A Fresh Start for US Trade Policy: Unilateral Trade Liberalization through a Tariff Reform Commission

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ABSTRACT

The US tariff code stands as a barrier to reviving the US economy as it begins to recover from the coronavirus shutdown. Mounting evidence shows that statutory tariffs and the tariffs imposed by the Trump administration since 2018 are compounding the economic damage caused by the COVID-19 virus and are complicating the efforts of consumers and healthcare providers to access medical supplies. Executive action can mitigate some of the harm, but the US Constitution and the scope of the problem require congressional action. Such action should be taken unilaterally by the US government in its own national interest regardless of what actions other nations pursue. This paper recommends the establishment of a Tariff Reform Commission to enable Congress to overcome special-interest opposition to trade liberalization. The commission would be patterned after the successful Base Realignment and Closure process and Miscellaneous Tariff Bill process. It would follow the proven path taken by other nations that have unilaterally liberalized their trade policies.

JEL code: F1

Keywords: globalization, trade, free trade, international trade, liberalization, tariff, trade agreements, trade policy, political economy

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In January 2021, the administration and Congress will confront a US tariff code that stands as a barrier to reviving the US economy after the coronavirus shutdown. There is increasing evidence that statutory tariffs and those imposed by the Trump administration since 2018 are exacerbating the economic damage caused by the COVID-19 virus and efforts to mitigate its spread. Some of the damage caused by the tariffs can be undone by executive action, but the US Constitution and the scope of the problem require congressional action—action that should be taken unilaterally by the US government in its own national interest regardless of what actions other nations pursue.

Aggressive, unilateral action to eliminate tariffs and other government-imposed barriers to international commerce would deliver immediate benefits to millions of American households, invigorate the nation's productive capacity, and set a powerful example for other nations to follow. Cutting tariff rates would represent a targeted form of tax relief and deregulation aimed at benefiting Main Street households while boosting America's productive capacity. The additional economic activity created by trade expansion would provide resources that could be used to mitigate the transition costs for negatively affected sectors and workers. Unilateral liberalization is not an impractical, radical, or even fanciful idea, but rather a time-tested policy lesson from mainline economics, a policy that leads down a proven path to greater prosperity.

Now is an opportune time to consider unilateral trade liberalization. Around the world, national governments are examining ways to reduce tariffs and other barriers blocking critical medical supplies as nations continue to combat the coronavirus. The United Kingdom will unilaterally revise its own tariff code after it exits the European Union, and its Conservative government has expressed a goal of tariff liberalization. In the United States, the administration in office in 2021 will need to consider whether to revise or repeal a raft of special tariffs imposed since the beginning of 2018. Ironically, removing those tariffs could itself be one of the most sweeping exercises in unilateral trade liberalization in American history.

This paper will make the economic and political argument for unilateral reduction and repeal of US trade barriers. It will propose practical ways that such liberalization can be achieved in the United States, despite institutional challenges.

THE HIGH COST OF TARIFF BARRIERS

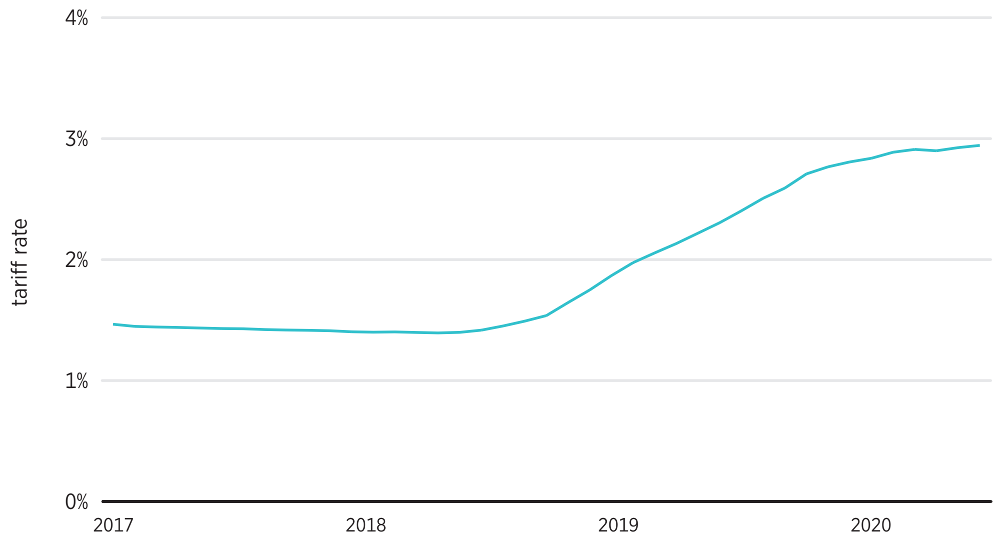
Americans are paying a punishing price every day for high and rising tariffs on thousands of goods imported from other nations. Because of the unilateral tariff increases imposed by the Trump administration, Americans are now paying a higher average tax on imports than they have for decades past. These duties are falling on a range of products important to American companies seeking to produce for global markets, as well as on consumer goods purchased every day by American families. Many of these duties fall on medical-supply consumers seeking protection from the coronavirus.

While tariffs can benefit certain niche industries in the short run, they impose even greater costs on import-using industries, export sectors, millions of American consumers, and the long-run growth and prosperity of the nation. Tariffs are a net loss for America. They do not put "America First"; instead, they put the interests of a small minority of Americans ahead of the interests of the large majority of their fellow citizens.

