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‘The impact of tariff protection: Evidence from British Colonies in Australia’

Existing empirical studies provide ambiguous evidence on the impact of tariff protection on economic development during the long 19th century (O’Rourke 2001, Irwin 2002, Lehmann and O’Rourke 2011, Schularick and Solomou 2011). One reason for this ambiguity is that the use of macro-/country-level data combined with the absence of appropriate counterfactuals make it difficult to disentangle simple correlations from the causal effects of trade policies. Following a recent contribution by Juhász (2018), this paper draws on micro data to provide fresh evidence on the historical impact of protectionism. We exploit a quasi-experimental setting involving two neighboring Australian colonies with diverging trade policies during the late 19th century. After the end of the gold rush, the colony of New South Wales promoted free trade, while the neighboring colony of Victoria imposed protectionist tariffs. The main objective of these protectionist tariffs was to promote development in the domestic manufacturing industry in order to cope with the decline of the mining industry, and to prevent emigration due to unemployment of miners. The natural experiment extends from 1866 to 1901, during which both colonies experienced comparable internal, external and institutional conditions, but only one developed under tariff protection.

We estimate the effects of protectionist tariffs by using a difference-in-differences approach and highly disaggregated data hand-collected from the colonies’ historical censuses for over 300 towns covering the period 1861-1901. We find that tariff protection had an overall negative impact on population growth in treated towns. Yet, while the overall demographic impact of tariff protection may have been negative, parts of the population seem to have substantially benefited from protectionist policies. In locations where a large part of the population was employed in the mining industry prior to the end of the gold rush, the tariffs positively contributed to population growth. Furthermore, we find that protectionism allowed for better housing conditions and accelerated urbanization. The findings suggest that tariff protection may have helped Victorian towns to cope with the aftermath of the ending gold rush by allowing the secondary sector to develop faster and prevent emigration from mining towns. The observed positive effects on housing conditions and urbanization may indicate an increase in wages in the treated towns, as predicted by basic trade theory.