TRADE TREASURY PAYMENTS

HISTORY OF TARIFFS

From ancient times to the modern day

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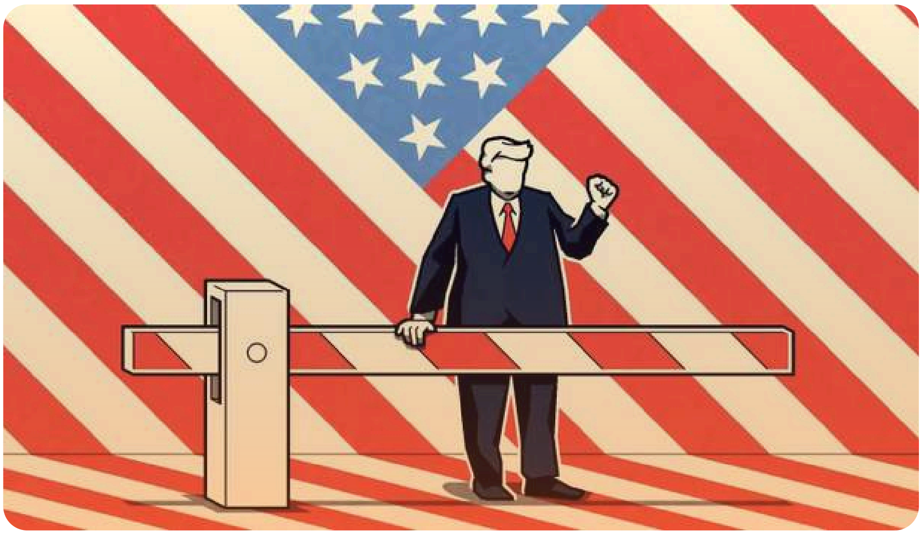


Tariffs are by no means a new concept, though they have gained a lot more prominence among everyday folk since US President Trump took office for his second term.

Formally defined by the Oxford Dictionary as "a tax that is paid on goods coming into or going out of a country", tariffs have been a feature of trade for millennia and have played a major role in shaping the empires and economies that we know today. Given their renewed prominence, I wanted to take a look back at the role that tariffs have played in economics and politics over the millennia.

This article will trace the history of tariffs, from their origins as simple tolls in ancient markets to their central role in modern trade wars. By providing the historical context for major tariff policies, highlighting influential economic theories (from mercantilism to comparative advantage), and exploring case studies (such as Britain's Corn Laws and the US Smoot-Hawley Tariff), I hope to paint a clearer picture of the economic and political impacts that tariffs have had over time.

Tariffs in antiquity and the medieval world

Tariffs are as old as organised trade. In the Bronze Age (3rd–2nd millennium BCE), merchant records from the Old Assyrian trading colony at Kanesh (in Anatolia) show that local rulers imposed levies on caravans trading metals and textiles. Despite these taxes, Assyrian merchants still profited and simply treated tariffs as a cost of doing business.

Ancient states used such duties to raise revenue for their treasuries and regulate commerce. In classical Greece, for example, Athens levied a 2% duty at its port of Piraeus on vital imports like grain to fund the city-state's needs. The Roman Empire likewise developed tariffs with internal trade within Rome's provinces taxed at around 1-5%, while luxury goods entering from Asia or other external regions faced much higher rates (often 12-25%). This made silk and spices exorbitantly expensive for the average Roman.

During the medieval period, tariffs became more systematised across Europe. As commerce revived in the 12th-15th centuries, feudal lords and monarchs imposed tolls at city gates and on trade routes. In medieval England, wool was a cornerstone of the economy and subject to heavy export duties. By the 13th and 14th centuries, English authorities fixed steep tariffs on wool exports—often equivalent to several shillings per sack—to protect this pillar of the English Medieval economy.

Similar duties applied to other commodities like leather, tin, and cheese. While these charges provided revenue and shielded local producers, they also incentivised smuggling and creative evasion (for example, by lying about the contents of taxed sacks), another practice that unfortunately continues to this day. Still, the medieval use of tariffs laid the early groundwork for the concept of regulating trade to serve the interests of the state and as European kingdoms grew into early modern nation-states, they would look back on the lessons learned and use them to expand on these tariff practices.

