while President Trump has comprehended this bargaining leverage, leading him to exert pressure on other nations to push his geopolitical goals, his actions are counterproductive. And this counterproductivity lies in the fact that the cornerstone of American power, the already mentioned soft power, ends up being shaken.

Having said that, the United States is now, to use an expression coined by the American economist Maurice Obstfeld (2025, p.1), "taking a different fork in the road, basing its international policies on the premise that current global trade, financial and geopolitical arrangements have unfairly disadvantaged America".

5.2. The far-fetched manufacturing nostalgia

What the data also suggests, and going back to the manufacturing question, is that the manufacturing nostalgia can be, to say the least, far-fetched. Figure 10 (in the appendix) shows the manufacturing share of US employment since 1947. A decline of more than 20 per cent in manufacturing employment, a sector that now employs nearly 5 per cent of people in the country, makes clear that saving the manufacturing sector, one of the main concerns behind the tariffs of this administration, may not be a top priority. On the other hand, it is possible to see from Figure 11 (in the appendix) that the service-sector jobs have been constantly increasing, employing now almost 130 million Americans. In 1940, the figure was around 20 million. An outstanding difference in economic specialization brought immensely by the Liberal International Order. So, yes, the United States lost manufacturing jobs. But this was due to what the German economist Joseph Schumpeter coined as creative destruction – "the incessant product and process innovation mechanism by which new production units replace outdated ones" (Caballero, 2008). As Fareed Zakaria (2025) put it, for Donald Trump, the software, movies, law, banking, and other services that the US exports – more 75% of the whole American economy – are "intangible fluff". For the Republican President, added Zakaria, "steel is the real deal".

This second Trump administration is turning its back to trade expansion, sending tariff rates to new heights. There are other factors – mainly political ones – that can also explain this, and that will be useful to further research. But the rest of the world seems to have a different approach to this matter. "Of the 10 fastest-growing trading corridors", Ruchir Sharma wrote in the Financial Times, "five have one terminus in China; only two have a terminus in the US". In this period, as also noted by Zakaria (2025), "the European Union has signed eight new trade deals, and China has signed nine".

This evidence not only points to the fact that trade can suffer severe losses and that the world is going through an era of closedness, but also that bilateral negotiations and trade channels are starting to look like the new *modus operandi* of international economic relations after an era marked by multilateralism. This leap backwards towards a system similar to the one analysed in the pre-war architecture is a redefining moment of the international financial system, because it exposes the struggle of the post-war multilateral institutions, mainly the WTO.

5.3 The WTO's struggle

The World Trade Organisation (WTO) was established in 1995 as the successor to the General Agreement on Tariffs and Trade (GATT) and is responsible for managing the global system of trade rules and its main function is to promote growth through trade facilitation (Rahman, 2023). However, the situation in 1995, marked by the boom in the liberal international order, was different from today, and the growing competition between blocs undermines the WTO's reach. This led to the rise of Regional Trade Agreements that can pose a threat to multilateralism, splitting international trade into contending blocks (Bown, 2017).

Also, the WTO's own internal problems are a cause of its apparent inefficiency. After defining the institution's three main functions – a forum for writing basic rules and negotiate to improve market access, a dispute settlement mechanism, and a forum for countries to report changes in their own policies that regard trade –, Bown (2017, p. 107) writes that these three crucial pillars "have received little updating since 1995" and "even a relatively modest attempt to negotiate some rules changes multilaterally – through the Doha Round established in 2001 – failed and the effort was abandoned in 2015". This is a point that is also stressed in a report from 2021 prepared by the Congressional Research Service:

> More broadly, many observers are concerned that the WTO's effectiveness has diminished since the collapse of the Doha Round of multilateral trade negotiations, which began in 2001, and believe the WTO needs to negotiate new rules and adopt reforms to continue its role as the foundation of the trading system. To date, members have been unable to reach consensus for a new comprehensive agreement on trade liberalization and rules. While global supply chains and technology have transformed global trade and investment, WTO rules have not kept up with the pace of change. Many countries have turned to negotiating free trade agreements outside the WTO and plurilateral agreements involving subsets of WTO members.

In: Congressional Research Service (2021): World Trade Organization: Overview and Future Direction.

