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Rolf J. Lüders, joint with Gert Wagner
**Trade Tariffs, Welfare and Public Finance the
Case of Nitrates UP to 1930**



TRADE TARIFFS, WELFARE AND PUBLIC FINANCE
THE CASE OF NITRATES UP TO 1930

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A basic textbook proposal is that trade tariffs are an inefficient instrument for raising public revenue, unless market power in the international market can be exercised.

From 1880 onwards Chile supplied a large fraction of nitrates world consumption (90% of those of non-animal origin in 1980; around 70% in 1900 and over 50% at the start of World War I). In 1880 the country established an export tax which, at a constant value in gold, was in effect until the late 1920's.

Although a high degree of concentration in any industry is not enough to reach an "a priori" conclusion on market power, it is certainly a factor to be taken into account. Based on excess demand elasticity simulations and Lerner's market power mark-up formula, we evaluate the welfare implications of this export tax. In particular, the optimum -Lerner- tax is compared with the tax then in effect.

The main conclusion emphasizes the optimum, perhaps even below optimum, character of the tax in the early years. But through time, and specially after World War I, the Lerner coefficients tend to fall rapidly and a serious case for an excessive or inefficient tax can be made.

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