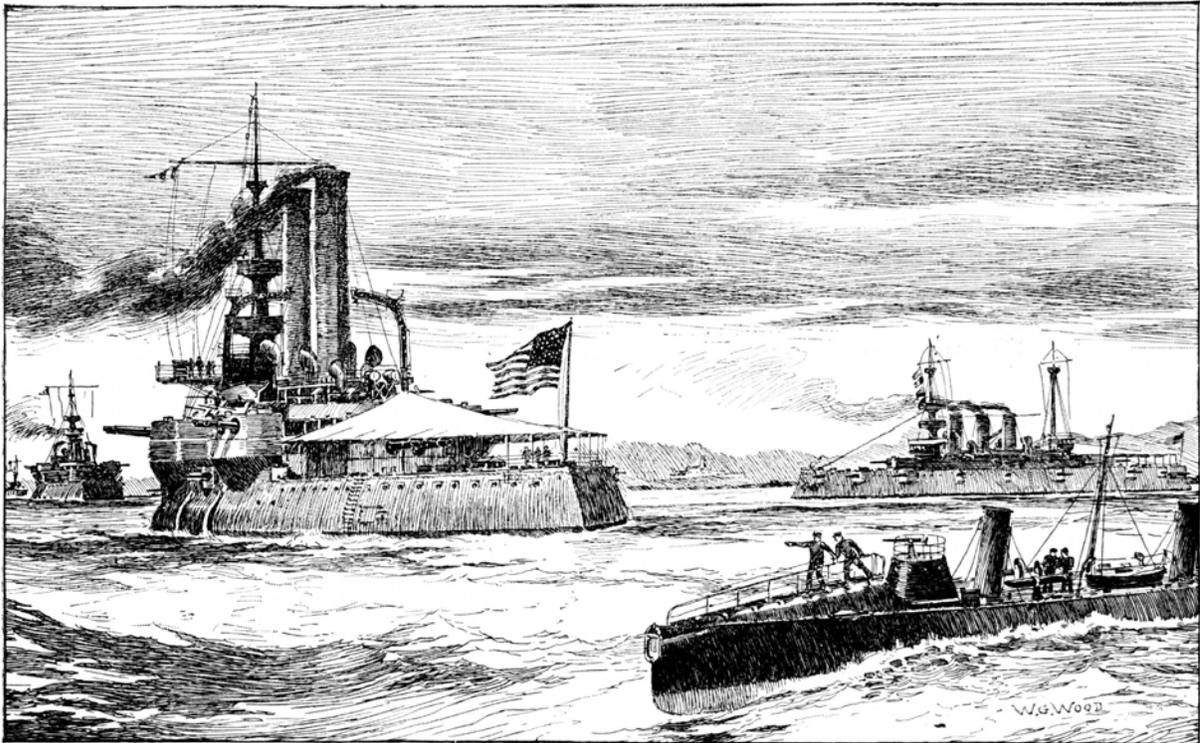




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Trade Under Blockade

Navigating a Global Trade War

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Introduction

President Donald Trump threw the world trading system into disarray with his “Liberation Day” announcement on April 2, 2025. The principles behind the General Agreement on Tariffs and Trade of 1947, where 23 nations agreed to minimize barriers to trade, were abandoned. In its place was a system of baseline tariffs and “reciprocal tariffs” (purported to reflect the level of tariffs, non-tariff barriers, and “cheating” by other nations against American exports) on goods entering the United States.

At time of writing, the full effects of this revolution have not been seen. The reciprocal tariffs were paused, and a series of “deals” and exemptions were in the process of being worked through. However, the nation’s negotiated trade agreements with other nations, and its obligations under the World Trade Organization, were ripped up. Conventional trade economics suggests that Americans will see higher prices and fewer choices, businesses will go under, and jobs will be lost.

The rationale behind the announcement is unclear and appears to vary day to day. Sometimes it is claimed that tariff revenue will make us rich and enable us to replace the income tax. Other times, the motivation appears to be the reshoring of manufacturing, either strengthening the defense industrial base or providing the middle class with jobs that pay enough for only one parent to have to work. On other occasions, it is claimed that the threat of tariffs will be enough to get other countries to lower their trade barriers.

Mainstream trade economics suggests none of this will happen as advertised. Revenue will provide only a fraction of what is needed to support the modern welfare state (which is not under threat). Reshoring manufacturing may happen, but at the expense of better opportunities. With many thousands of manufacturing job vacancies, it is unclear who is clamoring for the return of lower-skilled manufacturing jobs. And so far, the threat of tariffs has been met with reprisal rather than negotiation; other nations are not going to surrender unilaterally.

Throughout the period of modern trade uncertainty, the Competitive Enterprise Institute has warned of these likely adverse consequences. To this point, our analysis has been proven sound. The steel and

aluminum tariffs of the first Trump administration, for instance, resulted in higher prices and job losses in ancillary industries. Retaliatory tariffs on US agricultural exports required bailouts for farmers, and so on.

Given the likely failure of the Liberation Day approach, it is necessary to suggest alternatives. In contributing to the Heritage Foundation’s *Mandate for Leadership 2025* (popularly known as Project 2025), we set out a positive vision for America’s trading future in the hope that whoever was elected president in 2024 would choose to follow that route. This report restates that approach and advances it once more for consideration, but aims it squarely at Congress, where our founders placed responsibility for trade policy.

General principles of trade: Trade policy is about more than goods and services. It is a statement of American identity. Our trade policy choices reveal America’s values and where we put our trust. Do we place our trust in politicians to revive a declining country, or do we trust in America’s tradition of entrepreneurs and everyday people blazing new trails? Should America erect barrier after barrier to international trade in an effort to bring back manufacturing jobs or for other purposes? Or should America lead China and the rest of the world by forging its own path of openness and dynamism? Our trade policy decisions will tell us what we Americans really think of ourselves.

This paper seeks to counter the pessimism that dominates both parties, while providing a positive reform program rooted in American institutions such as the separation of powers and the principles of free trade. A decade of president-driven tariff hikes has failed and is about to again. Yet the president only has this power on Congress’ sufferance. It is time for Congress to reclaim its proper authority. Removing trade barriers can spark economic growth, improve living standards, provide good jobs, increase revenue, and advance America’s foreign policy interests. As with so much else in life, the only obstacle is politics.

A positive vision for trade

The policy recommendations in this paper reflect a belief in the strength of America’s founding institutions, its economy, and its people. They are based on data showing decades of American progress with all that implies. They also reflect a realistic

understanding of the fact that trade policy has limited capabilities and is vulnerable to mission creep and regulatory capture.

The US Constitution gives all taxing power to Congress, and none to the president. Yet, during the last several decades, Congress has given more and more tariff-making authority to the executive branch. Presidents Trump (in his first term) and Biden abused these powers like no presidents before them. President Trump's trade policy in his second term goes way beyond those efforts. The result is new tariffs that cost the average family more than \$1,200 per year, more vulnerable supply chains, and avoidable foreign policy setbacks.

Restoring the separation of powers is a vital part of any trade policy reform program. It is not enough just to lower tariffs or negotiate hundreds of new trade agreements. Congress must also build institutional safeguards so that future presidents cannot unilaterally raise tariffs again. As the Nobel laureate Douglass North explained, institutions matter.¹ Institutions are the rules of the game, rather than the game itself. Institutions shape incentives and behavior. Tariff relief that ignores the ways tariffs get made in the first place will fail, because it treats only symptoms and not root causes.

As important as trade policy is, policymakers should be modest about what they can accomplish through trade policy. While free trade has a long record of proven benefits, it is not a panacea for every policy problem.

On the plus side, trade can lower consumer prices for ordinary Americans and open new markets for American businesses and their goods. Trade can help American workers and businesses to specialize in what they do best. This is how they outcompete the rest of the world in technology, manufacturing, agriculture, and other areas. In foreign policy, trade can help to preserve and strengthen alliances, which is important for countering Russia, China, and other illiberal countries. It also serves humanitarian ends, by encouraging development and resilience in developing nations.

However, trade policy cannot favor one sector over another, such as manufacturing, without causing tradeoffs that outweigh the benefits.² Neither free trade nor protectionism will create jobs in the long run. Trade affects the *types* of jobs people have, but it has no long-run effect on the *number* of jobs. Labor force size is tied to population size more than anything else. The American people are smart and sophisticated enough to hear these truths.

It is not just national conservatives who overestimate the power of trade policy. Progressives favor using trade policy to advance whole-of-government initiatives on climate, equity, and other issues. This failed for the same reason that a hammer cannot turn a screw: It is the wrong tool for the job. Conservatives in the second Trump administration should be similarly skeptical of using trade policy for their preferred uses, such as punishing political opponents and rewarding friends, remaking manufacturing, or accomplishing other objectives for which it is not suited. While superficially attractive, these efforts are likely to fail and provoke backlash.

It is time to end the mission creep that has taken over trade policy in recent years. Congress has an important role to play in restraining an out-of-control executive branch.

The executive branch is not the only thing that has taken over trade policy. So have trade-unrelated issues, which now dominate most trade agreements. Trade policy works best when it sticks to trade and treats separate issues separately.

Trade agreements since the North American Free Trade Agreement (NAFTA) have been increasingly burdened by trade-unrelated provisions involving labor, environmental, intellectual property, and other regulations. Where these were a side agreement to NAFTA in the 1990s, they were integrated into the main text of the United States–Mexico–Canada Agreement (USMCA) in 2019. The Indo-Pacific Economic Framework for Prosperity (IPEF) that the Biden administration pursued consisted entirely of trade-unrelated provisions, on purpose.

¹ Douglass North, *Institutions, Institutional Change and Economic Performance*, (Cambridge: Cambridge University Press, 1990).

² For a historical example, see Douglas A. Irwin, "Did Late-Nineteenth-Century U.S. Tariffs Promote Infant Industries? Evidence from the Tinplate Industry," *Journal of Economic History*, Vol. 60, No. 2 (June 2000), pp. 336–360, <https://www.jstor.org/stable/2566374>. For a recent example, see Gary Clyde Hufbauer and Eujin Jung, "The High Taxpayer Cost of 'Saving' US Jobs Through 'Made in America,'" Peterson Institute for International Economics, *Trade and Investment Policy Watch*, August 5, 2020, <https://www.piie.com/blogs/trade-and-investment-policy-watch/high-taxpayer-cost-saving-us-jobs-through-madeamerica>.

President Trump led up to his second term with a series of tariff threats unrelated to trade issues. These included tariffs against Denmark if it refused to sell Greenland to the United States, and tariffs against Canada and Mexico over border-related issues, and against China over fentanyl. There have also been implicit tariff threats to the UK and European Union if those jurisdictions continue to impose restrictions on speech.