Andy Bounds, a Financial Times correspondent in Brussels, also made a point in 2022 that highlights the inefficiency of the WTO:

> "For almost three decades, the World Trade Organization has been lowering barriers to trade and smoothing the path of globalisation. Yet its ministerial meeting in Geneva (…) could result in something that could do the opposite: new tariffs."

In: Bounds (2022, June 13).

This is precisely where the WTO stands at this point. A struggling mechanism that is a symptom of a declining order. It is then safe to conclude that the United States' retreat from globalization and multilateralism helps deepen the crisis.

Finally, to summarize all that has been laid out in this chapter, and to shed some light on what to expect in the future, I'll rely again on a short but stinging sentence from Keohane and Nye, Jr.'s essay for Foreign Affairs:

> "The continuation of Trump's foreign policy would weaken the United States and accelerate the erosion of the international order that since World War II has served so many countries well – most of all, the United States."

In: Keohane, R. O., & Nye, J. S., Jr. (2025, June 2, p. 70)

5.4. Chapter's synthesis and conclusion

The analysis of the recent protectionist surge and the evident WTO's struggle leads to a conclusion: the world is turning back to economic nationalism, especially the United States, and bilateralism seems to be the new normal. The data seems to contradict President Trump's case for protectionism; however, it does not seem to matter, as the U.S. continues to push trade wars and utilizing tariffs as a means of negotiation. So, the concluding chapter will end this dissertation by synthesizing all the evidence gathered throughout the research on this 130-year historical arc, providing answers to the questions that guided this work.

6. CONCLUSION

After the somewhat extensive review of the literature and the data analysis, there are some conclusions to be drawn.

First, there was, in fact, prosperity in the late nineteenth century, when the commercial policy of the United States was deeply protectionist. However, a significant part of the literature points to another set of explicative factors, such as population growth, for the registered growth in this period. So, it is safe to conclude that while growth happened during times of intense trade barriers – barriers that fostered the rapid development of some critical sectors that helped the United States to achieve its industrial prowess, and that otherwise, in a free trade system, would take longer to achieve it –, free trade could have impelled the growth to other heights. Then, there was the political impact of protectionism. When analysing the evidence, it shows that protectionism carried substantial political costs to the Republican Party, which saw the democrats thrive electorally on an anti-tariff platform. Also, the 180-degree turn from President McKinley himself in 1901 stands as a pivotal point in what international economic openness could deliver to a nation that was getting its first taste of superpower status.

Even with McKinley's turn, protectionism did not simply fade away. However, a mild shift towards international cooperation occurred, mainly fuelled by President Woodrow Wilson's idealism and will to transform the international system into a multilateral and integrated one. A will that he tried to explain in his 14 points for peace at the end of World War I, and tried to materialize by leading the creation of the League of Nations. It did not work out as expected. On the contrary, several errors were made at the end of the war, especially the heavy impositions on a defeated Germany, paved the way for an order that grew increasingly closed and the resentment caused by the Versailles Treaty planted the seed for what the world would experience in a few decades, even though the 1920's were a period of growth and relative prosperity.

In the inter-war period, the Great Depression sent shockwaves throughout the world, and, simultaneously, the United States passed the Smoot-Hawley Tariff Act, a bill responsible for the rise in trade barriers that led to the collapse in world trade, as the Kindleberger spiral clearly shows. The literature shows that Smoot-Hawley did not deepen the Great Depression as it is commonly thought, but the stiffness of international economic and political relations caused by it, leading them to a point of a dangerous atrophy, certainly did not help the efforts made to overcome the economic backlash.

Then, President Franklin D. Roosevelt passed the RTAA which vested the President with increased power on commercial matters, and the work to lower tariffs via bilateral negotiations and agreements was underway. Through the RTAA, the United States closed deals with 19 different countries, and international trade registered an expansion. This does not mean, however, that the U.S. was driven only by its administration's liberal idealism. The opportunism, explained brilliantly by Lake (1988), was a hallmark of American trade policy.

After World War II, with the conviction that openness would be an indispensable instrument to prevent future wars and provide overall prosperity ingrained in the American leadership, a new order was born. The Bretton Woods conference was a pivotal moment, marking the creation of international institutions, such as the IMF and the World Bank, and the return to the gold standard, contributing to an essential equilibrium in exchange rates. In this new architecture, the U.S. achieved full employment, and its trade expanded to new levels. It is possible to conclude that the United States, more than the leader of this new order, was the piece that held the whole system together. This position of power allowed the U.S. to ditch concepts like liberalism and multilateralism whenever its national interest was on the line. The unilateral pullout from the Bretton Woods system and the increase in trade barriers during the Nixon administration are a stark example of this realist conduct, even though the country was the main moral, diplomatic, and financial sponsor of the Liberal International Order.

