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The Return of American Protectionism – Historical Lessons

By **Sandra Poncet** (PSE, Paris 1 Panthéon-Sorbonne)

This policy brief draws from Professor Kevin O'Rourke's keynote lecture delivered at the 2nd Annual Conference of the Globalization Chair, held in Marseille on July 10, 2025. O'Rourke is a Director of Research at the *Centre national de la recherche scientifique* (CNRS) and a Professor of Economics at Sciences Po Paris. O'Rourke argued that April 2nd, 2025, marked the end of an era that goes back at least 80 years, or even 100 years from a purely domestic American perspective. Donald Trump casually and brutally destroyed the world trading system that had governed international commerce since World War II, in a way that people haven't perhaps completely recognized. This rupture dismantled the central rule of non-discrimination that has governed trade since the war, throwing away the Most Favored Nation principle that formed the foundation of the modern trading system.

Historical Foundations of the Post-War Trading System

The origins of the current world trading order can be traced to 1941, when Roosevelt and Churchill met on a ship off the coast of Newfoundland and signed an eight-point plan for how they hoped the world would look after the Allied powers had defeated the Nazis. One of the two economic clauses stated that they would "endeavor to ensure that all states, great or small, victor or vanquished, have access on equal terms to the trade and to the raw materials of the world that they need."

This notion of equality of access to trade eventually morphed into Article 1 of the General Agreement on Tariffs and Trade, establishing generalized Most Favored Nation status for all members of the WTO. The principle stipulates that any advantage or tariff cut granted to any contracting party on any product must be immediately and unconditionally extended to all other members. In other words, you cannot discriminate in trade policy. If you have a tariff cut for one country, you must have a tariff cut for everybody.

This is precisely what Donald Trump tore up and threw in the bin on April 2nd. While most commentary focused on how high the tariffs were, a much more dangerous feature was the abandonment of the central rule of non-discrimination that had governed trade since World War II.

The Origins and Evolution of Most Favored Nation Treatment

The embryo of the Most Favored Nation principle can be found in a treaty signed by the city of Marseilles and Frederick II, the Holy Roman Emperor, in which Frederick granted to Marseilles the same privileges that he had previously granted to Genoa and Pisa. The clause emerged as a standard feature of international treaties in the 17th and 18th centuries during the period of mercantilist expansion.

The crucial function of the MFN clause was both retrospective and prospective. Without it, a country could do a deal with one partner, giving and receiving concessions, but then find itself at a disadvantage when that partner made an even better deal with someone else the following year. The MFN clause prevented this by ensuring that any future concessions would be automatically extended to existing partners.

The Americans initially took a different approach with their conditional MFN policy. Their first trade treaty with France in 1778 established that concessions made to other countries would only be extended if the requesting country provided equivalent compensation. This proved problematic because the Americans became the judges of what constituted equivalent compensation, and they never concluded that the compensation offered was adequate. Any concessions they made through these clauses were typically unintentional or the consequences of inadvertence.

This conditional approach backfired spectacularly. Trading partners became angry with the Americans and denounced their treaties, leaving the United States discriminated against in virtually all European markets. The Americans tried to be clever by exploiting situations where their partners had unconditional MFN relationships with other countries, but this only increased resentment and isolation.

The Smoot-Hawley Tariff: A Case Study in Protectionist Backlash and Economic Retaliation

The Smoot-Hawley Tariff imposed by the US in June 1930 demonstrates protectionism's self-defeating nature. Though not the interwar period's highest tariff increase, it was particularly damaging because it coincided with the Great Depression's onset when nations desperately needed expanded markets. The tariff raised average protection by six percentage points and, through congressional logrolling, encompassed industrial tariffs beyond its agricultural origins.

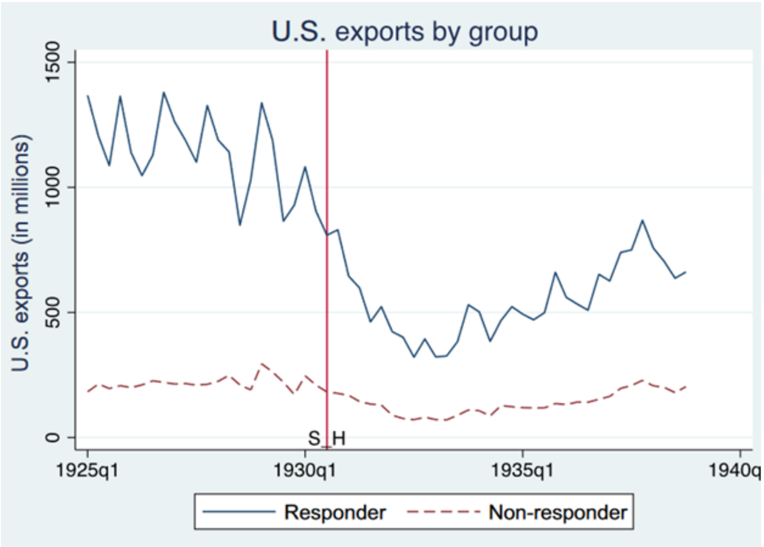
International retaliation was swift and severe. Thirty countries protested before enactment, with several raising tariffs on American exports immediately. France restructured its tariff system from value-based to weight-based, specifically targeting heavier American cars and effectively excluding medium-priced American vehicles from French markets.