Trade-unrelated provisions are routinely hijacked by progressives and rent-seekers and dilute otherwise worthwhile trade agreements. They also create additional points of contention that make agreements unnecessarily difficult to pass. Negotiators should limit trade-unrelated provisions in trade agreements. One way to do this is to pursue simpler, less ambitious agreements rather than the mega-agreements that have become the norm in recent years.

This does not mean that policymakers should ignore international negotiations on labor, environment, intellectual property, and other non-trade issues. It means they are more likely to succeed by treating each of them separately rather than letting them die in committee with each providing an additional sticking point for delaying the others.

Another reason for humility in trade policy is that in a democracy, the other side holds power about half of the time. A cardinal, yet little-observed, rule in public policy is not to give yourself powers you wouldn't want your opponents to have. That means building institution-level safeguards against mission creep to limit abuses. This is why Congress should be in the driver's seat on trade policy. Congress must reach a hard-won consensus on trade before passing legislation, whereas a president can make multi-billion dollar policy changes on a whim with a late-night tweet.

This is exactly how the framers intended the Constitution to function. Questions of taxation, of which tariffs, duties and so on are part, are intended to be deliberated and scrutinized by the people's

representatives in the Congress assembled, not imposed at whim by the president. The first act of the American Revolution, the Boston Tea Party, was inspired by just such an exercise of undue executive authority.

Foreign policy considerations are not as separate from trade as are labor or environmental standards. China deserves special consideration, as does the World Trade Organization (WTO) along with its possible successors or alternatives. While trade is not the star of American foreign policy, it does play a supporting role. It should be used to strengthen alliances to help counter China, Russia, and other threats while making economic and cultural inroads inside them. Trade can also fill vital humanitarian roles, encouraging development and infrastructure among developing nations and building goodwill. Policymakers should use these aspects of trade to the nation's advantage.

Drawing from America's roots: In 1776, nearly 90 percent of Americans were farmers. For 10 people to eat, nine had to farm. That meant fewer people could be factory workers, doctors, or teachers, or even live in cities, because they were needed on the farm. Accordingly, life expectancy was around 40 years, and the literacy rate was 13 percent.³

Today, fewer than 1 percent of Americans work on farms, yet America is a net exporter of food. People have infinite wants, so as rising productivity lured some people off of farms, there were countless other jobs they could do. In true American fashion, many of these jobs were in brand new industries they created themselves.

This was possible because the same can-do cultural values that inspired the American founding were accurately reflected in its new government. The US Constitution created what was then the world's largest free trade area, and it did so on purpose.⁴ The combination of the American self-improvement ethos and the large, free internal market guaranteed by the Constitution yielded intensive growth on a scale never before seen.

³ Stephen J. Dubner, "Were Colonial Americans More Literate than Americans Today?" *Freakonomics*, September 1, 2011, <https://freakonomics.com/2011/09/were-colonial-americans-more-literate-than-americans-today/>.

⁴ Randy E. Barnett and Andrew Koppelman, "The Commerce Clause: Common Interpretation," National Constitution Center, <https://constitutioncenter.org/the-constitution/articles/article-i/clauses/752> (accessed February 21, 2023); Randy E. Barnett, "The Original Meaning of the Commerce Clause," *University of Chicago Law Review*, Vol. 68, No. 1 (2001), pp. 101-147, <https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=5074&context=ucilrev>.

Many displaced farm laborers got jobs making the very farm equipment that made intensive agricultural growth possible, from railroad networks to cotton gins. Each fed the other. Agriculture and manufacturing are not separate; they are as interconnected as everything else in the economy. The 1800s productivity boom could not have happened if the government had enacted policies to preserve full agricultural employment.

Understanding value: Just as communication is impossible without agreed-upon definitions of words, coherent policymaking is impossible without coherent categories. Policies are not likely to succeed when they try to separate an interconnected economy into arbitrary categories. The factory worker who builds a tractor does as much to boost farm production as the farmers themselves, yet economic planners put them in different categories. This problem is baked into industrial policy, as economic planners have learned again and again.

Sound economic policy treats value as value, whether it is created on a farm, in a factory, or in an office. A dollar of value created in manufacturing is neither more nor less valuable than a dollar of value created in agriculture or services.

Pursuing access to growing markets: American history holds lessons for today's conservative trade policy. Some modern analysts see a correlation between high tariffs and high growth and confuse it for causation,⁵ but 19th century America teaches a different lesson.⁶

While the Constitution banned internal tariffs in the US, international tariffs reached their highest levels in US history during the 19th century, beginning with the 1828 Tariff of Abominations.⁷ At their peak in 1830, the average tariff on dutiable goods was 62 percent.⁸ Fortunately, however, the tariffs' distorting effects were outweighed by market growth elsewhere. The 19th century saw Western expansion and a growing population, including millions of immigrants who often worked in those manufacturing jobs, like the textile industry, pursuing the American dream. America's growing internal free trade zone allowed for still more specialization and more trade across state borders.

America's geographic expansion ended long ago, but population growth, the US-led rules-based international trading system, and the steady 75-year decline in tariffs after World War II have made possible decades of continued prosperity. Intensive growth requires specialization, and the larger the market, the more specialization is possible. This is true for internal markets, and it is true of external markets.

Fighting pessimistic bias: Farmers' share of the population continued to decline through this entire period, yet employment remained high, and the economy continued to grow. Factories were not the only beneficiaries of agriculture's productivity boom and the labor it freed; services also grew. In fact, service-sector employment surpassed manufacturing employment around 1890—far earlier than most people realize.⁹

⁵ Wells King, "Rediscovering a Genuine American System," American Compass, *Rebooting the American System*, May 4, 2020, <https://americancompass.org/rediscovering-a-genuine-american-system/>.

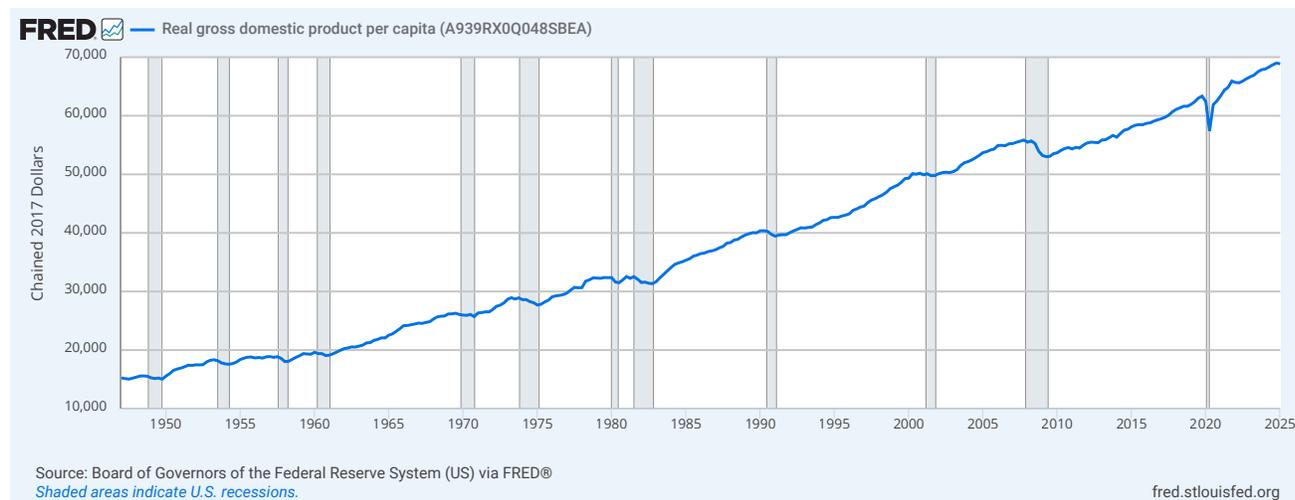
⁶ Phillip W. Magness and James R. Harrigan, "Henry Clay's 'American System' Is Bad News for the American Economy," American Institute for Economic Research, December 8, 2022, <https://www.aier.org/article/henry-clays-american-system-is-bad-news-for-the-american-economy/>. Iain Murray, "The Founding Fathers and Free Trade," Competitive Enterprise Institute, Open Market Blog, September 20, 2022, <https://cei.org/blog/the-founding-fathers-and-free-trade/>.

⁷ Douglas A. Irwin, *Clashing over Commerce: A History of U.S. Trade Policy* (Chicago: University of Chicago Press, 2018), pp. 147–154.

⁸ Irwin, *Clashing over Commerce*, p. 125.

⁹ Michael Urquhart, "The Employment Shift to Services: Where Did it Come From?" US Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review*, Vol. 107, No. 4 (April 1984), p. 16, <https://stats.bls.gov/opub/mlr/1984/04/art2full.pdf>.

Real gross domestic product per capita



SOURCE: Federal Reserve Bank of St. Louis, “Real Gross Domestic Product per Capita,” <https://fred.stlouisfed.org/series/A939RX0Q048SBEA> (accessed May 13, 2025).

Pessimistic bias is one of the most important cultural problems that policymakers need to address. In trade, as in most other areas, few people ever zoom out to see the big picture, which is one reason why so many people mistakenly believe that US manufacturing and the US economy are in decline.

The data do not show American economic carnage. They show more than two centuries of intensive growth, made possible by a growing internal market throughout the 19th century and a growing international market in the post–World War II era. The transition from farm to factory did not shrink the labor force or farm output. Later, the transition from factories to services also did not shrink the labor force, factory output, or farm output. Both transitions affected the *types* of jobs, not the *number* of jobs.

Americans today can more easily afford everything from air conditioning to flat-screen televisions and smartphones, and trade is one reason why.¹⁰ Bigger markets mean more specialization, more innovative ideas, more customers, and more people from whom to buy. America’s official unemployment rate went as low as 3.5 percent during 2022, while real per capita gross domestic product (GDP) rose to an all-time record. Clearly, people who wanted to work were able to find work that paid well even as manufacturing jobs grew more slowly than service jobs.

¹⁰ Ronald Bailey and Marian Tupy, *Ten Global Trends Every Smart Person Should Know: And Many Others You Will Find Interesting*, (Washington: Cato Institute Press, 2020)

Truly free trade in practice

Vision is crucial for any reform program, but nuts-and-bolts policies are also important. Making the free trade vision a reality will require several actions from all branches of government, some of which may prove to be more difficult to achieve than others:

- **Implement** tariff relief to help counteract inflation by reducing prices for affected goods as well as to strengthen supply chains and boost manufacturing. End Section 232, 201, and 301 tariffs. Work with Congress to pass legislation repealing those provisions so future presidents cannot abuse them. Repeal the International Emergency Economic Powers Act, or amend it so that the executive branch cannot possibly invoke it to enact tariffs.
- **Resist** calls for more spending on trade adjustment assistance, which is often hijacked by political activists and rent-seekers. Technology and changing tastes displace six times as many workers as does trade, yet those workers get no such special treatment. Displaced workers should receive the same benefits regardless of the reason.
- **Remove** never-needed supply chain restrictions, which give families fewer places to which they can turn during hard times. The recent shortage of baby formula, for example, was caused largely by heavily protectionist regulations. Strength and resilience come from openness.