Since January 2018, the United States has conducted a real-world experiment in raising tariffs. The Trump administration has invoked section 201 of the Trade Act of 1974 (the so-called safeguards provision) to raise duties on imported solar panels and washing machines, section 232 of the Trade Expansion Act of 1962 to raise duties on imported steel and aluminum, and section 301 of the Trade Act of 1974 to raise duties on more than $350 billion in imports from China. The cumulative effect has been to more than double the effective average tariff rate of the United States, from 1.4 percent in 2017 to 2.9 percent over the 12 months ending in May 2020 (see figure 1).

The COVID-19 crisis has revealed the negative impact of tariffs on the US healthcare sector. The US International Trade Commission (USITC) confirmed in a June 2020 report to Congress that the US government imposes tariffs on a wide range of imported goods critical to the fight against the novel coronavirus that has killed more than 180,000 Americans so far in 2020. According to the USITC analysis, the Harmonized Tariff Schedule of the United States imposes duties of 16 percent on protective garments; 7 percent on operating-room towels, plastic and rubber gloves, and fabric face masks; 5 to 6.5 percent on conductive

FIGURE 1. EFFECTIVE US TARIFF RATE



Note: The rate is calculated by dividing the monthly duty collections into the monthly goods imports. It is given as a 12-month rolling average.

Source: Authors' calculations using data from monthly trade reports from the US Census Bureau, "U.S. International Trade in Goods and Services (FT900)," US Department of Commerce, accessed July 27, 2020, available at https://www.census.gov/foreign-trade/Press-Release/current_press_release/index.html.

gel for electrocardiogram or ultrasound procedures, hand sanitizer and other disinfectants, plastic aprons, urine bags, and disposable hair nets; and 2.5 to 4.5 percent on gas masks, protective goggles, disposable bags for biohazardous and clinical waste, vomit bags, medical oxygen, and protective aprons.[1]

In addition, the Trump administration has invoked section 301 of the Trade Act of 1974 to impose additional duties of 7.5 to 25 percent on these goods and a wide range of other medical supplies imported from China that are not subject to statutory duties. The additional goods include liquid soap, disposable paper hospital gowns, empty medical gas cylinders, mobile clinic vehicles, electrocardiographs, printed circuit assemblies for electrocardiographs, laryngoscopes, and COVID-19 diagnostic test instruments and apparatus.

The Harmonized Tariff Schedule of the United States and section 301 duties raise the cost and reduce the supply of medical goods available to the US healthcare system at a time of national emergency. The right response to the COVID-19 emergency is not the imposition of tariffs that make the United States

1. Table 1 (Duties and Trade) in US International Trade Commission, "COVID-19 Related Goods: US Imports and Tariffs (Updated)," Publication Number 5073, June 2020.

more dependent on a narrow base of domestic providers, but a state of zero tariffs that allows healthcare providers to diversify their sources to mitigate supply disruptions and price spikes in the future.[2]

Numerous studies have been conducted to assess the broader impact of recently increased tariffs on US output, prices, and consumer welfare. The results have been uniformly negative. Studies by the National Bureau of Economic Research, the Federal Reserve Bank of New York, and the Congressional Budget Office all found that the spate of tariff hikes in 2018–2019 has reduced the output of the US economy, reduced average wages and incomes for Americans, and increased prices for US importers and consumers.[3] Despite claims by President Trump, it is not China or any other foreign nation that pays the direct costs of higher US tariffs; it is Americans who pay the great bulk of the bill for those tariffs.

US statutory tariffs impose the same cost on American consumers. In an ongoing series of reports on the economic impact of US import restraints, the USITC has calculated the impact of those restraints on various products important to US consumers. As table 1 shows, tariffs have increased prices significantly for a range of goods important to the budgets of American households, from sugar and dairy products to apparel and leather goods.

One of the most instructive studies on the impact of tariffs across a wide range of countries was undertaken by the staff of the International Monetary Fund in a January 2019 working paper, "Macroeconomic Consequences of

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2. Defenders of the tariffs on medical supplies argue that they are necessary to promote domestic production so that Americans are not vulnerable to global supply chain disruptions or export controls imposed by foreign governments. Although certain nations have resorted to export controls on medical supplies during the COVID-19 emergency, these controls have not been the primary reason for temporary shortages in the United States. Better policy responses would be to stockpile essential medical supplies domestically, to negotiate limits or bans on such export controls through the World Trade Organization or bilateral or regional trade agreements, or to selectively subsidize domestic production for certain essential items. Tariffs, in contrast, impose a permanent cost on the economy without providing protection from domestic supply disruptions.

3. See Mary Amiti, Stephen J. Redding, and David E. Weinstein, "Who's Paying for the US Tariffs? A Longer-Term Perspective" (NBER Working Paper No. 26610, National Bureau of Economic Research, Cambridge, MA, January 2020); Matthew Higgins, Thomas Klitgaard, and Michael Nattinger, "Who Pays the Tax on Imports from China?," *Liberty Street Economics* (Federal Reserve Bank of New York), November 25, 2019; chapter 2 in Congressional Budget Office, *The Budget and Economic Outlook: 2020 to 2030*, January 2020, www.cbo.gov/publication/56073; Alberto Cavallo et al., "Tariff Passthrough at the Border and at the Store: Evidence from US Trade Policy" (NBER Working Paper No. 26396, National Bureau of Economic Research, Cambridge, MA, October 2019); and Jeanna Smialek and Ana Swanson, "American Consumers, Not China, Are Paying for Trump's Tariffs," *New York Times*, January 6, 2020.