Mercantilism and early modern tariff policies

In the 16th to 18th centuries, European powers embraced mercantilism. Simply (and perhaps pessimistically) put, under the mercantilist way of thinking, a nation's success was directly correlated to the amount of gold in its coffers—regardless of the quality of its citizens' lives. Naturally, then, the leaders of the era sought to maximise their exports (which brought gold into the country) while minimising their imports (which sent gold out).

High tariffs were a hallmark of mercantilist policy across Europe. Rulers from Tudor England to Bourbon France sought to protect domestic industries and minimise imports, especially of manufactured goods, through steep import duties and outright import bans. For example, England, under the Tudor monarchs and later Stuart advisors like Robert Walpole, imposed heavy tariffs on foreign manufactured goods, subsidised exports, and banned colonial industries that might compete with the mother country.

By 1720, British tariffs on imported manufactures averaged 45-55%—extremely high by today's standards—as Britain nurtured its own textile and metal industries behind protective walls.

Similar protectionist measures were seen in France under Jean-Baptiste Colbert, who levied high duties to foster French industries and navy, and in Spain and other colonial powers, who forbade their colonies from trading freely or developing rival manufactures. These and other mercantilist governments viewed tariffs as a tool to enrich the nation at rivals' expense, even if it meant higher prices for their citizens.

At the same time, some thinkers began questioning mercantilist orthodoxy. In the mid-18th century, the Physiocrats in France advocated free trade in grains, and in 1776 Adam Smith published *The Wealth of Nations*, which sharply criticised mercantilist tariffs. Smith argued that keeping tariffs and trade restrictions low would benefit all nations. "Tariffs and other taxes," he noted, usually just make goods costlier for consumers and stifle industry, whereas "free exportation and free importation" allow each country to prosper by focusing on what it produces best.

This was a revolutionary shift in economic theory. No one before had suggested that free trade, not protectionism, was the route to national wealth. In 1817, David Ricardo further reinforced this idea with his theory of comparative advantage, demonstrating that even a nation more productive in everything gains by specialising in its relatively most efficient industries and trading for others' products.

Classical economists thus provided a theoretical foundation for lowering tariffs in direct opposition to mercantilist practice. As with many nascent theories, however, it took time before these free-trade ideas reached the mainstream, and longer still before they would be translated into policy.

Tariffs, industrialisation, and reform in the 18th and 19th centuries

Following the classical economic ideas of Smith and Ricardo, the late 18th and 19th centuries brought intense debates and shifts in tariff policy, though these varied widely across countries. In the early United States, tariffs were initially considered a crucial source of revenue for the young federal government; the very first US Congress enacted a Tariff Act in 1789 largely for revenue purposes.

In the first decades of the 19th century, US tariff rates remained relatively low, especially to appease the agrarian Southern states that depended on exporting cotton and importing manufactured goods. But pressures to protect nascent American industries grew. By 1828, Northern manufacturers pushed through a steep tariff increase.

The Tariff of 1828—denounced by the South as the "Tariff of Abominations"—raised import duties so high that it nearly provoked a constitutional crisis. South Carolina threatened to nullify the tariff and secede, forcing a compromise reduction in 1833. This near disaster for the young union taught American policymakers how tariffs could inflame regional political tensions by pitting protected industrial interests against raw commodity exporters.

Meanwhile, in Britain, the world's first industrial nation, tariff policy took a different turn. Well into the 1820s, Britain itself still practised mercantilist-style protection (with

average industrial import tariffs around 50%) even as it gained a manufacturing lead. However, after years of agitation by free-trade advocates, Parliament repealed its infamous Corn Laws in 1846, ending hefty tariffs on imported grain.

The Corn Laws, in force since 1815, had kept British grain prices (and landowner profits) high by barring cheaper imports. Their repeal came amid the Irish Famine's terrible hunger and widespread public pressure for cheaper food. The law's removal was equivalent to free trade in grain, inaugurating Britain's embrace of free trade principles.

Tariffs on many other goods were also lowered or abolished in the ensuing years. Britain's unilateral move to free trade was motivated in part by liberal economic ideas (the writings of Smith and Ricardo) and the belief that free trade would bring peace and prosperity. However, it did not immediately persuade other nations to follow.

In the mid-19th century, protectionism persisted on the European continent and in the United States.

For example, Friedrich List, a German economist, argued in 1841 that developing countries like Germany or the US should do what Britain had done (i.e., use tariffs to build industries) rather than what Britain now said (i.e., free trade)—accusing Britain of "kicking away the ladder" after climbing to industrial supremacy behind high tariffs.