- **Enact** mutual recognition policies with allies. If a product is safe enough for European or Japanese consumers, then it is safe enough for Americans as well—and vice versa. This can reduce regulatory costs and open new markets.
- **Close** the Export–Import Bank, which serves mainly to subsidize foreign buyers’ purchases of goods from a handful of well-connected American manufacturers.
- **Repeal** the Jones Act,¹¹ a century-old “Buy American” maritime law that has decimated the US shipbuilding industry.
- **Work** with Congress to restore presidential Trade Promotion Authority, which would expedite the negotiation of trade agreements with the United Kingdom, Switzerland, Taiwan, the European Union, and other allies, and keep trade-unrelated provisions out of trade agreements.
- **Reinstate** the abrogated trade agreements with nations like Canada, Mexico, South Korea, and so on.
- **Restore** the World Trade Organization’s dispute resolution process to full strength.
- **Create** a successor to the WTO (if it has indeed been fatally wounded) that is open only to liberal democracies. This would prevent authoritarian countries like China from abusing the organization for their own ends.
- **Adopt** a multi-pronged China strategy to incentivize the Chinese government to reform its illiberal human rights and trade policies.
- **Rejoin** the Trans-Pacific Partnership (TPP), now called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), whose 12 members are developing institutional trade norms in an important geopolitical region without US input or involvement. The UK’s recent CPTPP membership makes it even more in America’s interest to be involved.
- **Scrap** the proposed Indo-Pacific Economic Framework for Prosperity. Negotiations are unlikely to go any further. Moreover, the agreement so far ignores trade and consists entirely of trade-unrelated issues that are wish-list progressive policies.
- **Strengthen** diplomatic pressure, in concert with allies, against Beijing’s abuses. Encourage cultural and intellectual engagement with the Chinese people, remembering that blue jeans and rock ‘n’ roll helped to win the Cold War.

Tariff relief: When people try something repeatedly and it still doesn’t work, they should stop doing it—especially when the consequences turn out to be just what economists of every political stripe have long predicted they would be.¹² With tariffs, the proper reform is not only to get rid of the individual tariffs that have backfired, but also to build institutional safeguards against future abuse.

As of this writing, America is seven years into the biggest experiment with tariffs since the Great Depression, and the results are in: The Trump-Biden tariffs have already raised consumer prices for ordinary Americans by about \$1,200 per household every year,¹³ benefit only a small number of special interests, and do not help America’s economic and foreign policy interests.

Steel and aluminum tariffs, enacted on national security grounds, angered allies. In one especially embarrassing episode, in a phone call about the tariffs with then-Canadian Prime Minister Justin Trudeau, Trump blamed Canada for burning down the White House during the War of 1812.¹⁴ In fact, it was British troops, retaliating against an American attack on York, Ontario. Canada was not an independent country at the time, but a British colony. In his new administration, the president has been even more belligerent to Canada, saying it should be a US state and referring to its former prime minister as “governor.”

¹¹ H.R. 10378, Merchant Marine Act of 1920, Public Law 66-261, 66th Congress, June 5, 1920, <https://govtrackus.s3.amazonaws.com/legislink/pdf/stat/41/STATUTE-41-Pg988.pdf>.

¹² Tori K. Smith, “The Proof Is In: Tariffs Are Hurting the U.S.,” Heritage Foundation *Commentary*, August 27, 2019, <https://www.heritage.org/trade/commentary/the-proof-tariffs-are-hurting-the-us>.

¹³ Congressional Budget Office, *The Budget and Economic Outlook: 2020 to 2030*, January 2020, p. 33, <https://www.cbo.gov/publication/56073>.

¹⁴ Jim Acosta and Paula Newton, “Exclusive: Trump invokes War of 1812 in testy call with Trudeau over tariffs,” CNN, June 6, 2018, <https://www.cnn.com/2018/06/06/politics/war-of-1812-donald-trump-justin-trudeau-tariff/index.html>.

Trump also enacted four rounds of tariffs against China. Beijing made not a single substantive reform in response. The attempted Phase One trade agreement also failed to get China to make any reforms.

The Biden administration left the Trump tariffs in place, while adding its own levies on lumber, solar panels, medical supplies, and other goods. Biden also embraced mission creep, using tariffs to pursue trade-unrelated policy areas such as climate change.

The second Trump administration has relied on three main arguments for its desired tariff hikes.¹⁵ Raising revenue, boosting American manufacturing, and negotiating tactics. If tried, it will fail on all three measures. Tariffs raise little revenue compared to income taxes, and higher tariffs come with diminishing returns, since consumers buy fewer imports the more that prices rise. Reducing imports is, in fact, the purpose of tariffs. As shown above, the decline of US manufacturing is a myth, and Washington's meddling will hardly improve matters. Industries that are already heavily protected, such as steel and shipping, are dysfunctional welfare cases, and will not improve until they once again compete in a free market. And as the China tit-for-tat tariff experience shows, tariffs do not give America any leverage. Tariffed countries do not do what we demand, they enact retaliatory tariffs.

Congress back in charge: The first order of business for a sound trade policy is to repeal all tariffs enacted under Section 232 of the Trade Expansion Act of 1962¹⁶ and Sections 201 and 301 of the Trade Act of 1974.¹⁷ The president can do this unilaterally, and Congress can do it through legislation.

The second order of business for Congress is to pass legislation reclaiming tariff-making authority it gave away to the president, to prevent future abuses. The US Constitution places all taxing authority with Congress¹⁸ and none with the president. Restoring this separation of powers involves repealing several provisions of existing legislation.¹⁹ These include:

- Section 232 of the Trade Expansion Act of 1962, which gives the president the power to enact tariffs on national security grounds. Presidents Trump and Biden used Section 232 to justify steel and aluminum tariffs against allies such as Canada, Japan, and Europe, none of which are security threats.
- Sections 201 and 301 of the Trade Act of 1974, which give the president the power to enact tariffs against foreign competitors, and against countries that violate treaties with the United States, respectively. Trump used Section 301 against China and Europe, while Biden maintained them.
- Section 338 of the Tariff Act of 1930, better known as the Smoot-Hawley Tariff Act; Section 122 of the Trade Act of 1974, which allows the president to enact a 15 percent universal tariff for 150 days. So far only Richard Nixon has used this power. Trump has threatened to use it in his second term.
- The International Economic Emergency Powers Act (IEEPA), which grants broad powers to the president if they declare an emergency, which has already happened at least 69 times. If Congress is unwilling to repeal IEEPA, it should at least amend it to specifically exclude tariff-making powers.

There is some history behind Congress' decision to give some of its powers over to the president. Congress faced a problem of collective action regarding tariffs in the 1960s and 1970s, which led to Sections 232, 201, and 301.

As a whole, members generally wanted to lower tariffs, but few individual members were willing to remove tariffs that benefited special interests in their districts. Tariff reductions were invariably watered down through amendments and logrolling. The thinking was that the president, whose constituency is the entire nation, would be less prone to special-interest pleading than individual members of Congress would be, so Congress delegated some of its tariff-making authority to the president in 1962 and 1974 trade legislation.

¹⁵ Iain Murray, "Debunking the Three Best Arguments for Tariffs," American Institute for Economic Research, The Daily Economy blog, January 7, 2025, <https://thedailyeconomy.org/article/debunking-the-three-best-arguments-for-tariffs/>

¹⁶ H.R. 11970, Trade Expansion Act of 1962, Public Law No. 87-794, 87th Congress, October 11, 1962, <https://www.govinfo.gov/content/pkg/STATUTE-76/pdf/STATUTE-76-Pg872.pdf>.

¹⁷ H.R. 10710, Trade Act of 1974, Public Law No. 93-618, 93rd Congress, January 3, 1975, <https://www.congress.gov/93/statute/STATUTE-88/STATUTE-88-Pg1978-2.pdf>.

¹⁸ US Constitution, Article I, Section 8, <https://constitution.congress.gov/constitution/article-1/>.

¹⁹ Clark Packard and Scott Lincicome, "Presidential Tariff Powers and the Need for Reform," Cato Institute *Briefing Paper* No. 179, October 9, 2024, <https://www.cato.org/briefing-paper/presidential-tariff-powers-need-reform>.

The 1930 Smoot-Hawley tariffs passed during the Great Depression, though they had been in the works for some time before that.²⁰ Though intended as a stimulus to American industry, the Smoot-Hawley tariffs ended up worsening the Depression and reducing global trade by about one-third, in part because of retaliation from angered trading partners. This is a familiar story for observers of the Trump and Biden tariff hikes.

IEEPA passed in 1977, but has roots going back to World War I and 1917's Trading with the Enemies Act.²¹ President Woodrow Wilson used TWEA to create a War Trade Board with the power to control all imports and exports. Franklin Roosevelt invoked TWEA in his proclamation declaring a bank holiday, even though the US was not at war. Richard Nixon used TWEA to briefly enact a universal tariff similar to what Trump has threatened to enact during his second term.

IEEPA was passed in part as a reaction to longtime TWEA abuse, including continuous emergency declarations lasting more than 40 years. Although 37 IEEPA emergencies remained simultaneously in effect as of 2022, only in 2025 have emergencies been used to justify tariffs under IEEPA. This novel interpretation is under challenge in the courts.

Delegating tariff-making under these laws might have made sense when they were passed, but in the long run, they have proven constitutionally dubious and ripe for abuse. That came to pass in 2018. The Section 232 steel and aluminum tariffs, invoked in 2018 against Canada, Europe, and other allies on national security grounds, raised car prices by an average of \$250 per vehicle and gave America the world's highest steel prices. They also harmed the construction, canned food and beverage, and other metal-using industries.

While this may have benefited the steel industry itself, each steel job saved cost an average of \$650,000 per year that had been taken from elsewhere in the economy.²² This includes steel-using industries such as autos and construction, which now faced higher materials costs, and had to charge higher consumer prices as a result. That is no way to strengthen American manufacturing. The New York Federal Reserve estimated in 2019 that the Section 301 China tariffs cost the average household \$831 per year,²³ a figure that has likely increased with post-COVID inflation.

The new tariffs have a clear record of failure—as economists almost unanimously warned would be the case. One of Congress's highest priorities should be to return eliminating the Trump–Biden tariffs.

Strengthening American manufacturing: The decline of American manufacturing is a common political trope in both parties, typically invoked before a call for more government intervention. This narrative has several problems. One is that American manufacturing output is currently near its all-time high. The record was not set during World War II and not during the 1950s boom. Output did not peak when manufacturing employment peaked in 1979 or during the Reagan economic revival in the 1980s. It did not go down during the 1990s tech boom. Manufacturing output is nearly as high now as it has ever been in human history. If it wasn't for Washington's mess of subsidies and protectionism, output would likely be even higher.

