

Our View: Commodities Lose in Trade Wars

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Donald Trump's election as the United States' forty-seventh president has pleased everyone in the energy sector save those hoping to address global warming. The individuals and firms celebrating Trump's promises to reduce regulation and increase US oil production should "have been careful what they wished for" because the President-elect also plans to implement an aggressive worldwide trade war.

This war will likely proceed even though liberal and conservative economists warn that such actions generally depress economic growth. We do not debate that argument here. We focus our review instead on the post-World War I and II and Great Depression trade battles that illustrate how commodity producers end up losers. If history repeats, President Trump may be touting the return of \$1 per gallon gasoline within two years. While some economic sectors could benefit from US tariffs, the oil sector will suffer.

President-elect Trump will make higher import tariffs a prominent component of his economic policy. During the campaign, Trump and various staff members indicated he would revert to an eighteenth-century US economic policy where such tariffs contributed significant government revenue.

Most economists disparage the idea. On November 4, Reuters' David Lawder summarized these arguments:

Economists universally agree tariffs are paid by the companies that import the products subject to the duties, and they either pass on the costs to consumers or accept lower profits.

The duties, if fully imposed, would raise effective average U.S. tariff levels to 17.7%, the highest since 1934, according to the conservative-leaning Tax Foundation. The plans have drawn comparisons to the Smoot-Hawley Tariff Act of 1930, which sharply raised U.S. tariffs, triggering retaliation and a global collapse of trade that helped worsen the Great Depression.¹

Those who support Trump's tariff proposals disagree with these conclusions. They could be correct. The US imposing stiff import levies on China, Mexico, and other nations seen as taking advantage of us may negatively affect those countries but not us. In my view, however, one thing is clear:

Commodity producers, historically, have almost always been the big losers in trade wars. Next year and 2026 will not be exceptions.

Commodity markets saw such effects during and after World War I when Europe's grain outputs declined. Other countries raised their output to compensate. Then, when European production resumed, global supplies rose, and prices fell. (Similarly, commodity tariffs adopted by China

¹ David Lawder, "Trump's tariffs would reorder trade flows, raise costs, draw retaliation," Reuters, November 4, 2024 [<https://tinyurl.com/2s4yhfb4>].

against the United States during the first Trump administration led to output increases outside the US that eventually lowered prices.)

Economist Charles Kindleberger’s study titled *The World in Depression, 1929 to 1939*, provides a valuable guide to trade war impacts in its chronicling of how such wars worsened the Great Depression.²

Kindleberger included a telling set of graphs of data on production, inventories, and prices of essential commodities published in a 1945 League of Nations report titled “Economic Instability in the Post War Period.” We summarize those price declines here in Table 1.³

imports from China, Mexico, and other countries will similarly impact fuel, crude oil, and natural gas prices unless producing nations make additional output cuts.

The ministers from oil-exporting countries and OPEC spokespersons will disagree, asserting their old trope that “oil is different.”

Oil is **not** different. Oil prices have followed the path blazed by other commodities in the 1920s since crude prices peaked in 2022. The declines will continue if the trade battle intensifies.

Prices will almost certainly fall as trade wars depress global growth and oil demand, and crude output continues to rise. We will not be surprised if, in two years, crude oil prices have stayed on the path set by coffee long ago. Prices may average around \$30 to \$40 per barrel when Americans go to the polls in November 2026. If that happens, they will pay around \$2 per gallon for gasoline.

At this juncture, whether the United States will win or lose the coming trade war is an open question. While we are skeptical of those who claim that “trade wars are easy to win,” it is clear that some nations have benefited from them even as the global economy suffered in aggregate.

Commodity markets are different, however. Producers almost always lose in trade wars. This time will not be an exception.

Table 1. Decreases in Certain Commodity Prices between 1925 and 1932

Commodity	Price Decrease (%)
Rubber	97
Tea	62
Tin	70
Cotton	68
Silk	75
Sugar	77
Wheat	65

Source: League of Nations (see text).

² Charles P. Kindleberger, *The World in Depression, 1929-1939* (Berkeley, California: The University of California Press, 1973).

³ We note that the declines were so large the League of Nations had to use semi-logarithmic graphs to illustrate them. “A semi-log graph is a type of graph that uses a linear scale on the [horizontal] x-axis and a logarithmic scale on the [vertical] y-axis. We often use this type of graph when the values for the y variable have much greater variability compared to the values of the x variable.” Zach Bobbitt, “How to Read a Semi-Log Graph,” *Statology*, September 30, 2021 [<https://tinyurl.com/erjbdafp>].