Why trade wars can be ‘fantastically disruptive,’ the IMF’s historian warns

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As countries around the world face the possibility of escalating tariffs, history serves as a reminder that trade wars are nothing new.

Harold James is a professor at Princeton University and an official historian of the International Monetary Fund (IMF). In an interview at the IMF in Washington, he recalled the lessons learned, and perhaps forgotten, by the international community in recent trade wars.

The Smoot-Hawley Trade War (1930-1934)

"One of the big narratives at least was that the Great Depression had its origins in a trade conflict," James said. "It started with a tariff in the United States, the Hawley-Smoot tariff."

The Smoot-Hawley tariffs were named after two U.S. lawmakers: Senator Reed Smoot and Representative Willis Hawley. James said their original legislation was intended to protect American farmers in an era of increasing protectionism. The law, officially called the U.S. Tariff Act of 1930, ended up placing tariffs on thousands of imported U.S. goods.

"Every congressman wanted to add something on for their district, and so it became this immense compendium of tariffs on any product that you can think of," James said.

The aim of the Smoot-Hawley tariffs, he said, was to make foreign products more expensive to encourage Americans to buy domestic products. In fact, it raised the prices of goods for ordinary Americans as other countries retaliated with their own tariffs.

"In 1930, when it comes into effect, it really does quite a lot of damage to the world economy and world trade contracts very, very dramatically during the Great Depression," James said.

After the Great Depression, international institutions like the IMF were established to help prevent future trade wars. Trade agreements were negotiated multilaterally to reduce tariff levels and make commitments not to raise them again.

"Basically, from the 1950s to 2012 or 2013, every year world trade grew more than world industrial production," James said.

The "Chicken War" (1962-1963)

But that didn't mean the end of trade wars.

"There was this really quite aggressive move in the 1960s of chicken, and people talked about a chicken war," James said.

European countries were importing increasingly large amounts of frozen American chicken. According to a report by the Cato Institute, a libertarian think tank, 1 percent of West Germany's poultry imports were from the U.S. in 1956. Six years later, the figure rose to nearly 25 percent.

The European Economic Community responded in 1962 by raising tariffs on imported chicken. The U.S. retaliated with tariffs on four key European exports: potato starch, detrim, brandy and light trucks.

While most of the tariffs were removed, the 25 percent "chicken tax" on some foreign trucks from outside of the U.S. still exists today.

U.S.-Japan trade disputes (1980s)

But not all trade disputes become full-blown trade wars, James said.

"Sometimes, one of these initial moves can generate a new kind of framework and agreement," he said.

He pointed to disputes between Japan and the U.S. in the 1980s. Japanese exports to the U.S. were picking up; for example, passenger cars represented 6.5 percent of the U.S. car market in 1973 and 21 percent by 1980.

"People were really worried in the United States about Japanese competition and particularly all kinds of consumer products, but automobiles were a very obvious one," James said.

By imposing tariffs on products like Japanese autos, James said the U.S. created leverage to negotiate new trade agreements. He said the key difference between this dispute and the 1930s trade war was that agreements were forged before a trade "spat" became an "all-out war."

"Once you allow this whole accumulation of individual tariffs you get into such a messy situation… it's really impossible to get an agreement."