American manufacturing is buoyant because each manufacturing worker's productivity is near an all-time high. While productivity growth has stagnated in the last decade, the culprit is over-regulation rather than trade. The key to prosperity is doing more with less. It is time to stand up to special interests and populist ideologues who want government to do the opposite through industrial policy, trade protectionism, and other failed progressive policies.

²⁰ Douglas A. Irwin, *Peddling Protectionism: Smoot–Hawley and the Great Depression*, (Princeton, NJ: Princeton University Press, 2011).

²¹ Christopher A. Casey, Dianne F. Rennack, and Jennifer K. Elsea, "The International Emergency Economic Powers Act: Origins, Evolution, and Use," Congressional Research Service, R45618, March 25, 2022, <https://crsreports.congress.gov/product/pdf/R/R45618/9>.

²² Gary Clyde Hufbauer and Eujin Jung, "Steel Profits Gain, but Steel Users Pay, Under Trump's Protectionism," Peterson Institute for International Economics, *Trade and Investment Policy Watch*, December 20, 2018, <https://www.piie.com/blogs/trade-and-investment-policy-watch/steel-profits-gain-steel-users-pay-undertrumps>.

²³ Mary Amity, Stephen J. Redding, and David E. Weinstein, "New China Tariffs Increase Costs to U.S. Households," Federal Reserve Bank of New York, Liberty Street Economics Blog, May 23, 2019, <https://libertystreeteconomics.newyorkfed.org/2019/05/new-china-tariffs-increase-costs-to-us-households/>.

It takes surprisingly few people to achieve America's record-high manufacturing output—currently about 13 million people out of a workforce of more than 165 million, compared to the 1979 peak of 19.5 million people out of a workforce of 104 million.²⁴ Productivity growth has freed the time and talents of millions of people for other, additional uses.

The belief that manufacturing has to shrink for services to grow is an example of the zero-sum fallacy, which is one of the most common errors in politics. Growing productivity enables more output of *both* manufacturing and services.

Growing productivity is why America continues to have sustained booms and record-setting real GDP year after year, despite the long-run decline in manufacturing employment.

Economists distinguish between two types of growth: extensive and intensive. Extensive growth is the Soviet and Chinese model for manufacturing: If you have more people use more resources, they will create more output. While extensive growth is doing more with more, intensive growth is doing more with less. Intensive growth is productivity growth. That is where America's superpower lies. The story of American manufacturing is one of intensive growth dating back to our agricultural origins. Policymakers should draw on this history to position America for continued success. With intensive growth, it is not manufacturing *or* services; it is manufacturing *and* services. If intensive growth has stalled recently, that is almost certainly due to stifling federal regulations. Lifting the burden of these regulations is all that is needed to restart the process.

Retaliatory tariffs: Raising tariffs on another country almost always invites retaliatory tariffs against the US. Retaliations tend to be directed at politically sensitive American exports. Retaliatory tariffs by both China and American allies in response to Trump's 2018 steel tariffs were targeted primarily at American agriculture. According to the US Department of Agriculture, those tariffs cost farmers \$27 billion. Losses were concentrated particularly in heartland states whose support Trump needed for the upcoming 2020 election, which he lost.²⁵

Retaliatory tariffs also targeted US industries that were not protected by new tariffs. This is because roughly half of US imports are not consumer goods, but inputs for US manufacturing. The motorcycle maker Harley-Davidson was already facing higher production costs as domestic steel producers raised their prices to accommodate the new steel tariff. A European Union retaliatory tariff on Harley-Davidson's motorcycles further raised its prices and hurt its export business. Harm to such innocent bystanders was another unintended (though foreseen) consequence.

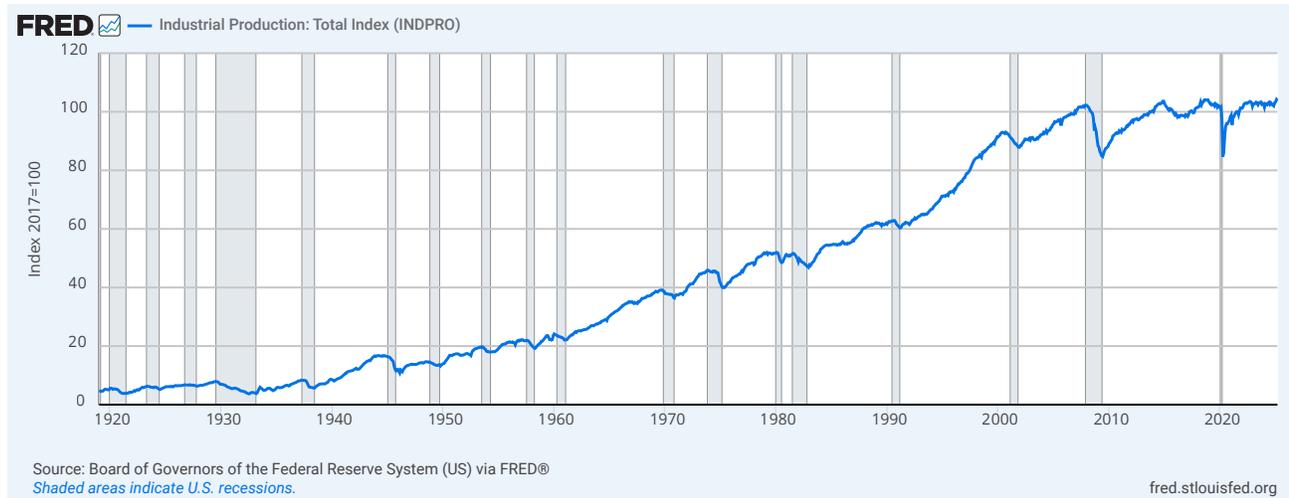
The pattern continued into Trump's second term. When Trump announced plans to levy tariffs against Canada and Mexico, Canada announced plans to retaliate if Trump followed through. Similar to China's earlier retaliation, Canada's threatened retaliation focused on goods from Trump-supporting states, such as Florida orange juice and Tennessee whiskey.²⁶ China and the US have engaged in several rounds of tit-for-tat retaliation, leading to unsustainable tariff rates on both sides and a collapse in ocean container ship bookings between the two countries.

²⁴ Federal Reserve Bank of St. Louis, Federal Reserve Economic Database (FRED), Series CLF16OV, "Civilian Labor Force Level," <https://fred.stlouisfed.org/series/CLF16OV> (accessed February 21, 2023).

²⁵ Stephen Morgan, "Retaliatory Tariffs Reduced U.S. States' Exports of Agricultural Commodities," US Department of Agriculture, Economic Research Service, *Amber Waves*, March 7, 2022, <https://www.ers.usda.gov/amber-waves/2022/march/retaliatory-tariffs-reduced-u-s-states-exports-of-agricultural-commodities/> (accessed February 21, 2023).

²⁶ Matina Stevis-Gridneff, "Canada's Plan for a Trade War: Pain for Red States and Trump Allies," *New York Times*, January 17, 2025, <https://www.nytimes.com/2025/01/17/world/canada/canada-trump-tariffs.html>.

Total US Industrial Production



SOURCE: Federal Reserve Bank of St. Louis, “Industrial Production: Total Index,” <https://fred.stlouisfed.org/series/INDPRO> (accessed May 13, 2025).

Federal Reserve research shows that the steel and aluminum tariffs have cost about 75,000 manufacturing jobs while creating only about 1,000 jobs in the steel industry—not including the effects of the retaliatory tariffs described above.²⁷ Higher steel prices added an average of \$250 to the price of new cars, and larger trucks—the vehicle of choice in rural America—were hit even more dramatically.²⁸

Trade is generally a win-win for both participants. Tariffs are a lose-lose-lose game. The tariff raiser loses affordable goods, the tariff target loses exports, and the tariff raiser loses a second time from retaliatory tariffs.

Tariffs have yet another overlooked hidden cost: Companies redirect resources to dodge tariffs by redesigning products, called tariff engineering. For example, many Converse shoes have a layer of fuzz on the bottom. It is there because the US has shoe tariffs of up to 37.5 percent, while its slipper tariffs range from 3 to 12.5 percent. That otherwise-useless fuzz gets the shoes classified as slippers for tariff purposes, so they get a lower rate.²⁹

In addition to tariff engineering, companies can also respond to tariffs by switching to more expensive suppliers in lower-tariff jurisdictions, by using lower-quality materials, and by lobbying. This might be good for lawyers, but it is bad for the economy. These resources could have been used instead to make better products at more affordable prices.

Trump trade adviser Peter Navarro famously said in a cable news appearance that “I don’t believe any country will retaliate” against Trump’s first-term tariff hikes.³⁰ His prediction did not come true. If it had, it may well have been the first time in history that tariffs on that scale did not spark retaliation. The 1930 Smoot-Hawley tariffs that worsened the Great Depression sparked retaliatory tariffs so severe that global trade declined by a third.³¹

²⁷ Aaron Flaaen and Justin Pierce, “Disentangling the Effects of the 2018–2019 Tariffs on a Globally Connected U.S. Manufacturing Sector,” Board of Governors of the Federal Reserve System, *Finance and Economics Discussion Series* No. 2019-086, December 23, 2019, <https://www.federalreserve.gov/econres/feds/files/2019086pap.pdf> (accessed February 21, 2023); US Department of Labor, Bureau of Labor Statistics, “Data Tools: Industries at a Glance: Primary Metal Manufacturing: NAICS 331,” data extracted February 17, 2023, <https://www.bls.gov/iag/tgs/iag331.htm> (accessed February 21, 2023).

²⁸ Ryan Young, “Lessons from the GM layoffs: End the Tariffs and the Subsidies,” Fox Business, November 28, 2018, <https://www.foxbusiness.com/markets/lessons-from-the-gm-layoffs-end-the-tariffs-and-the-subsidies>.

²⁹ Rachel Kadoshima, “Tariff Engineering and America’s Favorite Shoe,” Sound Economics, <https://blogs.pugetsound.edu/econ/2019/02/18/tariff-engineering-and-americas-favorite-shoe/>.

³⁰ Peter Navarro, appearance on *Mornings with Maria*, Fox Business, March 2, 2018, <https://www.foxbusiness.com/video/5743778657001>.

³¹ Irwin, *Clashing over Commerce*, pp. 400–410. For a book-length treatment of Smoot-Hawley, see Douglas A. Irwin, *Peddling Protectionism*.

Undoing protectionism: Inertia is one of the strongest forces in politics. It is stronger than party, and it is certainly stronger than principle. Radical new policies can become the new normal very quickly, and are extremely difficult to unwind if they backfire. This happened with the Trump administration's progressive turn on protectionism. Although the Biden administration quickly undid the Trump administration's regulatory reforms, it left Trump's self-defeating trade policies in place, and in many cases strengthened them.