But after the collapse of the Soviet Union, openness and the two concepts mentioned earlier – liberalism and multilateralism – gained new traction. However, the hope of an ever-open world, deeply celebrated after China's accession to the WTO, revealed itself to be rather fragile. Full-scale globalization started to show its downsides – whether they were outweighed by its benefits, it's an object for further research – and protectionist ideas started to gain new appeal amongst American citizens, as the Pew Research Center Poll shows. Draghi's report on European competitiveness also makes the protectionist rise crystal clear.

With the WTO standing at an impasse and with the 2008 crisis backlash, protectionism seems to be the new normal. Trump’s recent measures are just a stark confirmation.

Reaching this point, there are some conclusions to take away from the research made on this topic. To put it plainly, and getting straight to the fundamental question that guided this work – whether the recent protectionist surge is a leap backwards to old trade dynamics after a period of booming multilateralism or is just a justifiable reaction to current pressures that arose with the globalization process –, the main point that can be drawn is that the United States are not only embarking in a great leap backwards in terms of commercial policy – which they undoubtedly are –, but also that protectionism has been engrained in the American approach to trade, even when it had its most liberal, and idealist, administrations.

In this perspective, addressing the recent protectionist surge as a leap backwards must be comprehended in the context of the international system’s readjustment. Traditional powers, especially the United States, are being contested by emerging ones, mainly China. And as this dissertation has shown, historically the U.S., when its national interest and overall political and geopolitical goals are on the line or at the brink, does not shy away from acting unilaterally, even if doing so means turning its back on the system it created, supported, and through which it prospered. Because liberalism needs an order to back it. And that order is in crisis.

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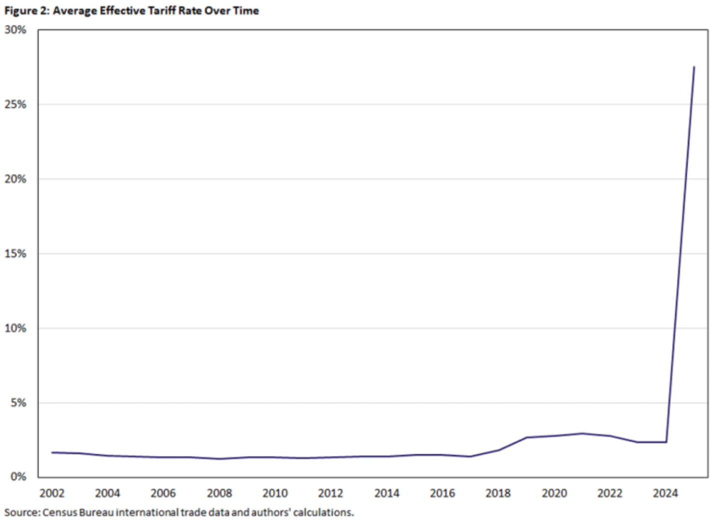
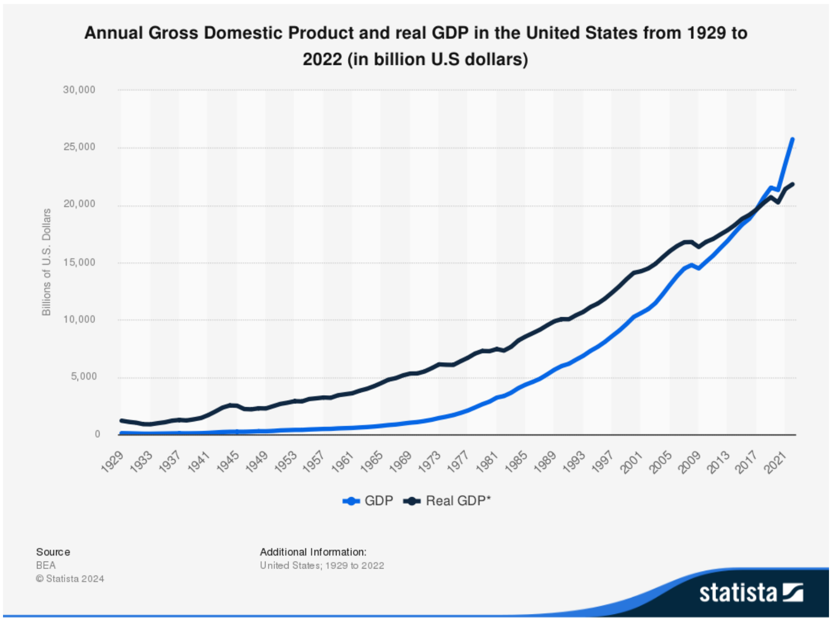
Figure 6