Case Study: The Corn Laws (1846)

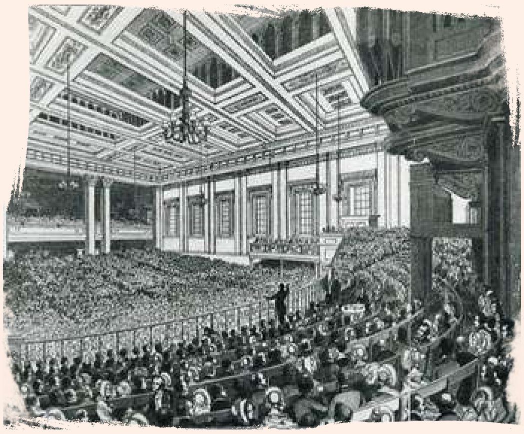
In 1815, Britain imposed a series of tariffs and other trade restrictions on imported grain, intending to protect British grain producers from cheaper alternatives entering the market from overseas. These became known as the Corn Laws.

While they were great for domestic producers and landowners, who profited heavily from higher prices and a lack of competition, the laws were terrible for the broader population, who faced higher prices on dietary staples like bread.

In 1838, Richard Cobden and John Bright formed the Anti-Corn Law League, an advocacy group that argued against the laws and for free trade. Their campaigns had little practical effect until the Irish Potato Famine took hold in 1845. Without the ability to supplement the failed crop with provisions imported from abroad, many citizens starved to death. With unignorable suffering to point to, the moral and economic arguments for repealing the Corn Laws gained overwhelming momentum.

In 1846, Prime Minister Sir Robert Peel, formerly a proponent of the Corn Laws, sought to have them repealed. Even with a tangible humanitarian disaster in their own backyard as evidence, members of the Prime Minster's own Conservative Party still put up fierce opposition.

In the end, however, Peel secured the support of the Whigs and other free trade proponents in parliament and had enough votes to finally repeal the tariffs, which, unsurprisingly, reduced the cost of food and helped improve the lives of ordinary citizens.



A meeting of the Anti-Corn Law League in 1846

Indeed, after its Civil War (1861-65), the US adopted very high tariffs to protect its burgeoning steel and manufacturing sectors. From the 1860s through the 19th century, average US import tariffs on dutiable goods ranged from 40% to 50%, making the United States the bastion of protectionism during that period.

American leaders like Alexander Hamilton had earlier articulated the infant industry argument, which claims that young industries needed temporary tariff protection until they matured. This idea guided US policy. By rejecting Ricardo's free-trade advice and sheltering its manufacturers, the US was able to industrialise rapidly.

Similarly, Germany unified in 1871 and soon after, under Chancellor Bismarck, abandoned earlier freer-trade experiments and imposed iron and grain tariffs in 1879 to protect German industry and agriculture.

By the late 19th century, a clear pattern had emerged. After 1846, Britain remained largely committed to free trade, while rising powers like the US and Germany maintained high tariffs to catch up economically.

This had measurable effects.

From 1870 to 1913, Britain's industrial growth (about 2% annually) lagged behind the more protectionist US and Germany (4-5% annually). Some contemporaries credited tariffs for the faster growth of the latter—though other factors were at play, including natural resource endowments and the scale of domestic markets.

Outside the West, European empires imposed their own tariff preferences: many colonies were forced into free trade or low, flat tariffs that benefited the coloniser. Notably, unequal treaties in the mid-1800s compelled China and Japan to accept import tariff caps (often around 5%), stripping those nations of tariff autonomy. For instance, after the Opium War, the Treaty of Nanjing (1842) fixed Chinese tariffs at a nominal 5%, flooding China with foreign goods.

The global "free trade" of the 19th century was sometimes imposed by imperial power. Britain and France preached free trade at home and in Europe, but in their colonies or spheres of influence, they often mandated low tariffs to open markets for their exports. Conversely, when colonies tried to industrialise, imperial policy usually barred them from using protective tariffs.

The early 20th century: tariffs, war, and depression

At the dawn of the 20th century, tariff levels worldwide remained generally high. Leading up to World War I, most great powers protected key industries. For example, the United States kept average tariffs on manufactured goods around 40% into the 1920s, and newly independent nations in Latin America and elsewhere often relied on tariffs for revenue and industry-building.