TABLE 1. DOMESTIC US PRICE INCREASES CAUSED BY US TARIFFS AND TARIFF-RATE QUOTAS, 2015–2020

Product type	Price increase owing to restraints (%)
Refined sugar	56.6
Raw cane sugar	29.3
Butter	20.8
Cheese	15.3
Apparel	12.8
Canned tuna	12.3
Leather products	10.1
Carpets and rugs	6.3
Ceramic wall and floor tiles	6.2
Ball and roller bearings	5.8
Residential electric lighting fixtures	5.0

Source: Table ES.1 in US International Trade Commission, *The Economic Effects of Significant US Import Restraints*, ninth update, Investigation No. 332-325, September 2017, p. 14.

Tariffs."[4] The study considered the experience of 151 countries using annual data during the period from 1963 to 2014. Of the episodes studied, 40 percent were tariff increases and 53 percent were tariff decreases.

The study lends evidentiary support to the predictions of economic theory. The authors concluded,

> We find empirically that tariff increases lead to declines of output and productivity in the medium term, as well as increases in unemployment and inequality. In contrast, we do not find an improvement in the trade balance after tariffs rise, plausibly reflecting our finding that the real exchange rate tends to appreciate as a result of higher tariffs.[5]

Specifically, the study found that protectionism leads to a decline in household consumption after four years.[6] Tariffs can temporarily benefit the protected industries, but these benefits come at the expense of a majority of workers and households, who suffer from lower real wages and reduced consumption.

Among the direct lessons for the United States, the study found that raising tariffs was more proportionally damaging and liberalization more beneficial to advanced economies than to less-developed economies. This is because

4. Davide Furceri et al., "Macroeconomic Consequences of Tariffs" (IMF Working Paper 19/9, International Monetary Fund, January 2019).
5. Furceri et al., "Macroeconomic Consequences of Tariffs," 6.
6. Furceri et al., 15.

economies like that of the United States have more advanced financial development, infrastructure, and human capital than less-developed economies, and thus they are able to take better advantage of selling internationally following trade liberalization. For the same reasons, when tariffs increase—as they have in the United States in the past two years—the damage is proportionally greater.[7]

The International Monetary Fund study also found that the impacts of tariff changes were not symmetrical—the economic damage inflicted by a tariff increase was greater than the economic benefit of a tariff reduction of similar magnitude. The authors concluded, "Tariff increases hurt the economy more than liberalization helps."[8] While tariff cuts benefit the economy, the best tariff policy is to avoid increases in the first place by maintaining low or zero tariffs as a standing policy.

THE PROVEN BENEFITS OF TRADE LIBERALIZATION

Unilaterally lowering and eliminating trade-policy barriers is the right policy for the United States for at least seven major reasons.

1. Eliminating tariffs would boost take-home pay and living standards for the large majority of Americans.

The most immediate beneficiaries of trade liberalization are people who buy and consume the end products of trade. Lower tariffs would mean lower prices for food, consumer electronics, clothing, shoes, furniture, cars, and light trucks. The consumer benefits of trade liberalization are progressive—that is, they deliver proportionally greater benefits to lower-income households.[9] A lower overall level of consumer prices translates directly into higher real wages, which increases the rewards of work.

2. Trade liberalization would lower production costs and raise productivity for US firms, making those with genuine comparative advantages more competitive in global markets.

Imports deliver intermediate inputs, capital machinery, and raw materials to US producers at lower prices, allowing them to cut production costs and compete

7. Furceri et al., 19.
8. Furceri et al., 17.
9. See Jason Furman, Katheryn Russ, and Jay Shambaugh, "US Tariffs Are an Arbitrary and Regressive Tax," *VoxEU*, January 12, 2017, https://voxeu.org/article/us-tariffs-are-arbitrary-and-regressive-tax; and chapter 2 in Congressional Budget Office, *Budget and Economic Outlook: 2020 to 2030*.

more successfully in domestic and global markets. Cutting duties on goods important to the production process could—and in many cases certainly would—drive some domestic companies that produce competing goods to cut back their production. But eliminating these duties would allow import-consuming industries to lower the prices they charge and, thus, to increase their sales and expand their production.

More broadly, trade allows America's productive resources to shift to sectors where they can be used more efficiently. Labor and capital can shift from lower-productivity sectors, such as footwear and apparel, to higher-productivity sectors, such as civilian aircraft, semiconductors, and financial services. Through this competitive market process, trade promotes the discovery of new technologies and better production methods.

3. Relatedly, unilateral trade liberalization would increase America's capital stock and thus further raise worker productivity.

By unilaterally eliminating protective tariffs, the US government would encourage more investment in America. If firms were able to acquire the best and lowest-cost inputs from wherever on the globe these happen to be available, the cost of doing business in America would fall. One result would be a boost to business creation and expansion in the United States. Importantly, much of this increased investment in the United States would be made by non-Americans. America already attracts outside investment owing to the large size of its market and its generally favorable business climate. Duty-free access to inputs would further enhance America's attractiveness to entrepreneurs and investors the world over. The resulting increase in America's capital stock would soon push Americans' real wages even higher, both by raising worker productivity and by intensifying competition for workers. (Conversely, rising tariffs can discourage foreign investment. In 2019, as the Trump administration's tariffs were reaching their peak, foreign direct investment in the United States fell by 37.7 percent from 2018, according to the US Bureau of Economic Analysis.[10])

It's important to note that one possible—indeed, likely—consequence of this increased investment in America is greater US trade deficits. But, contrary to

10. US Bureau of Economic Analysis, "New Foreign Direct Investment in the United States, 2019," news release, July 1, 2020, www.bea.gov/index.php/news/2020/new-foreign-direct-investment-united-states-2019.

widespread fears borne of misunderstanding, such "deficits" in this case would be an unambiguous cause for Americans to cheer rather than fear. New investments made on US soil in response to unilateral trade liberalization would signal increased investor confidence in the American economy. Further, because the amount of capital in the world (and in the United States) is not fixed—it can grow—these new investments would do nothing to reduce American ownership of assets. Instead, they would result in the United States having more factories, tools, research and development, and worker training.