Source: Azzimonti et al. (2025)

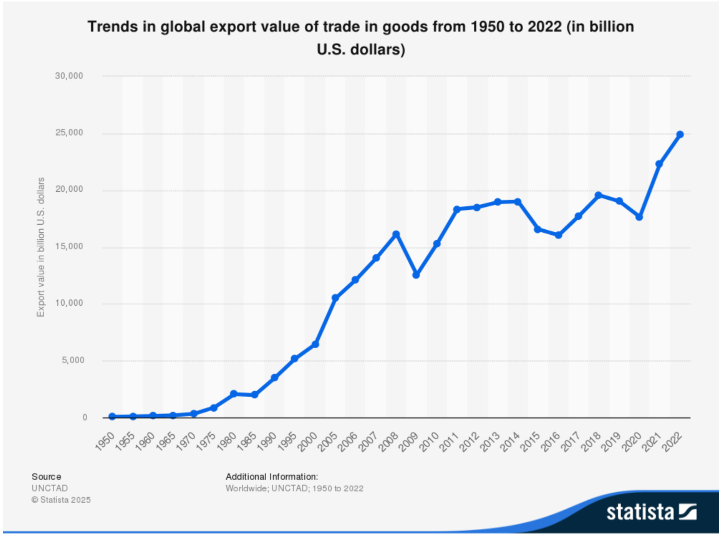
Figure 7



Source: Statista (2024)[27]

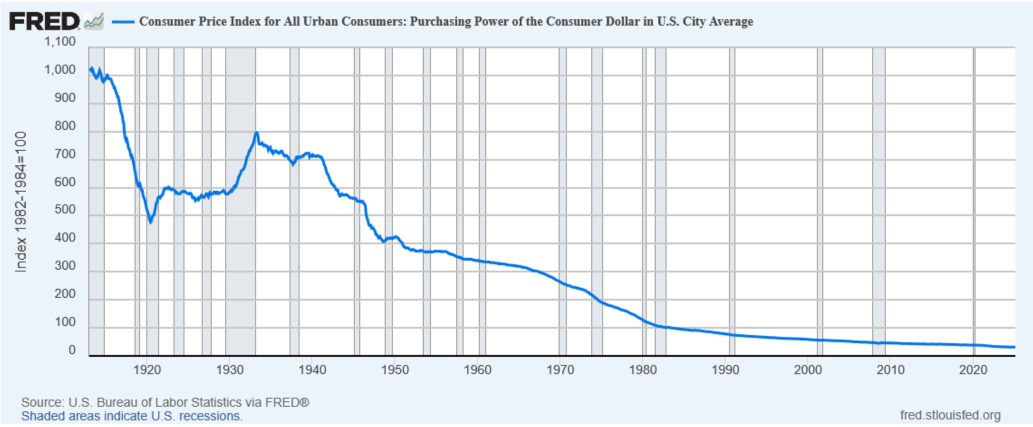
[27] URL: https://www.statista.com/statistics/1031678/gdp-and-real-gdp-united-states-1930-2019/

Figure 8



Source: Statista (2025)[28]

Figure 9



Source: FRED (2025)[29]