Canadian retaliation proved especially significant. After the Liberal government's initial response—lowering British duties while raising American tariffs—proved politically insufficient, the Conservative party won decisively on an anti-American platform. The new government implemented discriminatory tariffs, with American goods facing substantially larger increases than British Empire products.

Recent research quantifies this retaliation's devastating impact. Mitchener *et al.* (2022) found that while retaliating countries' exports to the US remained unchanged compared to non-retaliating nations, American exports to retaliating countries fell 30% beyond Depression-induced declines. Sovereign countries imposed roughly twice the penalty of colonies, and even nations that merely protested without formal retaliation showed significant negative impacts, suggesting consumer boycotts and hidden protectionism.

Country-specific studies confirm these patterns. British discriminatory tariffs reduced US exports by nearly 20% by 1932 (de Bromhead *et al.*, 2019; Arthi *et al.*, 2024). Argentine exchange controls cut American exports by over 20% after 1933 (Ciarelli *et al.*, 2025). Canadian tariff increases reduced US exports by 6% while equivalently boosting UK exports, demonstrating clear discrimination (Lampe *et al.*, 2025).

Figure 1: **U.S. Exports before and after Passage of Smoot-Hawley (Mitchener *et al.*, 2022)**



The Turn Toward Imperial Preference

The 1930s witnessed a general tendency toward imperial trading blocs that balkanized the world economy. Britain saw its imports from the empire rise from 30% to 42% between 1929 and the mid-1930s. France experienced an even more dramatic shift, with imports from its empire increasing from 12% to 26% during the same period. This fragmentation created a dangerous precedent that hasn't occurred in the current period, though it remains a risk if America shuts itself off from global markets.

These discriminations proved to be very long-lasting, much to American disgust. The Atlantic Charter clause included a British-insisted "weasel phrase" about "due respect for existing obligations," which grandfathered existing imperial discriminations. The General Agreement on Tariffs and Trade similarly allowed European empires to maintain their preferential arrangements. This imperial preference system continued to define British economic policy until their entry into the European Economic Community in 1973.

The American Adoption of Non-Discrimination

The Americans had compelling reasons for adopting non-discrimination beyond mere idealism. They had experienced firsthand the economic costs of being discriminated against in important markets during the 19th century when their conditional MFN policy left them isolated. The hard economic interests at stake became clear when they found themselves systematically excluded from major trading relationships.

In 1923, the United States finally broke with its conditional MFN tradition and adopted unconditional MFN clauses in subsequent treaties. However, the country remained protectionist until the lessons of the interwar period became clear. The experience of Smoot-Hawley and the subsequent retaliation demonstrated that discriminatory policies were counterproductive for American economic interests.

Geopolitical Considerations

Beyond economic considerations, American policymakers recognized the geopolitical dangers of discriminatory trade policies. Cordell Hull, Roosevelt's Secretary of State and a Southern Democrat with traditional free-trade views, became convinced that tensions and rivalries related to discriminatory trade policy and imperial trade blocs were important sources of international conflict leading to war.

Hull's memoirs capture this perspective: "From 1916 on, unhampered trade dovetailed with peace, high tariffs, trade barriers, and unfair competition with war." He consistently emphasized that discriminations were particularly dangerous for international stability. The fragmentation of the world economy into competing blocs created supply chain concerns that motivated aggressive policies by countries seeking to secure access to raw materials and markets. The Pacific War is a particularly clear illustration of this, while such concerns were also a factor in Nazi strategic thinking (Barnhart, 1987; Tooze, 2006).

Policy Implications

The historical record demonstrates that discriminatory protectionism does not serve national economic interests but undermines them while destabilizing the international order. The United States built the post-war trading system not merely out of altruism but because of substantial self-interest, both economic and geopolitical. The abandonment of non-discrimination principles threatens to recreate the dangerous fragmentation that characterized the 1930s.

The elasticities of substitution between products from different countries are high, meaning that relative price changes have substantial effects on trade flows. When countries implement discriminatory policies, trade flows shift significantly in response, as demonstrated by the Canadian example where American exports fell while British exports rose by equivalent amounts.

The current moment presents risks similar to those of the 1930s, when the balkanization of the world economy created dangerous tensions between major powers. The casual destruction of the non-discrimination principle that has governed trade for 80 years represents a turning point that could lead to the same kind of fragmentation that contributed to international conflicts in the past.

Conclusion

The dismantling of the Most Favored Nation principle on April 2nd, 2025, represents the end of an era that had its origins in the hard-learned lessons of the 1930s. The United States adopted non-discrimination not out of idealism but because of painful experience with the economic and geopolitical costs of discriminatory trade policies. The historical record shows that such policies lead to retaliation, economic fragmentation, and international tensions that can persist for decades.

The world that we all grew up in was built on the principle that trade discrimination was dangerous for both economic prosperity and international peace. The casual abandonment of this principle threatens to recreate the dangerous dynamics that characterized the interwar period, with potentially even more severe consequences in our interconnected global economy. Understanding these historical lessons is crucial for policymakers seeking to navigate the current crisis and avoid repeating the mistakes of the past.

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Sandra Poncet is a Professor at the Paris School of Economics and the University Paris 1 Panthéon-Sorbonne, and the PSE Globalization Chair holder.