"Liberation Day" saw a further step change in the normalization of tariffs. Not only was a baseline of ten percent tariffs imposed on every country in the world, including those with whom America has a trade surplus, but the idea of "reciprocal tariffs" introduced new, punitive rates far in excess of any seen in modern times.

Three presidential administrations is a long time in politics, and the next administration will have a tough time getting tariff relief past a bureaucracy that dislikes change and special interests that will fight hard to preserve their special privileges. But given the stakes for future American prosperity, it will be worth it.

Dealing with disruption: It is true that trade is disruptive. Though its long-run effect on employment is approximately zero, in the short run it can cost jobs and even depopulate towns.³² America's resilience depends on its ability to adjust, but successful and timely adaptation is generally spontaneous in nature—the work of human action but not human design. Planned adjustment by governments has a much poorer track record.

Context is also important to adjustment efforts. Trade is not nearly as disruptive as automation. Technological change costs approximately six times more jobs as does trade (though, again, only in the

short run).³³ Any argument made against trade's disruptive effects applies at least six times as strongly to technological change, yet no one seriously argues for reversing the dramatic changes the Internet has wrought. This context gives good reason for hot populist tempers on trade to cool down. Trade policy is important, but it is neither the only factor contributing to populist grievance tropes, nor the biggest.

More than 11 million American jobs turn over through hirings, firings, retirements, layoffs, and resignations every month.³⁴ This is equivalent to nearly 85 percent of all jobs turning over in the course of a year, though of course the tempo varies from place to place. Entry-level fast-food and retail jobs can turn over several times per year, while tenured professors might hold the same position for thirty years.

Despite all this job churn, America has suffered only four bouts of double-digit unemployment during the past century. Two of them, the Great Depression and the comedown from the 1970s stagflation, were due to monetary mismanagement, not trade.³⁵ The third, the Great Recession, was due to a financial crisis worsened by monetary mismanagement, not trade.³⁶ The fourth was due to COVID-19 lockdowns, not trade.³⁷

Using trade restrictions to slow down job churn is a mistake for two reasons. One, trade is at best a minor contributor to job churn compared to other factors like technology, changing consumer tastes, inflation, and business cycles. Two, churn is evidence of a healthy economy.

Agricultural economies have low job churn paired with the world's lowest living standards. European job markets slow down churn through labor regulations that make hiring and firing difficult. The result is chronic slow growth and living standards that are now a third less than in higher-churn America.

³² Kevin D. Williamson, *Big White Ghetto: Dead Broke, Stone-Cold Stupid, and High on Rage in the Dank Woolly Wilds of the "Real America"* (Washington: Regnery, 2020).

³³ Stephen J. Hicks and Srikant Devaraj, "The Myth and Reality of Manufacturing in America," Conexus Indiana and Ball State University Center for Business and Economic Research, June 2015 and April 2017, <https://conexus.cberdata.org/files/MfgReality.pdf>.

³⁴ US Department of Labor, Bureau of Labor Statistics, "Job Openings and Labor Turnover Summary," monthly data series, <https://www.bls.gov/news.release/jolts.nr0.htm>.

³⁵ Allen H. Meltzer, *A History of the Federal Reserve, Volume 1: 1913–1951* (Chicago: University of Chicago Press, 2004); Allen H. Meltzer, *A History of the Federal Reserve, Volume 2, Book 2, 1970–1986* (Chicago: University of Chicago Press, 2014).

³⁶ John B. Taylor, *Getting Off Track: How Government Actions and Interventions Caused, Prolonged, and Worsened the Financial Crisis* (Stanford, CA: Hoover Institution Press, 2009); Scott Sumner, *The Money Illusion: Market Monetarism, the Great Recession, and the Future of Monetary Policy* (Chicago: University of Chicago Press, 2021), pp. 267–284.

³⁷ Federal Reserve Bank of St. Louis, Federal Reserve Economic Database (FRED), Series Unemployment Rate (UNRATE), <https://fred.stlouisfed.org/series/UNRATE>.

Meanwhile, the American teenager who works at McDonald's for six months and then leaves is likely off to college, or to a better-paying job elsewhere, now that they have some work experience. Either way, rapid churn benefits them.

When people see better opportunities, they should be allowed to pursue them. To stop them slows economic growth, harms individual dignity, removes humanity from our policies, and can contribute to societal ills like depression, addiction, and isolation.

Churn still has costs, even though it is beneficial on net. Regulatory reforms can help lower the costs of churn, whether or not it is caused by trade. These include:

- Less restrictive zoning and permit rules;
- Occupational licensing reform;
- Automatic sunsets for new regulations; and
- A presidentially appointed Regulatory Reduction Commission that would examine the Code of Federal Regulations each year and send repeal packages to Congress that include old, obsolete, redundant, and harmful regulations.³⁸

People who need help should be able to get it. Trade policies aimed at subsidizing manufacturers help only special interests while harming the very people they intend to help.

Trade adjustments: Trade adjustment assistance is a popular policy for aiding displaced workers. It typically consists of cash payments and retraining programs for those workers. Though flawed, it is a bargaining tool that can potentially help to get sound trade policy adopted. Reformers should approach trade adjustment assistance with caution and use it as a last-resort political bargaining tool, and not as a first-resort policy. Funding for job training programs and the like will typically find its way to labor union slush funds, left-leaning nonprofits like the former ACORN, and other politically-charged causes that will not necessarily help displaced workers.

A better approach to trade adjustment assistance, if it must be expanded, is direct cash transfers. Not only would this prevent political hijacking of programs and their funding, but cash is the most flexible type of aid.

It treats people as adults and lets them make their own choices about their next steps. Major life decisions should be made by individuals for themselves, not for them in Washington.

Trade adjustment assistance should treat workers who lose their jobs to international trade the same as workers who lose their jobs for any other reason are treated. While that will not likely come to pass in the near future, steps in that direction are possible.

Technological change displaces six times as many workers as does trade, yet workers displaced by technology get no special treatment. Nor should they. Unemployment remains low because it grows alongside population, and real wages continue to rise over time. Trade-displaced workers should be eligible for the same benefits for which anyone else is eligible, no more and no less.

The baby formula debacle: Protectionism builds weaknesses into supply chains. This was demonstrated vividly by the baby formula shortage, which may have peaked in 2022 but remains an ongoing concern. Domestic baby formula producers benefit from a decades-old tariff that averages 17 percent, which is high enough to shut nearly all imports out of the market.

Other requirements also help to keep competition out of the market, such as ever-evolving labeling requirements and nutritional standards that (conveniently for domestic manufacturers) are always just slightly different from international standards. As a result, before the formula shortage in 2022, approximately 98 percent of the country's baby formula was produced domestically.

With foreign competition out of the way thanks to Washington, other government policies helped to concentrate almost the entire domestic formula industry into four firms.

Roughly 40 percent of baby formula purchases are made by state-level food assistance programs, which typically do not let families choose their own formula brands. Instead, they must buy from a single producer, which guarantees producers large market shares in states where they win contracts. This situation gives incumbent producers a cozy existence

³⁸ Ryan Young, "How to Make Sure Reformed #NeverNeeded Regulations Stay That Way," Competitive Enterprise Institute, Open Market Blog, July 8, 2020, <https://cei.org/studies/how-to-make-sure-reformedneverneeded-regulations-stay-that-way/>.

but puts consumers at risk. Like all protectionist policies, the benefits are concentrated in the hands of a few producers while the costs and risks are widely distributed.

With so many eggs in so few baskets, whenever something goes wrong—which is inevitable even when nobody is at fault—families find themselves scrambling. That happened early in 2022 when contamination entered a Michigan facility that makes about 40 percent of America’s baby formula. Trade protectionism all but eliminated other options for many parents, who suddenly found empty shelves and sky-high prices for an essential item that many of them were already struggling to afford.

Meanwhile, in Mexican and Canadian stores, even just minutes across the border, it was as though nothing happened. Infant formula prices were unchanged, and shelves were stocked. In America, President Biden invoked the Defense Production Act to use military aircraft to fly in formula from Switzerland and other countries, which would have been illegal if entrepreneurs had done it.

In response, Congress passed the FORMULA Act³⁹ in the summer of 2022. The act eased formula tariffs and loosened never-needed labeling requirements and other import restrictions, but the relief was temporary. It expired at the end of 2022, leaving families still vulnerable to the cascading consequences that ensue if one thing goes wrong at only one plant.

The baby formula debacle has two lessons for reformers. The first lesson is that they ought to attack the root of the problem. Temporary fix-it bills are better than nothing, but they leave the rot in place. Bold liberalization is the way to go. The second lesson of the debacle is that *strength comes from openness*. In the real world, markets fail. Factories will get contaminated, and health inspectors will not always be as thorough as they should be. The baby formula market is essentially a natural experiment in self-sufficient industrial policy. When something went wrong, that single failure point crashed the whole system. It should not be that way, and the president can change it.

Part of the problem is that the supply chain analogy itself causes sloppy thinking. In a chain, a link is connected only to the link ahead of it and the link behind it, and not to any other links. Real-world supply chains are more like networks in which each point connects directly to countless others and is rarely more than six degrees of separation from nearly anywhere on Earth. Because market failures happen all the time, it is important to have as many connections as possible. Americans need access to more ways to adapt and reroute around failure points, especially for essential products like baby formula.

Trade protectionism makes us more vulnerable, but free trade makes families and communities more resilient. Loosening restrictions similar to the ones that stunt the baby formula market would make it easier to navigate future crises while preventing the progressive and rent-seeking power grabs that come with every crisis, whether it is as isolated as a baby formula shortage or as expansive as a pandemic.

Mutual recognition: A simple way to reduce friction in supply networks is mutual recognition of other developed countries’ regulatory standards. This can be done either in a larger trade agreement or independently. For baby formula, this would mean allowing in brands that meet European Union standards even if they do not meet Food and Drug Administration (FDA) labeling requirements. Infants’ nutritional needs do not change across borders. If a formula is deemed healthy for European babies, then it is also healthy for American babies. The reverse is equally true.

Mutual recognition could help to open new markets for American producers in countless industries and give American consumers access to countless new products on more competitive terms. For example, US regulations require washing machine power cords to be at least six feet long, while the UK requires them to be at least two meters.⁴⁰ The difference (about six inches) affects neither safety nor performance, but it does keep American-made washing machines out of an important foreign market. A mutual recognition policy would circumvent the problem.

³⁹ H.R. 8351, Formula Act, Public Law No. 117-160, 117th Congress, July 21, 2022, <https://www.congress.gov/117/plaws/publ160/PLAW-117publ160.pdf>.

⁴⁰ Iain Murray, “A New Kind of Trade Agreement,” Competitive Enterprise Institute, Open Market Blog, September 19, 2018, https://cei.org/opeds_articles/a-new-kind-of-trade-agreement/.