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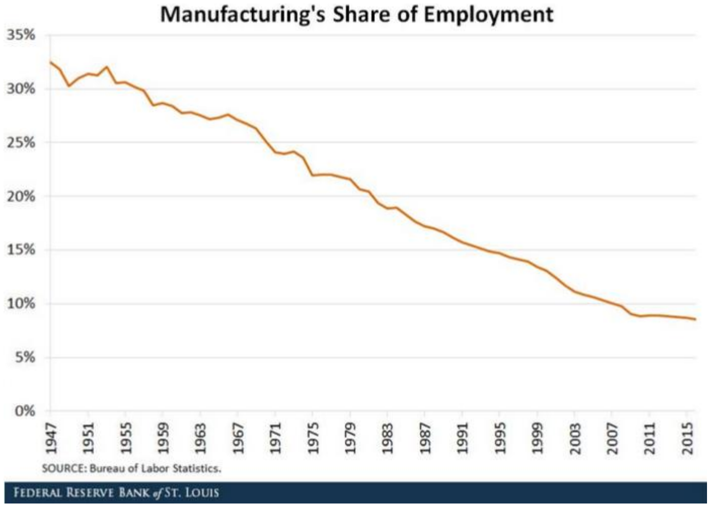
28 URL:https://www.statista.com/statistics/264682/worldwide-export-volume-in-the-trade-since-1950/

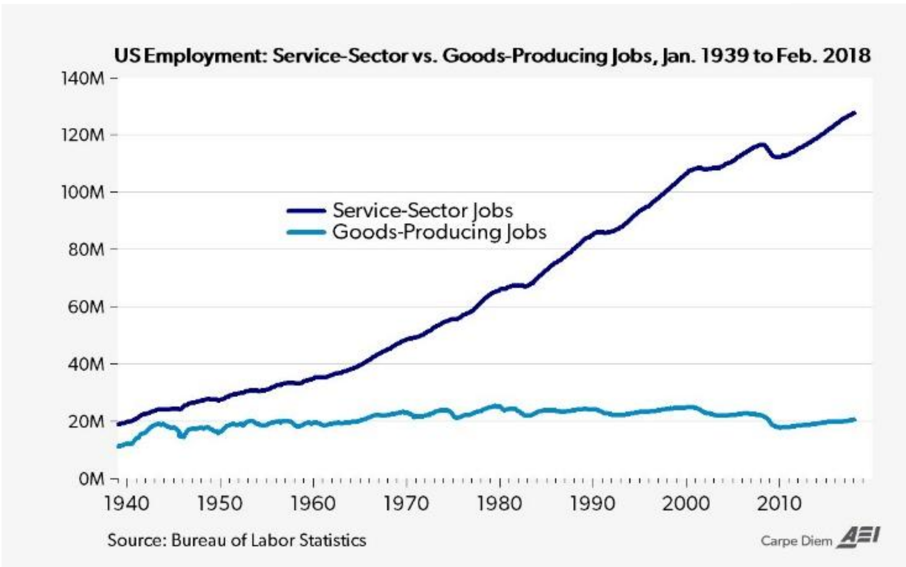
29 URL: https://fred.stlouisfed.org/series/CUUR0000SA0R

Figure 10



Source: Federal Reserve Bank of St. Louis[30]

Figure 11



Source: Foundation for Economic Freedom (2018)[31]

[30] In: Chien and Morris (2017), "Is U.S. Manufacturing Really Declining?," *St. Louis Fed On the Economy*, April 11, 2017. URL: https://www.stlouisfed.org/on-the-economy/2017/april/us-manufacturing-really-declining

[31] URL: https://fee.org/articles/6-americans-produce-services-for-every-worker-producing-physical-products/

Table 1

Table 1.1 **Duty Reductions since 1934 under the U.S. Trade Agreements Program**

GATT Conference	Proportion of Dutiable Imports Subjected to Reductions	Average Cut in Reduced Tariffs	Average Cut in All Duties	Remaining Duties as a Proportion of 1930 Tariffs[a]
1. Pre-GATT, 1934–47	63.9%	44.0%	33.2%	66.8%
2. First Round, Geneva, 1947	53.6	35.0	21.1	52.7
3. Second Round, Annecy, 1949	5.6	35.1	1.9	51.7
4. Third Round, Torquay, 1950–51	11.7	26.0	3.0	50.1
5. Fourth Round, Geneva, 1955–56	16.0	15.6	3.5	48.9
6. Dillon Round, Geneva, 1961–62	20.0	12.0	2.4	47.7
7. Kennedy Round, Geneva, 1964–67	79.2	45.5	36.0	30.5
8. Tokyo Round, 1974–79	n.a.	n.a.	29.6	21.2

SOURCE: Real Phillipe Lavergne, The Political Economy of U.S. Tariffs, Ph.D. thesis, University of Toronto, 1981.
[a]These percentages do not take account of the effects of either structural changes in trade or inflation on the average tariff level.

Source: Baldwin (1984).