After WWI, there was a brief attempt at tariff reduction (some European countries lowered barriers in the 1920s), but these efforts were soon overshadowed by economic turmoil. The Great Depression of the 1930s marked the nadir of international trade relations, as nations worldwide dramatically raised tariffs in a spiral of protectionism. The most infamous example was the United States' Smoot-Hawley Tariff Act of 1930, which raised US import duties to record levels on over 10,000 products. Average US tariffs on dutiable imports jumped to about 60%, aiming to shield American farmers and factories from foreign competition amid the economic collapse.

In the wake of Smoot-Hawley, US trading partners like Canada, Britain, and others hit back with their own tariffs or shifted their trade elsewhere (Canada, for example, which had been the USA's largest trading partner, diverted trade toward the British Empire in response).

World trade contracted severely. While modern economic historians note that the Depression's primary causes lay in monetary and financial collapse, the beggar-thy-neighbour tariff wars unquestionably exacerbated the global downturn at the margin.

Case Study: The Smoot-Hawley Tariff and the Great Depression (1930s)

The Smoot-Hawley Tariff Act, enacted in the United States in June 1930, is remembered as one of the most controversial and economically detrimental trade policies in history.

Passed in response to the onset of the Great Depression and named after its sponsors (Senator Reed Smoot and Representative Willis C. Hawley), the legislation was initially intended to protect American farmers from foreign competition by raising agricultural import duties. Once lobbyists got involved, however, the scope of the proposed tariffs quickly expanded to cover nearly the entire economy.

Despite a public petition from more than 1000 economists warning of the economic repercussions, President Herbert Hoover signed the tariffs into law, convinced that protectionism would help domestic recovery.

Contemporary economists, industry leaders, and prominent newspapers of the era recognised Smoot-Hawley as a policy disaster and predicted that it would have a detrimental impact on international trade and the broader economy.

They were right. It didn't take long for trading partners to respond with their own tariffs on American goods. Between 1929 and 1933, world trade declined by approximately two-thirds, which worsened the effects of the Great Depression as industries reliant on exports suffered, further worsening unemployment.

Unlike the British Corn Laws, which were repealed outright, the Smoot-Hawley Tariffs were gradually repealed over the years, beginning with Roosevelt's Reciprocal Trade Agreements Act of 1934.

A political cartoon from c. 1930 by artist Dorman H. Smith

The United Kingdom, which had been the champion of free trade, also abandoned laissez-faire in 1932, imposing new tariffs after generations of openness. Dozens of countries followed protectionist policies in the early 1930s. The trauma of this period convinced many leaders that uncontrolled tariff competition was counterproductive.

In 1934, the US took a first step away from protectionism by passing the Reciprocal Trade Agreements Act, which allowed the President to negotiate mutual tariff reductions with other countries (rather than requiring Senate approval). In the five years between the Act's enactment and the outbreak of World War II, the Roosevelt Administration signed trade agreements with 19 countries (including Canada and the UK), which lowered tariffs and paved the way for the broader multilateral agreements to come.

Post-World War II: liberalisation under GATT and the WTO

The aftermath of World War II heralded a global reorientation of tariff policy. In 1947, 23 nations (led by the US and UK) signed the General Agreement on Tariffs and Trade (GATT), the guiding principle of which was that successive negotiations would reciprocally reduce tariffs and therefore prevent a return to the escalating trade wars of the 1930s.

This framework was remarkably successful. In 1947, the average tariff among GATT participants was about 22%, but after decades of negotiations, the average tariff fell below 5% by 1994.

In other words, the GATT and its successor, the World Trade Organization (WTO) (established in 1995), helped bring tariffs to historic lows, ushering in an era of expanding global trade. Many industrialised countries that once had average tariffs in the tens of per cent (such as the US, which had roughly 40% tariffs in 1947) slashed them to single digits by the end of the 20th century.

This shift was informed by the post-war economic consensus that free trade fosters growth, a view influenced by Keynesian and classical economic theories and bolstered by the perceived failure of interwar protectionism.