Given the recent bipartisan interest in increased antitrust enforcement, both parties should embrace policies like mutual recognition that have the double benefit of increasing market competition while giving consumers affordable access to essential goods like baby formula, even when major suppliers are shut down.

The US should enact mutual recognition agreements for a wide variety of goods with the United Kingdom, European Union, Japan, South Korea, Australia, and other governments with high standards comparable to our own. This would have especially large benefits for pharmaceuticals, because America's FDA drug approval process is slower and more expensive than those of other countries without being any safer. Americans would gain access to more and lower-cost medical treatments, and American pharmaceutical companies could defray development costs and innovate faster by gaining access to more markets, all while cutting prices.

The Jones Act: The Jones Act (part of the Merchant Marine Act of 1920) requires that ships traveling between US ports must be US-built, US-owned, and US-crewed. In practice, this is an "America last" policy that has decimated the American maritime industry.⁴¹ Because of Jones Act regulations, American-built ships cost three to four times more to build than foreign-built ships cost. As a result, the entire Jones Act fleet is down to about 90 ships, many of which are old and obsolete. In fact, Jones Act-compliant shipping is so expensive that it is often cheaper for East Coast ports to import oil from Vladimir Putin's Russia than it is to send it up the coast from Houston or New Orleans. The national security (to say nothing of energy security) implications of reliance on Russia for oil and gas are obvious.

The Jones Act's original national security justifications are just as dubious. The act's goal was to guarantee a sizable fleet of American ships that could be pressed into war service if needed. Aircraft carriers and other post-1920 naval innovations have made this argument obsolete. An \$800 billion defense budget has plenty of room to maintain a Navy to defend American security interests around the world. The US Navy

would likely prefer not to use Jones Act ships anyway, because Jones Act ships tend to be older and in poorer condition than its own ships, or similar foreign-made but domestically-owned commercial ships that could also be pressed into service.

As with many other industries, US shipbuilding could be the envy of the world if it could operate in a free market. But the maritime lobby prefers a quiet, cozy existence on the dole, even as it harms American consumers and national security. Reformers should unleash American potential by unilaterally enacting Jones Act exemptions wherever allowed, as currently happens most years during hurricane season, and working with Congress to repeal the Jones Act.

Trade and inflation: The post-COVID inflation spike is over, but inflation is still lingering above target levels, nearly five years later. Keeping inflation under control should remain a top priority.

Free traders should not oversell their case by saying that liberalization would solve inflation; it would not. Inflation is predominantly a monetary phenomenon, not a trade phenomenon. But tariff relief can help at the margin by immediately lowering prices on affected goods and slightly boosting long-term growth.⁴² While this would not affect the money supply, which is inflation's key variable, even rolling back the tariffs enacted since 2017 would likely have a positive effect on the Consumer Price Index.

The easiest way to curb inflation (or to create it) is for the Federal Reserve to work the monetary side of the equation, but the real output side has a similar effect on prices. Lifting trade barriers is one way to boost output. It also has the added benefit of requiring no additional spending. At the very least, this can make the Federal Reserve's job easier as bipartisan spending excesses show no sign of slowing down.

It is important not to oversell trade's inflation benefits as a cure-all, but at the margin, it can help. Policymakers should keep this in mind as they try to cope with most voters' number one issue.

Trade and foreign policy: We have seen how trade liberalization would boost the domestic economy and make American businesses more competitive. Free-

⁴¹ Mario Loyola, "America Last: The Grim Reality of the Jones Act," Competitive Enterprise Institute *Issue Analysis* 2020 No. 5, June 2020, https://cei.org/sites/default/files/Mario_Loyola_-_America_Last.pdf.

⁴² Bryan Riley, "Better Trade and Regulatory Policies Are Key to Battling High Prices," National Taxpayers Union Blog, January 12, 2023, <https://www.ntu.org/publications/detail/better-trade-and-regulatory-policies-are-keyto-battling-high-prices>.

market trade policies also benefit America's foreign policy interests. Trading with friends is an important way to strengthen alliances against Russia and China, while also strengthening supply networks in case of economic sabotage or a shooting war. Policymakers should therefore:

- Rejoin the Trans-Pacific Partnership (TPP), now called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership;
- Negotiate trade-only multilateral and bilateral trade agreements, based on mutual recognition and tariff relief;
- Recognize the role “trade, not aid” can play in securing foreign policy objectives;
- Restore the president's Trade Promotion Authority (TPA) if it will assist these efforts;
- Reform the World Trade Organization or build a successor organization with membership limited to liberal democracies;
- Repeal the Jones Act to lower energy prices, improve disaster aid, and revive the US shipbuilding industry;
- Develop a multifaceted, long-term China policy that takes seriously America's biggest foreign policy threat and deals with it on several fronts;
- Work with Congress to reform the “de minimis” exemption; and
- Close the Export-Import Bank and similar agencies that enable cronyism and corruption in America and around the world.

Rejoin Trans-Pacific Partnership: Both Republicans and Democrats have significant factions that want to restrict trade with China, Russia, and other adversaries. There are cases where this is legitimate, though it is important to use a scalpel against specific offenders, rather than blanket actions that harm potential friends in hostile countries.

These same activists often ignore the other side of the coin. If it is important to restrict trade with enemies, it is also important to open trade with friends. This has two benefits, which have both been recognized by thinkers from Montesquieu in the 1740s French Enlightenment, up to Cordell Hull, FDR's Secretary of

State, in the 1930s.

One, trading with friends strengthens diplomatic and economic alliances against threats. This was an argument that both Hull, the New Deal Democrat, and Ludwig von Mises, the free-market economist and Austrian Jew who narrowly escaped the Nazis, argued for with all their might.⁴³ It is one of history's greatest tragedies that they did not succeed. Free countries must band together if they are to encourage China to make pro-freedom reforms and contain its foreign policy belligerence.

Two, more diversified supply chains are important for national security. China will have a harder time cutting off free countries from rare earth minerals and other supplies if those countries have strong trading networks and other ways to route around shortages and frictions.

Abrogating trade treaties with nations like Canada, Mexico, Israel, Chile, Australia, and others did significant damage to US relations with those countries. Reinstating them would be a simple way to help mend fences.

The simplest way for the US to foster additional relations and trade more with friends is to do something it was already poised to do: join the Trans-Pacific Partnership (TPP). This is an alliance of 11 free countries set up to counter China's economic and political influence around the Pacific Rim. The US had already completed negotiations and was set to join it, when President Trump withdrew from it upon taking office in 2017.

The agreement's other 11 members continued on without US involvement or influence, renaming their pact the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or CPTPP. The UK joined CPTPP in December 2024, making America's absence even more conspicuous. Free nations need to stick together, especially when it comes to countering an illiberal, potentially belligerent country with four times America's population. Rejoining CPTPP would be relatively quick and easy as far as trade agreement negotiations go, and is one of the most important planks of a “trade with friends” strategy.

⁴³ Ludwig von Mises, *Liberalism: The Classical Tradition*, (Indianapolis: Liberty Fund, 2005 [1927]).

National security: For many people, the national security arguments against free trade are the most persuasive. As it turns out, free trade promotes American security. The more countries trade, the less likely they are to fight one another and the more robust their supply networks will be. Going to war with customers is bad for business.

Without a strong economic interest in continued US investment and exports, for example, China's behavior would likely become increasingly less predictable and more dangerous. An isolated China is a more dangerous China. Anyone who thinks Chinese Communist Party (CCP) General Secretary Xi Jinping and the government in Beijing are bad actors now—which they are—should consider what would happen if the Chinese convinced liberal countries like the United States to decouple from them. The break would leave them free to pursue whatever policies they wish without the significant counterweight that America can provide.

That is a major reason for Xi Jinping's emphasis on centralization and self-sufficiency. He does not like international pressure about his government's human rights violations and bad-faith trading policies. Decoupling from trading partners like America is one way to avoid that pressure. A less constrained China would be poorer but much more unstable and dangerous to its neighbors and to America than it would be if it still had to engage regularly with the rest of the world.

'Trade, not aid' as development tool: The modern world is an interconnected world, and trade is one of the main connectors we have. What many do not appreciate is that trade has been a major facilitator of human development over the past fifty years or more. While most think of international development as a function of international aid shipments, it is trade that has really driven the astonishing decrease in global poverty. The United States' role as a linchpin of this system has enhanced its position as the pre-eminent global power. Yet the new administration's curious tariff policy threatens all of this, for no discernable benefit.

Some years ago, the singer and activist Bono shocked many of his supporters when he told them, "Aid is just a stopgap...Commerce [and] entrepreneurial

capitalism take more people out of poverty than aid. We need Africa to become an economic powerhouse."⁴⁴ Trade is a vital part of that entrepreneurial application of commerce as it connects entrepreneurs to global markets, dramatically increasing their reach and allowing for specialization and economies of scale.

Moreover, increased competition from international rivals and access to new technology and sources of capital encourage innovation and efficiency, thereby creating wealth. Foreign direct investment helps create jobs and infrastructure, which in turn contribute to more wealth creation. We have seen this happen across the globe, most especially in Southeast Asia and East Africa.

With these jobs, infrastructure, and wealth come rising living standards and poverty alleviation. Yes, many of the jobs are in what are disparagingly called sweatshops, but they provide significantly higher standards of living than the subsistence-level jobs they replaced.⁴⁵ The increased income means that parents can now invest in their children's education, often at low-cost private schools, rather than requiring them to work from an early age. This in turn increases the human capital in these countries.

It is sometimes said of trade that "we only export to pay for the imports," and in the case of international development the imports are seen as a universally good thing. Specialization and gains from trade result in more affordable and better-quality goods for the inhabitants of countries lifting themselves out of poverty.

Thus do American investment, purchase of imports, and indeed exports raise the standard of living in previously desperately poor countries. As those countries become connected into the global value chain, particularly in industries like textiles and electronics, low-income countries become connected to high growth sectors. Thus, countries like Vietnam not only engage in international trade but become signatories to trade agreements like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

⁴⁴ Elaine Pofeldt, "With or without aid, Bono is one with African capitalism," CNBC, December 19, 2013, <https://www.cnbc.com/2013/12/19/hout-aid-bono-is-one-with-african-capitalism.html>.

⁴⁵ Benjamin Powell, *Out of Poverty: Sweatshops in the Global Economy*, (Cambridge: Cambridge University Press, 2014).

In turn those agreements encourage more investment through things like investor-state dispute settlement procedures, which strengthen property rights and the rule of law in countries that might previously have had shaky institutions. This is what is meant by the “rules-based trading environment,” which is designed specifically around promises of reciprocity and lowered tariff and non-tariff barriers to trade. So these countries become valued members of the international community.

