



Tariffs and aggregate economic activity: Lessons from the Great Depression

Mario J. Crucini^a * , James Kahn^b *


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[https://doi.org/10.1016/S0304-3932\(96\)01298-6](https://doi.org/10.1016/S0304-3932(96)01298-6) 

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Abstract

We argue against the prevailing view that the macroeconomic role of tariffs during the Great Depression was small. To understand the economic channels through which tariffs could have large effects we build a multi-sector dynamic equilibrium trade model that captures key features of trade in the 1930s: A substantial share of trade was in material inputs, and the persistence of the tariff increases had the potential for significant effects on capital accumulation. Both of these features are important in generating the conclusion that, even when trade only represents a small share of output, tariffs can have a significant impact on GDP. Simulation of the model suggests that the global escalation of the tariff war precipitated the collapse of world trade, along with declines of several percent in international output and investment.

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Keywords

International trade; Tariffs; Great Depression; General equilibrium

JEL classification

E3; F1; F4

- * We thank Michael Bordo, Steve Cecchetti, Amy Glass, and two referees for helpful comments. The paper has also benefited from interaction with participants at the Development of the American Economy Meetings at the National Bureau of Economic Research, July 1993, and seminar participants at Michigan State University, Ohio State University, the University of Pennsylvania, University of Quebec at Montreal, the University of Rochester, Rutgers University, and Vanderbilt University. Any remaining errors are the joint responsibility of the authors.

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