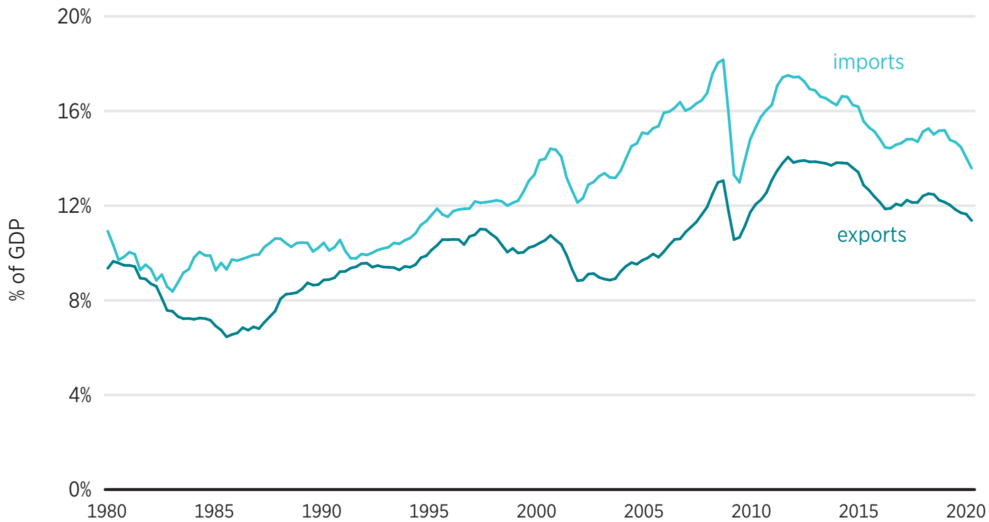
4. Unilateral trade liberalization would boost exports as well as imports.

US exporting firms would get a further boost from unilateral trade liberalization because it tends to put downward pressure on the real exchange rate. Lower tariffs tend to increase domestic demand for imports, which translates into more US dollars flowing overseas to pay for the increase in imports. The increase in the supply of dollars in global currency markets translates into a relatively lower value of the dollar against other currencies, which in turn makes US exports relatively more attractive to foreign buyers. For this reason, imports and exports tend to rise and fall, if not in lockstep, then in broad correlation with each other (see figure 2).[11]

Because of the exchange-rate impact of tariffs, a tax on imports tends to act like a tax on exports.[12] And, conversely, the repeal of a tax or tariff on imports tends to act like the removal of a tax on exports. Economists call this relationship the "Lerner symmetry." Practically speaking, unilateral trade liberalization by the United States would have the same general impact as if the country's major trading partners had reduced their tariffs on US exports. Even from a mercantilist worldview, according to which exports are the key indicator of success and lowering barriers abroad the key policy objective, unilateral trade liberalization is desirable, for it would advance both objectives. Across-the-board unilateral tariff reductions would boost not merely US imports, but US trade generally—with all the benefits it confers.

11. The simple correlation between the quarterly share of exports and of imports in figure 2 is a positive 0.86.
12. See, for example, Caroline Freund and Joseph E. Gagnon, "Do Border Adjusted Taxes Affect Trade or the Exchange Rate?," Peterson Institute for International Economics, April 5, 2017.

FIGURE 2. US IMPORTS AND EXPORTS AS A PERCENTAGE OF GDP (QUARTERLY)



Sources: For the trade figures, see table 1.1 (U.S. International Transactions) in US Bureau of Economic Analysis, "International Transactions, International Services, and International Investment Position Tables," accessed June 9, 2020, https://apps.bea.gov/iTable/iTable.cfm?ReqID=62&step=1. For quarterly GDP figures, see table 1.1.5 (Gross Domestic Product) in US Bureau of Economic Analysis, "National Income and Product Accounts," accessed July 23, 2020, https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=3&isuri=1&nipa_table_list=5&categories=survey.

5. Unilateral trade liberalization would allow the United States to realize the benefits of more trade without the need to negotiate complex and incomplete agreements with other governments.

The negotiation of trade agreements has played a major role in US trade liberalization in the postwar era, but the process of reaching and implementing these agreements can be time consuming. In the case of multilateral agreements, negotiations can take a decade or more to be finalized. (And, as the experience with the World Trade Organization's Doha Round proves, they can result in naught.) Even bilateral agreements can take several years to negotiate and implement. And these agreements almost always result in something less than full free trade between the consenting parties. Politically sensitive products can be excluded or tariff reductions phased in over long periods. Complex rules of origin can dilute the benefits of liberalized trade.

Unilateral trade liberalization dispenses with all these problems. Tariff liberalization can be achieved relatively quickly and would apply, under the terms of "most favored nation" status, to all imports regardless of origin. It represents an unqualified exercise of US sovereignty and independent policy making regardless of what policies other nations adopt. Unilateral trade liberalization is a policy that can be adopted in the interests of the United States and its citizens without the need for cooperation with the governments of other nation-states.