Tariff reduction went hand-in-hand with the formation of regional trade blocs. In Europe, the European Economic Community (later European Union) eliminated internal tariffs among its members in the 1950s and 1960s, creating a customs union with a common external tariff. The North American Free Trade Agreement (NAFTA)—signed in 1992 by the US, Canada, and Mexico—similarly aimed to remove most tariffs within North America. Across Asia, Africa, and Latin America, numerous regional agreements sought to lower tariffs and encourage trade.

However, the post-war liberal trade order was not without exceptions. Many developing countries in the 1950s-1970s adopted import-substitution strategies, keeping tariffs high to foster domestic industries (often citing the infant industry argument). Some, like the "Asian Tigers" (South Korea, Taiwan, etc.), did use selective protection and subsidies in the post-war decades to build competitive industries—echoing earlier mercantilist strategies but later gradually opening up as their industries matured.

By the 1990s, though, even most developing nations were lowering tariffs as part of IMF and World Bank-advised reforms and joining the WTO system.

Twenty-first-century tariff conflicts and trends

In the early 21st century, average tariff rates remained low by historical standards, but tariffs have not disappeared—nor have trade disputes. Global supply chains and free trade agreements flourished in the 2000s, yet some countries have periodically turned to tariffs as a policy tool for economic or strategic reasons.

For instance, in the late 2010s, the world witnessed a sharp resurgence of tariff wars. The United States, in President Donald Trump's first term, raised tariffs on hundreds of billions of dollars of imports—targeting steel, aluminium, and especially Chinese goods—citing unfair trade practices and the need to protect domestic industries.

China and other trading partners retaliated with their own tariffs. By 2019, the US had imposed new tariffs on over $360 billion in Chinese imports, and China

answered with tariffs on $110 billion of US goods. At the time, these actions marked the most significant tariff escalation since the 1930s and demonstrated that even in an age of globalisation, tariffs remain a potent political lever.

President Trump's second term in office has thus far brought a disorienting onslaught of fresh tariffs, tariff threats, temporary reprives, and more tariffs against both traditional adversaries—like China—as well as traditional allies—like Canada, Mexico, and the EU. While the WTO's rules discourage arbitrary tariff hikes, the system has struggled when major powers invoke national security or other exceptions to justify duties.

In parallel, there has been pushback against free trade in various societies. Free-trade critics have argued both that rapid trade liberalisation hurts manufacturing workers in high-income countries and that it can be used as leverage by authoritarian states. This has led to calls in some quarters for strategic tariffs to protect critical industries or address trade imbalances.

While the economic implications of the latest tariff wave are yet to be fully known, virtually all economists today (as they did in the 1930s) argue that, in general, high tariffs reduce overall economic welfare by raising prices and provoking retaliation. The long history of tariffs shows both sides of the argument. For young America and Germany, tariffs helped nascent industries develop while generating government revenue. In famine-era Ireland, however, tariffs helped cause widespread starvation, while for interwar America, they invited trade wars and worsened an already difficult economic situation. The challenge for policymakers has always been to balance these outcomes.

Conclusion

Over the centuries, the global perception of tariffs and trade policy has swung like a pendulum, alternating between protectionism on one end and free trade on the other.

In ancient and medieval times, tariffs were a straightforward tool to raise revenue and protect local industry. With the rise of nation-states, they became weapons of economic competition under mercantilism. The 19th century brought the first great debate over free trade, pitting the liberal arguments of Smith and Ricardo against the protective needs of emerging industries—a debate encapsulated by Britain's repeal of the Corn Laws and the US's tariff-fueled industrialisation.

The catastrophes of the early 20th century taught the world about the perils of tariff wars, leading to an unprecedented experiment in international cooperation to reduce trade barriers after 1945. That experiment largely succeeded: by the 2000s, tariffs had never been lower globally, and trade reached unprecedented volumes.

Yet, the history of tariffs did not end with free trade as the universal victor triumphing over weaponised protectionism. Tariffs are a resilient policy instrument. Their renewed place in the early 21st century's trade conflicts is a reminder that their use is driven by political calculations as much as by economic theory.

As globalisation faces new criticisms, some countries may recalibrate their tariff policies to address concerns about jobs, security, or fairness. The long sweep of history suggests that while the rationale for tariffs may change—from financing ancient empires to protecting infant industries to retaliating against unfair practices—the fundamental tension between the desire to protect domestic interests and the benefits of open markets will persist.

Understanding the historical trajectory of tariffs and the theories developed around them can help inform today's debates and may (hopefully) even help shape the future of international trade policy.

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