Yet this trade hasn’t just been advantageous to the developing world, it has helped America too. Obviously, we get the imports but we get other things too. The cash we exchange for the imports comes back to the US in the form of investment, allowing us to gain jobs and infrastructure. Some of it buys treasury bonds, which allow us to invest in our military and national security.

Yet an under-appreciated aspect of US trade policy relates not to the tangible benefits, but to the increase in what students of geopolitics call “soft power,” usually defined as international influence without coercion. America’s policy of “Trade, not aid,” allowed it to increase its international soft power without as many of the problems that come with international aid, such as funds being diverted into warlord’s pockets (warlords are terrible for business investment) or questions about waste back home.

With soft power come many benefits. You are seen as a trusted ally, a reliable partner when things go wrong. You will have other nations vote with you in international fora. US interests are foremost in the minds of the leaders of these countries. In a multipolar world, soft power pays for itself over and over and America has been peerless in its projection of soft power.

Indeed, trade does not need a formal trade agreement to bind the parties together. While formal agreements have allowed America to export some of its values and sensibilities (for instance, progressives have been successful at writing labor and environmental standards into trade agreements,) the simple existence of a mutually beneficial trade relationship gives America leverage over its trading partners. Americans get rare minerals like diamonds, for instance, and

make the diamond supplier friendlier to the US. That might allow for the siting of a strategic military base as much as a vote in the United Nations.

With the president’s “Liberation Day” tariff announcement, however, this is all now gone in an instant. Not only has the trade policy alienated our close allies and neighbors like Canada, but developing nations in particular have felt the brunt of the policy. In fact, the methodology of the policy hurt them for the crime of being poor.

The “reciprocal tariffs” were meant to account for the other nations’ imposition of tariffs, non-tariff barriers (like food standards), and “cheating” against the US. However, the tariff rates were not calculated by any assessment of the relative weight of these factors, but by a simple formula: its trade surplus with the US divided by its total exports, divided by two.

The trouble is that many poor countries have a trade deficit with the US because they export what they can to us but cannot afford to buy our high-value products in return. They export jeans, for instance, but don’t buy Harley-Davidsons. Yet the formula really punishes countries like that. That’s why the highest reciprocal tariff rate was imposed on the tiny African nation of Lesotho.

An economic analyst from the nation told Reuters, “The 50% reciprocal tariff introduced by the U.S. government is going to kill the textile and apparel sector in Lesotho...Then you are having retailers who are selling food. And then you have residential property owners who are renting houses for the workers. So, this means if the closure of factories were to happen, the industry is going to die and there will be multiplier effects.” He concluded, “So Lesotho will be dead, so to say.”⁴⁶

In many ways, this is the exact converse of the “trade not aid” philosophy. It regards exporting to the US as a cost to the US that the other nation should pay for, not as a form of mutually beneficial cooperation with humanitarian benefits. It also kills US soft power with these nations and leaves a geopolitical vacuum into which rivals like China will expand. High tariff rates on Southeast Asian countries, for example, will exacerbate the drift of those countries towards the Chinese sphere

⁴⁶ [Marafaele Mohloboli](https://www.reuters.com/world/africa/trump-slaps-tiny-african-kingdom-lesotho-with-highest-tariff-all-2025-04-03/), “Trump’s highest tariff will kill tiny African kingdom of Lesotho, economist says,” Reuters, April 3, 2025, <https://www.reuters.com/world/africa/trump-slaps-tiny-african-kingdom-lesotho-with-highest-tariff-all-2025-04-03/>.

of influence that has been happening in the wake of trade uncertainty since the first Trump administration.

The administration's trade policy sends a message out to the world: America is an unreliable ally that sees you only as a source of wealth; and if you don't have wealth, you'll pay for it. It's a self-contradictory and hostile message to countries that have been valued partners in trade for decades or more. As such it also represents a repudiation of the value of soft power.

The administration should reconsider the development benefits of trading relationships and center its development policy around a principle of "trade, not aid." That will be welcomed by the developing world.

Trade Promotion Authority: Trade agreements can take years to negotiate. One way to accelerate the process is for Congress to grant the president Trade Promotion Authority (TPA). It was first granted under the 1974 Trade Act, the same bill which contains the Sections 201 and 301 tariff delegations mentioned earlier. TPA, then called fast-track, has aided several trade agreements, including NAFTA and the USMCA, which took effect in 2020. TPA has lapsed before during slow periods in trade policy, most recently in July 2021, and remains lapsed today.

The president should work with Congress to renew TPA. This renewal would spur negotiations for upcoming trade agreements with the United Kingdom, the European Union, and other allies. Limiting those agreements to core issues like mutual recognition and tariff relief could further speed progress.⁴⁷ Separate issues should be negotiated separately.

Both supporters and critics have questions regarding TPA's implications for the constitutional separation of powers, and policymakers should take those questions seriously. As things currently stand, Congress has some oversight powers over the president's negotiations under TPA, but they are limited. Congress can increase its oversight by passing new legislation superseding relevant provisions of the 1974 Trade Act.

However, that is a double-edged sword. A Congress that largely favors free trade could exercise oversight to keep the president on the straight and narrow in trade negotiations. A less principled Congress could

instead insist that the president negotiate for as many trade-unrelated provisions as possible to benefit labor and green constituencies, as well as politically-favored industries, while pushing preferred policies on the US and its trading partners without proper democratic procedures.

On balance, a single voice at the negotiating table that is subject to congressional oversight is the best posture for American workers and consumers. A fractious Congress has yet to demonstrate the capacity to negotiate with other nations, but it can help to hold the administration accountable.

Trade agreements with the UK, EU, others: Even with renewed TPA, trade agreement negotiations will likely take years. The Trump and Biden administrations were not inclined to start the process, so that job may well fall to a future administration. In that sense, the delays may end up being worth it.

If there is one lodestar to follow, it is to restrict these agreements to *trade issues only*. Ever since NAFTA, trade-unrelated provisions have taken on a progressively greater role in trade agreements. These create sticking points and are routinely hijacked by rent-seeking special interests and political ideologues who demand subsidies, carve-outs, and economically distorting labor and environmental standards that have nothing to do with trade. If governments are to negotiate these issues, they should do so in separate agreements so they do not torpedo efforts to liberalize and engage with allies. Trade agreements should lighten burdens, not create new ones by attempting to address non-trade issues.

Policy leaders in the United States and the United Kingdom, including experts from the Competitive Enterprise Institute, Cato Institute, and the Institute for Free Trade, have prepared a model trade agreement along these lines.⁴⁸ Along with TPA renewal, this would greatly reduce negotiating costs. This template is also readily adaptable for agreements with Europe and any other allies that are willing to liberalize their economies and build a stronger alliance with America. The draft US-U.K. agreement includes an accession chapter to allow others to join on the same terms.

⁴⁷ Ryan Young and Kent Lassman, "Toward a US-Swiss Trade Agreement: The right deal could jump-start a stalled process," Competitive Enterprise Institute, February 2024.

⁴⁸ Daniel Ikenson, Simon Lester, and Daniel Hannan, eds., "The *Ideal* U.S.-U.K. Free Trade Agreement: A Free Trader's Perspective," Initiative for Free Trade and Cato Institute, 2018, <https://www.cato.org/sites/cato.org/files/pubs/pdf/ideal-us-uk-free-trade-agreement-executive-summary-update.pdf>.

Be less ambitious: One way to lower the transaction costs of negotiating trade agreements is to be less ambitious. A smaller agreement that treats only mutual recognition or tariff relief is still a victory. It can also serve as a habit-builder. Policymakers could start by picking the lowest-hanging fruit, such as a mutual recognition agreement with a small country that is already a close ally, and already has similar economic institutions. Switzerland is one such country, and there are others that serve as starting points as well.⁴⁹ After picking that low-hanging fruit, policymakers can use that example and the lessons learned from it, and climb higher towards larger agreements with the UK, Europe, and other allies.

Dispute resolution process needed: The World Trade Organization as we know it may be mortally wounded. This deprives the US of the WTO's dispute resolution process, under which the US won 85 percent of the cases it brought. The WTO's slow death began under the Obama administration, which refused to allow appointees to the WTO's appellate board, which consequently is now nonfunctional. Both the Trump and Biden administrations have continued the Obama administration's approach.

That means that every case in the dispute resolution process will sputter to a halt as parties file appeals that cannot be heard. If the WTO is no longer fit for that purpose, it may be better to look in a different direction. More than 20 years ago, John Hulsman, then of the Heritage Foundation, proposed that America and other free economies should form a Global Free Trade Alliance that is open to all countries that adhere to a truly free market system with appropriate safeguards such as property rights, lack of corruption, and enforcement of contracts.⁵⁰ Alongside a general agreement on low to zero tariffs, the alliance would lower nontariff barriers (such as the previously noted baby formula ingredient and labeling barriers) by basing trade around the principle of mutual recognition. Such an alliance could be started by a trade agreement between the United States and, for example, the United Kingdom, with an accession chapter allowing others to join if they meet the criteria.

It would be essential for a Global Free Trade Alliance to avoid the WTO's most serious problem: the special exemptions from its rules that it grants to developing countries. Instead, all members would be subject to a common set of rules. When China joined the WTO in 2001, it was granted developing-nation status, which it continues to use to dodge rules that should apply to it. Other countries have used that status to delay needed reforms. Rule exemptions give some countries a perverse incentive to remain poor and autocratic.

A Global Free Trade Alliance would allow the US to enjoy the benefits of a rules-based international trading system without the WTO's shortcomings. Negotiation costs would be lower because the countries would already be allied on many issues. In addition, without separate tiers with different rules, the alliance would give developing countries an incentive to liberalize – to gain membership or keep it. In addition to being good for its own sake, liberalization would give developing countries membership in a prestigious club tilted toward America's orbit and away from China's.

Close the Export-Import Bank: The Export-Import Bank (EXIM) is an unusually clear example of how vulnerable trade protectionism is to being hijacked by special interests.⁵¹ In most years, about half of EXIM's business benefits a single company, Boeing. Their relationship is so cozy that EXIM's nickname around Washington is “the Bank of Boeing.”

Unlike most other agencies, EXIM has a charter that expires. Congress must renew it periodically, or else the agency will permanently close. Its current charter expires at the end of 2026. Closing this New Deal-era legacy agency would be a victory on a number of fronts. It is also a winnable battle: Congress just needs to do nothing.

There are both foreign policy and economic reasons to oppose EXIM. EXIM has a long history of providing financing for authoritarian governments in China, Russia, and the Middle East that often oppose US foreign policy interests, and its deals often oppose US economic interests. EXIM financing also harms

⁴⁹ Young and Lassman, “Toward a US-Swiss Trade Agreement.”

⁵⁰ John Hulsman, “The World Turned Right-Side Up: A New Trading Agenda for the Age of Globalization,” Heritage Foundation *Report*, January 24, 2000, <https://www.heritage.org/trade/report/the-world-turned-right-side-up-a-new-trading-agenda-for-the-age-of-globalization>.