6. Unilateral trade liberalization would boost US credibility in trade negotiations with other nations.

Despite their shortcomings, trade agreements can advance and have advanced trade liberalization around the world. Even with lower or zero tariffs, the United States would still retain significant leverage in negotiating new agreements with other countries. The United States would not be giving up vital "bargaining chips," as critics contend, but enhancing its influence and credibility in multilateral as well as regional and bilateral negotiations. In this way, lower tariffs provide a "demonstration effect" that can do more to promote lower tariffs abroad than do strong-arm threats to raise tariffs. Other major trading partners that have low trade barriers—such as Australia, New Zealand, Hong Kong, and Singapore—manage to wield disproportionate weight in international trade precisely because they practice at home what they preach to other trading partners. Even after unilaterally lowering its tariffs, the United States would remain an attractive partner for trade agreements, which can lock in lower tariffs among the parties to the agreement, as well as liberalize services trade and foreign investment rules while reducing nontariff barriers.

7. Unilateral trade liberalization would reduce wastes from rent-seeking.

With the US government committed firmly to a policy of unilateral free trade, businesses would have little or no incentive to lobby politicians and administration officials for tariffs or other protectionist measures. Once business executives were spending less time, attention, and other resources pleading for protection from foreign competition, they would devote their efforts and resources more completely to the task of improving the quality of their outputs and the efficiencies of their operations. Resources that are now, from society's standpoint, wasted in the pursuit of protectionist privileges would be redeployed into uses that are socially productive.

Of course, the extent to which rent-seeking would be reduced in practice by a policy of unilateral free trade turns on the strength of the government's commitment to that policy. If the commitment is real but weak, then it's possible that there would result an *increase* in rent-seeking. The reason would be that domestic producer groups would have to overcome a higher barrier to get protection, but a barrier nevertheless perceived as one worth scaling. While we concede this possibility, we here propose that the commitment government makes to a policy of unilateral free trade be one that is both real and *strong*. Such a commitment would not, of course, completely eliminate rent-seeking on the trade-policy front, but it would certainly decrease such wasteful uses of time and resources.

These benefits would outweigh any costs.

Even with all these benefits of unilateral trade liberalization, it is certainly true, as economists acknowledge, that a minority of sectors, firms, and the workers they employ will be hurt by trade liberalization, at least in the short or medium run. But given flexible internal markets for labor and capital, the economy can adjust to take advantage of the opportunities created by trade. The net economic gains created by trade can also make available more resources for income support, job retraining, and other programs to help displaced workers find more sustainable employment.[13]

UNILATERAL TRADE LIBERALIZATION: A PROVEN PATH TO PROSPERITY

Unilateral trade liberalization is not merely a pie-in-the-sky dream of free-market economists. It is a proven policy option that has been successfully implemented by major trading nations going back two centuries and up to the present time. The most famous example began with the repeal of the Corn Laws in Great Britain in 1846. This was not a result of international pressure but a decision by the ruling government to repeal tariffs that were bestowing unearned wealth on landowners by keeping food prices artificially high for workers. Although repeal of the tariffs caused, as expected, landowners to lose some wealth, British laborers and capitalists enjoyed net gains.[14]

In more recent decades, unilateral trade liberalization has been successfully adopted by a range of nations large and small, developing as well as

13. For a brief description of policies to help workers adjust, see Daniel Griswold, "Fail or Flourish: American Workers, Globalization, and Automation" (Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, January 2020), 25–29.
14. See Douglas A. Irwin and Maksym G. Chepeliev, "The Repeal of the Corn Laws Revisited" (working paper, Dartmouth College, July 8, 2020).

economically advanced. A 2003 World Bank report, looking back on trade liberalization in the developing world during the 1980s and 1990s, determined that almost two-thirds of the reduction in trade barriers had occurred through unilateral liberalization, 25 percent more from the multilateral Uruguay Round in 1994, and 10 percent through bilateral and regional agreements.[15]

Among the more remarkable episodes of unilateral liberalization among less-developed nations was China's trade and foreign-investment reforms leading up to its accession into the World Trade Organization in 2001. Chile in the 1970s and Mexico in the 1980s unilaterally lowered their tariff schedules. After a foreign-exchange crisis in 1991, India sharply reduced its tariff and nontariff barriers under reforms implemented by then minister of finance Manmohan Singh. Each of these episodes of unilateral trade reforms came about not primarily because of external pressure or agreements but because of the perceived failure of the protectionist, import-substitution model that had been the status quo before the reforms.[16]

Among more developed nations, Australia and New Zealand both pursued aggressive and successful unilateral trade liberalization in the 1980s and 1990s. Before its trade reforms, Australia was among the more protectionist developed nations, with relatively high tariffs on a range of products, including automobiles. Beginning with a Labor government in the 1980s, Australia systematically reduced and eliminated tariffs on most categories of imports. Specifically, in May 1988 all tariffs above 15 percent were reduced to 15 percent, and all tariffs between 10 and 15 percent were reduced to a uniform 10 percent. Tariffs were also reduced in four heavily protected sectors—textiles, clothing, footwear, and motor vehicles.[17]

The Australian tariff liberalizations have continued, and consequently Australia is now one of the most open advanced economies. The reforms were not in response to trade agreements or foreign threats but were aimed at promoting greater economic growth and dynamism. The trade reforms are widely credited with boosting Australia's total factor productivity above the average of the other economies in the Organisation for Economic Co-operation and

15. World Bank, *Global Economic Prospects 2005: Trade, Regionalism and Development*, 2005, p. 42, https://openknowledge.worldbank.org/handle/10986/14783.
16. For an overview of unilateral trade liberalization in recent decades, see Razeen Sally, "The Political Economy of Trade Liberalisation: What Lessons for Reforms Today?" (Trade Policy Report No. 18, South African Institute of International Affairs, Johannesburg, South Africa, October 2007), 35–38.
17. Ross Garnaut, "Australia: A Case Study of Unilateral Trade Liberalization," in *Going Alone: The Case for Relaxed Reciprocity in Freeing Trade*, ed. Jagdish Bhagwati (Cambridge, MA: MIT Press, 2002), 144–45.

Development.[18] The reforms also enhanced Australia's credibility, allowing it to exercise greater leadership in promoting liberalization in multilateral trade negotiations. As the prominent Australian economist Ross Garnaut concluded, "The dismantling of Australia's high protection is overwhelmingly a case of unilateral liberalization. It was undertaken because the leading figures in Australian policy discussion and decision had come to the view that open trade was in Australia's interest, whatever policies were adopted by other countries."[19]

New Zealand also unilaterally liberalized its trade and other economic policies beginning in the 1980s. Like Australia, New Zealand had maintained some of the highest trade barriers among countries in the Organisation for Economic Co-operation and Development; these included quantitative restrictions. Textiles, apparel, footwear, and automobiles and parts were among the most heavily protected sectors. Because of New Zealand's parliamentary system and a commitment by its ruling party to reform, the country transformed itself in a relatively short period from one of the world's most heavily protected and regulated economies to one of the most open and market-led.

The New Zealand reforms were achieved unilaterally without outside agreements or external pressure to reform. They delivered improved performance by the domestic economy. The demonstration effect of successful trade reforms also enhanced the influence of New Zealand by increasing its credibility in the multilateral process, especially in the agricultural sector. As its then prime minister David Lange summarized colorfully in 1989, "In the course of about three years we changed from being a country run like a Polish shipyard into one that could be internationally competitive."[20]

More recently and closer to the United States, Canada undertook unilateral liberalization of tariffs on more than 1,500 categories of intermediate industrial goods important to its manufacturing base. Beginning in March 2010, the Canadian government implemented a five-year, phased-in lowering of tariffs on 1,541 categories of imports, focusing on manufacturing inputs and machinery and equipment. The aim of the unilateral liberalization has been to reduce production costs for Canadian manufacturers, enhancing their ability to compete, expand market share, and increase output.

Canada's unilateral trade reforms were proposed in 2007 by the Standing Committee on International Trade, which urged the government to study the

18. Garnaut, "Australia," 150.
19. Garnaut, 164.
20. Quoted in Lewis Evans and Martin Richardson, "Trade Reform in New Zealand: Unilateralism at Work," in *Going Alone*, 192.

feasibility and consequences of unilaterally eliminating the country's remaining industrial tariffs. The Conservative government at the time responded, "The Government of Canada agrees. Canadian businesses are increasingly dependent upon imports to produce and provide value-added goods and services. The availability of competitively priced inputs and capital goods is key to ensuring that our industries remain innovative and competitive in both domestic and foreign markets."[21]

Looking ahead, the United Kingdom is on the verge of unilaterally liberalizing its tariff schedule once it exits the European Union's common external tariff as early as the end of 2020. On May 19, 2020, the UK Department of International Trade announced a sweeping reform of its tariff schedule, called the UK Global Tariff, that will eliminate tariffs on $37 billion worth of imports,[22] with 60 percent of imports entering the United Kingdom duty free. The government will retain EU tariff levels on automobiles and a range of agricultural products.

Most of the United Kingdom's unilateral duty eliminations will apply to industrial supplies and other supply-chain goods used by UK producers, but they will also apply to such key consumer goods as dishwashers, freezers, sanitary products and tampons, scissors and garden shears, and cooking products such as baking powder, yeast, and cocoa powder. To assist the public health effort against COVID-19, duties will be eliminated for almost all pharmaceuticals and most medical devices, including ventilators. All "nuisance tariffs," or those under 2 percent, will also be scrapped. Liz Truss, the UK secretary of state for international trade, said the unilateral tariff reductions "will lower costs for businesses, ensuring they can compete on fair terms with the rest of the world, as well as keeping prices down and increasing choice for consumers."[23]

The UK government has also committed itself to pursue bilateral free-trade agreements with the United States and other trading partners, but unilateral liberalization will be an integral part of its post-Brexit trade policy. The United Kingdom's unilateral movement to freer trade will come 175 years after repeal of the Corn Laws under Prime Minister Robert Peel in 1846.

It is a challenge to measure the precise economic impact of each of these episodes of unilateral trade liberalization. In several cases, the trade reforms

21. Quoted in Mike Moffatt, "Making It Simple: Boosting Canadian Competitiveness through Selective Tariff Elimination" (Mowat Research #119, Mowat Centre, Toronto, Ontario, March 2016), 6.
22. Hannah Monicken, "UK Outlines Post-Brexit Tariff Schedule, Plans to Retain Auto, Ag Tariffs," *World Trade Online*, May 19, 2020.
23. Quoted in Government of the United Kingdom, "UK Global Tariff Backs UK Businesses and Consumers," news release, May 19, 2020, www.gov.uk/government/news/uk-global-tariff-backs-uk-businesses-and-consumers.

were part of a broader and more ambitious agenda of general economic reform. What *is* clear is that in each case, the negative effects that critics of freer trade routinely predict—large-scale dislocation of workers (especially in manufacturing), a negative turn in the balance of trade, a loss of leverage in trade negotiations—failed to materialize. Each of these episodes is considered a success on balance and has ushered in periods of improved economic performance and enhanced stature in global trade forums.[24]

THE INSTITUTIONAL BIAS AGAINST UNILATERAL TRADE LIBERALIZATION

Unilateral trade liberalization has been a challenge for the United States. The episodes above occurred in a few cases under authoritarian governments but more typically under parliamentary systems, where the ruling government is freer to implement its agenda. Article I, section 8 of the US Constitution gives authority over tariff policy to Congress, not the executive branch. But without strong leadership or institutional restraints, members of Congress tend to be swayed by highly motivated special interests rather than by the general interest. This is the fundamental political economy problem of trade liberalization.