⁵¹ Diane Katz, “Export-Import Bank: Propaganda Versus the Facts,” Heritage Foundation *Issue Brief* No. 4430, July 13, 2015, http://thf_media.s3.amazonaws.com/2015/pdf/IB4430.pdf. Ryan Young, “Ten Reasons to Abolish the Export-Import Bank: Eighty Years Is Enough,” Competitive Enterprise Institute *OnPoint* No. 195, July 15, 2014, <http://cei.org/sites/default/files/Ryan%20Young%20-%20Top%2010%20Reasons%20to%20Abolish%20Ex-Im%20%28%29.pdf>.

domestic airlines. Many EXIM financing deals enable foreign state-run airlines to buy Boeing jets at a discount. These foreign airlines, subsidized by the US government, then compete directly with US airlines on international routes.

More recently, the Biden administration has expanded EXIM's mission to advance progressive policy goals, including limits on financing for projects that involve fossil fuels or contribute to climate change, preferential treatment for renewable energy projects, and quotas for projects that benefit women-owned and minority-owned businesses. All of these could raise EXIM's default rates, putting taxpayer dollars at risk.

The strongest argument in EXIM's favor is that it boosts US exports by financing projects that would otherwise never receive financing. We now have evidence that this argument is false: EXIM does not finance additional exports; instead, it largely substitutes for other forms of export financing that would occur anyway.

EXIM's authorization lapsed in 2014–2015 because of free-market opposition to renewing its charter. During this lapse, EXIM maintained its existing portfolio but was unable to take on new business. Boeing reported no trouble finding alternative financing for new projects, and even reported record profits during EXIM's lapse while working to fulfill a seven-year backlog of orders.⁵²

EXIM boasts an extremely low default rate, but that is because of selection bias. EXIM overwhelmingly takes on low-risk projects that private banks would be happy to finance, although this admittedly could change somewhat with EXIM's Biden-era mandates to finance climate and other policy-focused projects.

EXIM's charter expires at the end of 2026. The agency will close automatically unless Congress and the president decide to extend it. Closing EXIM should be an easy decision, with only lobbyists standing in the way.

A multi-pronged China strategy: An effective American policy toward China needs to take a realistic view of the country, its leaders, their strengths and weaknesses, and the serious challenges they face. It should be comprehensive and flexible. A threatened CCP is dangerous, perhaps now more than at any time since Mao Tse-Tung, as Xi Jinping continues to use strong-arm tactics to consolidate his power and saber-rattling to challenge the international order.

At the same time, recent revelations about China's official statistics overstating its GDP by 30 percent track well with other problems that were already known.⁵³ These include one of the world's worst demographic aging curves thanks to China's one-child policy; a population that may already be declining; an unsustainable debt load that is already causing problems; countless failed boondoggles, from empty cities to its underwhelming Belt-and-Road Initiative, that are wasting significant resources; Xi Jinping's authoritarian turn; increasing state control of the economy; and a zero-COVID policy that sabotaged the economy and drove away foreign investment.⁵⁴

America has its problems, but it is in better shape than China on nearly every measure, especially in the long run. While the facts on the ground should inoculate policymakers against the most strident China fearmongering circulating in the media and in Washington, that does not mean that the government in Beijing is no threat to American interests. The question is: What should we do about it?

A serious China policy will require American policymakers to integrate doctrines, institutional prerogatives, expertise, and realistic objectives. Traditional Cabinet-level bureaucracies like those at the Departments of Defense, State, and Commerce will need to work together to pursue a comprehensive American strategy. Scores of incremental, narrowly targeted policies are necessary. They will not make for good soundbites on cable news, and many will operate slowly and out of sight from most news cycles even as progress is made.

⁵² Veronique de Rugy, "Boeing Isn't Exactly Pleased with Ex-Im's Liquidation," *National Review Online*, The Corner, September 1, 2015, <https://www.nationalreview.com/corner/ex-im-bank-boeing-liquidation/>.

⁵³ Luis Martinez, "How Much Should We Trust the Dictator's GDP Growth Estimates?" Becker-Friedman Institute for Economics at the University of Chicago, Working Paper No. 2021-78, July 2021, https://bfi.uchicago.edu/wp-content/uploads/2021/07/BFI_WP_2021-78.pdf.

⁵⁴ Nicholas R. Lardy, *The State Strikes Back: The End of Economic Reform in China?* (Washington: Peterson Institute for International Economics, 2019); Elizabeth C. Economy, *The Third Revolution: Xi Jinping and the New Chinese State* (Oxford and New York: Oxford University Press, 2018).

An effective China policy must also allow for adaptation because the CCP will not sit idly by. As people react to developments, America needs flexible options. Trade isolationism is inherently inflexible because it reduces the number of contact points with China.

This is a tougher political sell than loud, simplistic jeremiads, but going the extra mile to solve these difficult coordination problems is vital to America's interests. Trade and engagement with China are necessary if we are to contain the threats that China poses to its neighbors and to the US. The administration should:

End China's developing-nation status: China is an advanced manufacturing economy and should be treated as such, even if its political and legal institutions remain those of a developing nation, to prevent it from exploiting its status to gain special privileges. This should happen in the UN, the WTO, and other international organizations.

Use a target, not a blanket: There should be actions against Chinese firms that are known to have engaged in unfair trade practices such as intellectual property theft. Rather than blanket tariffs or non-tariff barriers aimed at entire Chinese industry sectors, firms that act in bad faith should be targeted individually. This policy was employed to good effect early in the Trump Administration but was abandoned in favor of a less effective blanket tariff policy.

Work with Congress on de minimis reform: For almost a century, it has been recognized that small packages of little value should be exempt from customs charges and paperwork. The revenue raised from small packages is less than the cost of inspecting them. These packages therefore have a de minimis exemption from tariffs. The Trade Facilitation and Trade Enforcement Act of 2015 raised the value of the exemption to \$800. This resulted in an explosion of entrepreneurial firms linking American citizens with low-cost goods suppliers, particularly in China. There have been concerns that the exemption has been used to facilitate drug smuggling and has exposed Americans to fraud or worthless or unsafe goods. Nevertheless, millions of Americans, especially in lower income groups, have found great benefit from these transactions.

The Trump administration has canceled the exemption, resulting in significant cost increases and increased bureaucracy. The American Action Forum's Jacob Jensen estimates that US Customs would have to hire 22,000 employees to handle inspecting the 1.3 billion de minimis packages arriving each year. Congress and the administration should work together to find an acceptable exemption level at which concerns are minimized but Americans can still get the value they seek.

Solve the IPEF problem: President Biden began the process to create IPEF in 2022. IPEF is similar to the TPP, but its member countries are mostly China's neighbors in Asia, rather than Pacific Rim nations. Like the TPP, it seeks to create an alliance to push China toward the rule of law, but the Biden Administration so far has left trade entirely out of the agreement. Instead, the IPEF negotiations are focusing entirely on non-trade issues like climate and labor policy—issues that give progressives opportunities to impose their policies on other countries and provide rent-seeking opportunities for labor unions and politically connected businesses in renewable energy and other favored industries.

IPEF has the potential to be a powerful diplomatic tool that helps to bring countries into America's orbit and away from China's. Beijing's chauvinistic approach to foreign policy has alienated most of China's neighbors and allies. They follow along because they lack alternatives. IPEF and the CPTPP could offer them a way out and make it easier for China's smaller neighbors to stand up for themselves in a united front as they move toward American-style institutions that protect civil, political, and economic liberties.

IPEF could do all that, and so could the CPTPP, but America currently has no voice in the CPTPP, and IPEF risks becoming little more than another tool that progressives can use to force their policy wish list on countries that don't want it. From the perspective of IPEF's members, the Biden administration's approach was little different from Beijing's. A more realistic policy approach can give China's neighbors a better choice by scrapping IPEF or dropping most of its non-trade issues, and turning it into a forum to promote democracy and strengthen alliances while pressuring Beijing to make needed reforms.

Play the long game: It took two generations to win the Cold War, and there were many reasons for that success. The fact that the planned economy is inherently inferior to free-market capitalism played a role. So did diplomatic, military, and economic pressure from free countries. But culture was just as important, and it did not come from any government. Blue jeans and rock 'n' roll helped to win the Cold War as much as any deliberate policy did. So did images of fashion and prosperity in American movies and television shows like *Dallas*.

Such informal bottom-up processes will also play a vital role in helping to turn China from an authoritarian threat into a freer and less hostile power. It will take a long time, and the slow process will garner few headlines, but it can work. The cultural aspects of America's China policy should stay out of the way of efforts by ordinary Americans to engage with ordinary Chinese people through social networks, Internet memes, fashion, movies, student exchange programs, tourism, and more.

China's leaders are set in their ways, especially with Xi Jinping presumably in power for life. But the younger generation is more open than their parents were—more individualistic and open to change.

Effective outreach to the Chinese people will need the same humility that other sound trade policies require. Government-directed cultural and economic outreach risks being heavy-handed and could backfire.

Everyone involved needs to know that the process is generational in scope and will not work overnight. At the very least, Washington should stay out of the way as much as possible when regular people want to contact each other across national, language, and cultural divides.

Each of these many components, from tariffs to trade agreements to culture, is a small part of a larger China policy. Many are not attention-grabbing and cannot be put into sound bites. Cultural engagement is not something Washington can plan. Visible support for such efforts from Washington may even backfire. China's own demographic and debt problems, along with aging leadership and growing discontent over slowing growth and increased repression, might even cause an internal collapse. American policy must therefore be prepared to face any contingency.

Conclusion

America's trade policy needs a vision that blends progress and tradition. America's founding institutions, based on free trade and entrepreneurship, have made America the world's most dynamic economy and will help keep America strong through the next century. Recent departures from those principles by both parties, especially regarding tariffs and the separation of powers, have hurt America's economy and weakened alliances that are necessary to contain threats from Russia and China.

Reaffirming those principles through policies of openness, dynamism, and free trade will boost America's economy, make us more resilient against crises, and remove opportunities for rent-seekers and political opportunists to use the levers of government for their own purposes.

This policy program requires more than simply lowering tariffs, rejoining CPTPP, reviving or replacing the WTO, and pursuing new trade agreements. Not only does Congress have to clean up past mistakes, it must prevent future ones. That requires institution-level reform. Congress needs to reclaim the tariff authority it gave away to the president to prevent future abuses. The rules-based trading system that gradually lowered tariffs for 75 years needs to be revived. Trade agreements need to stick to trade, and separate issues must be negotiated separately.

Rediscovering liberal principles on trade policy and embracing America's long history as the world's leading commercial republic are about more than economic growth, or jobs, or even foreign policy. Free trade is an important part of restoring a government of, by, and for the people.

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