The impact of trade liberalization is, on net, positive for the nation as a whole. While the benefits are widely diffused across society and are often indirect and not readily visible to the general public, the very real adjustment costs tend to fall on smaller, more concentrated interests, such as owners of previously protected firms and their workers. The result is that members of Congress are more likely to hear from negatively affected producers and workers, who are often organized and highly motivated, than from diffused interests such as consumers.

The last time Congress rewrote large sections of the US tariff code unilaterally was through the Tariff Act of 1930, also known (in)famously as the Smoot-Hawley tariff bill. The results, as economic historians have generally agreed, were not positive. The higher tariffs not only failed to revive an economy slipping into recession and then depression, but actually harmed the economy by provoking retaliation abroad against US exports and reducing the positive impact

24. In an exhaustive recent study of trade liberalization, the economist Arvind Panagariya finds overwhelming evidence that a country's openness to trade correlates positively with its economic performance, and that the largely unilateral freeing of trade in China and in India greatly improved both economies. See Arvind Panagariya, *Free Trade & Prosperity* (Princeton, NJ: Princeton University Press, 2019).

of competition and increased productivity that trade bestowed on the domestic economy.[25]

To reduce trade barriers at home and abroad to stimulate the revival of trade globally, Congress enacted the Reciprocal Trade Agreements Act of 1934. For the first time in US history, the executive branch was empowered to negotiate reciprocal agreements with other nations to mutually reduce their tariffs by as much as 50 percent without additional approval from Congress. The process evolved into the more current trade-promotion authority, which empowers the president to negotiate trade agreements with other nations that must then be approved by Congress with an up or down vote with no amendments.

The challenge in today's environment is to find an institutional process through which the US government can realize the benefits of reduced and eliminated US trade barriers without the necessity of negotiating agreements with other sovereign nations. We need a way to reach "a trade agreement with ourselves" to do what is best for our national interest regardless of what other nations choose to do.

THE NEED FOR A US TARIFF REFORM COMMISSION

One promising approach would be for Congress to approve a process whereby it could consider a proposal for an up or down vote that would unilaterally eliminate a broad swath of US tariffs over a specific period of time. Such an approach has proved successful in the past in a limited way on trade and in other, nontrade areas.

One model is the successful Base Realignment and Closure (BRAC) process that Congress established in the 1980s to reduce the size and expense of the US military's base infrastructure. The commission was a workable solution to a problem similar to cutting tariffs. It was widely understood in the 1980s that the number of military installations far exceeded the legitimate defense needs of the United States, yet any effort to close a particular facility was met with fierce opposition from state and local interests that feared localized economic losses.

Beginning in 1988, Congress established the BRAC process by creating a series of independent commissions to review and approve base changes to be submitted by the secretary of defense. The process requires open hearings, data gathering, and deliberations on each list of closures. Once a list is finalized by the secretary of defense, it is submitted to the president, who can either accept the

25. For an accessible summary of the causes and consequences of Smoot-Hawley, see Douglas A. Irwin, *Peddling Protectionism* (Princeton, NJ: Princeton University Press, 2011).

list in its entirety or return it to the commission for further evaluation and modification. Once the president accepts the commission's proposed base changes, the list is forwarded to Congress. Congress then has 45 days to reject the list in its entirety by passing a joint resolution, which must be signed by the president. If the resolution fails or Congress chooses not to act, then the Department of Defense must implement the BRAC commission's recommendations. The Department of Defense is required to initiate the recommendations within two years and complete them within six.[26]

While the BRAC process may be temporarily painful for certain local communities, it is generally considered to have been a success. Through five rounds of base closures—initiated in 1988, 1991, 1993, 1995, and 2005—more than 350 installations were closed, more than 315,000 acres were sold or transferred to civilian use, and (according to Pentagon estimates) $12 billion has been saved annually.[27] In contrast, in the decade before the BRAC process was adopted, not a single military base had been successfully closed. The broad public policy lesson of BRAC was that, through a change in process, the federal government was able to overcome the political economy problem of realigning the US military infrastructure for the public good.

Another relevant success has been the Miscellaneous Tariff Bill (MTB) process that Congress has used for decades to temporarily suspend thousands of duties that are costly to domestic producers. Beginning in 1982, Congress approved a number of MTBs that suspended tariffs on a range of goods, more than 90 percent of them intermediate inputs used by American companies to produce final products. The most common categories of goods were chemicals, metals, machinery, and other equipment. Although narrow in scope, the MTB process is entirely unilateral, with no reference to or dependence on any other country's tariff actions. The process focuses exclusively on the needs of domestic import-consuming industries.

Until the past decade, the Trade Subcommittee of the House Ways and Means Committee began the MTB process by compiling a list of products from individual bills submitted by members, often at the request of specific companies in their districts. After a limited submission period, the Trade Subcommittee would vet the bills and consolidate them into an omnibus package. To be included, tariff suspensions needed to be "noncontroversial"—that is, no

26. Christopher T. Mann, "Base Closure and Realignment (BRAC): Background and Issues for Congress," Congressional Research Service, April 25, 2019.
27. See Mann, "Base Closure and Realignment," 7 and 41; and Eric Pianin, "Congress to Pentagon: Don't Even Think about Closing Military Bases," *Fiscal Times*, December 18, 2015.

domestic producers could be competing with the imported product. In addition, the loss of tariff revenue needed to be $500,000 or less per year.[28]

Once compiled, the MTB omnibus bill was published for public comment and vetted by federal trade agencies, including the USITC, and the revenue impact of each suspension was scored by the Congressional Budget Office. After the agency vetting, the revised list of suspensions was typically voted on by the full House and then the Senate, and then, if it passed, it went to the president for signature. Under the MTB process, tariffs were typically suspended for three years.[29]

Beginning in 2016, the then Republican-controlled House modified the MTB process so that requests for tariff suspensions would be submitted directly to the USITC rather than to the Trade Subcommittee. Under the American Manufacturing Competitiveness Act of 2016, the USITC recommended that more than 1,700 requested tariff suspensions be included in the omnibus bill. The criteria for inclusion were similar to those of the previous MTB process. In 2018, the House and the Senate passed the most recent Miscellaneous Tariff Bill, and on September 13, 2018, President Trump signed the bill into law, unilaterally cutting US tariffs on a wide range of products for the benefit of import-consuming US producers.

Drawing on the examples of the successful BRAC and MTB models, the executive and legislative branches of the US government should work together to create a process that would permanently, aggressively, and unilaterally eliminate all economically damaging tariffs from the US Harmonized Tariff Schedule. Such a process should lead to an up or down vote in Congress to eliminate tariffs that are damaging to the US economy and to living standards and employment opportunities for millions of Americans.

Like the BRAC commission, a Tariff Reform Commission should present a list of tariff eliminations that will automatically go into effect unless both the House and the Senate approve a resolution rejecting the package and the president signs the resolution. If either chamber fails to pass the resolution or to override a presidential veto, the tariff eliminations should be enacted permanently. In contrast to the MTB process, however, there should be no restriction concerning

28. We here only mention, but do not elaborate on, the incompatibility between tariffs meant to protect domestic producers from foreign competition and tariffs meant to raise revenues. Obviously, to the extent that a tariff succeeds in the former task, it fails in the latter.
29. For background on the MTB process, see Daniel Griswold, "The Miscellaneous Tariff Bill: A Blueprint for Future Trade Expansion" (Trade Briefing Paper No. 30, Cato Institute, Washington, DC, September 9, 2010).

the amount of revenue lost and no waiver for a duty elimination that may negatively affect a domestic producer.

The process could begin with members of Congress and the public submitting to the USITC requests for eliminating specific tariffs at the 6-, 8-, and 10-digit levels of the Harmonized Tariff Schedule. The USITC could then analyze the economic impact of each tariff elimination, including the effects on national output and average wages, to determine whether the nation as a whole benefits even if certain protected domestic producers may be harmed. The goal of the exercise must not be to perpetuate the protection of certain special-interest producers, but to strengthen the nation's overall productive capacity and the longer-term living standards of the large majority of Americans.

Once the USITC compiles the list of proposed tariff eliminations and completes its economic analysis, the president could review the list with the option to require certain changes based on a judgment of the national interest. Once the president approves the final, revised package of tariff eliminations, it could then be submitted to Congress for action within a specific time period, perhaps 45 days. Absent a resolution of disapproval signed by the president, the tariff eliminations should then go into effect according to a predetermined timetable.

The timing of the tariff eliminations could be flexible. They could all go into effect at once in a sort of "big bang" tariff reform. Alternatively, it might be more politically acceptable to phase out the tariffs over a period of five years, reducing individual tariffs by, say, 20 percent each year until they all reach zero. Tariffs under a certain de minimis level of, say, 5 percent could be eliminated on a shorter timetable. Phasing out tariffs would give affected industries more time to adjust to normal market competition. The section 201, 232, and 301 tariffs imposed by the Trump administration should be eliminated more quickly—arguably immediately—since they have been in effect for a relatively short time and have caused immediate damage and disruption to the US economy. They could also be suspended or repealed immediately by executive action.

CONCLUSION

Unilateral trade liberalization has been an underutilized tool to promote the freedom, prosperity, and global influence of Americans. For all the reasons expounded above, cleaning up the tariff code and ridding the nation of these self-imposed and self-damaging taxes on international commerce would promote the US national interest. It would enhance the already considerable strengths of the United States' dynamic market economy and its leadership as the world's largest economy. As the acclaimed free-market economist Milton Friedman wrote more than half a century ago,

> I believe that it would be far better for us to move to free trade unilaterally, as Britain did in the 19th century when it repealed the Corn Laws. We, as they did, would experience an enormous accession of political and economic power. We are a great nation and it ill behooves us to require reciprocal benefits from China, Mexico or Europe before we reduce a tariff on products from those countries. Let us live up to our destiny and set the pace, not be reluctant followers.[30]

Policy models exist for overcoming the institutional barriers to unilateral trade liberalization in the United States. In the Base Realignment and Closure and the Miscellaneous Tariff Bill processes, the US government has already implemented an approach that could be used to successfully reduce and eliminate thousands of economically damaging tariffs that have been imposed either by law or by executive fiat, to the detriment of American producers and consumers alike. While the details will be a matter of compromise, a Tariff Reform Commission in the pattern of the BRAC or MTB processes would be a practical policy goal.

Embracing a process of unilateral trade liberalization would allow the US Congress and presidential administration to implement tariff reforms on a timely basis that would strengthen the US economy and aid in the fight against COVID-19 and other public health threats, while setting a powerful example for other nations. Implementing such a policy would not be an experiment based on theory alone, but the Americanization of a policy approach that has been practiced successfully by other nations for decades. It would be an agreement among Americans to act in their sovereign national interest regardless of the trade policies pursued by other nations.

30. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), 73.

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