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Cato's Letter

Making the Case for Free Trade

PAT TOOMEY

There are few areas of policy where the morally and economically correct prescription is as crystal clear as it is on free trade. That's because trade is not zero-sum—the unrestricted, mutual exchange of goods and services benefits both parties involved. If the exchange did not benefit both parties, the exchange would not occur.

Within the borders of the United States, there is almost universal agreement about this. No one cares what the trade deficit is between Pennsylvania and New Jersey. But when that exchange occurs across a *national* boundary, suddenly government intervention is needed to ensure that the exchange is "fair."

Put simply, protectionist policies interfere with natural, voluntary exchange. This creates distortions in the market that shower rents on the few at the expense of the many.



PAT TOOMEY is a Republican U.S. senator from Pennsylvania. He spoke at a Cato policy forum in June.

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I strongly believe, as a principle, that you have to have the ability to buy and sell. It's an integral part of personal freedom and that's always been important to me. But aside from that moral principle, we have to make the case for trade as a practical matter. Free trade enables a division of labor and specialization and all the efficiencies that come with that, and in real terms that means people living better lives.

Freer trading societies are more prosperous societies. And while Trump moved us backward, we're still in one of the freest trading environments in the last hundred years. It's no coincidence that this has been the environment in which literally billions of people have been lifted out of poverty and the standard of living has improved at an accelerating pace. That's why I feel so strongly about it.

“ America became the global champion for trade liberalization. ”

But because the benefits of protection are highly concentrated and therefore visible, and the costs are highly dispersed and therefore unseen, it can be politically difficult to vote against protection.

That is why one former trade official called voting to lower trade barriers an “unnatural act” for a politician. However, for many decades following World War II, American policymakers, as a whole, did a pretty good job committing these unnatural acts. America became the global champion for trade liberalization—to the great benefit of American workers, consumers, and businesses.

In 1947, the U.S. helped found the General Agreement on Tariffs and Trade (GATT), a trade agreement whose purpose was, according to its preamble, the “substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis.”

GATT enshrined the core principle of “most favored nation” tariffs—that countries should apply the same tariff rate to all other members.

In the 1990s, the United States led the charge to form the World Trade Organization. With 164 member countries, it is by far the largest trade agreement in history. The United States also negotiated in earnest free trade

agreements with our allies, including the monumental North American Free Trade Agreement.

According to the Peterson Institute, between 1950 and 2016, the payoff to the United States from this trade expansion was massive. As a direct result of international trade, GDP per capita increased by more than \$7,000. These gains have lifted up lower-income households disproportionately, as they spend a greater percentage of income on consumption.

We've got to remind people about the benefits of trade. For example, export-related jobs tend to pay more than non-export-related jobs. Free trade advocates should focus on the elevation of people's standard of living, because that's ultimately what people really care about.

It's not just that Americans earn more through export-driven jobs, although that's true. We need to get away from demonizing imports. Too often, political rhetoric frames allowing imports as the negative trade-off we accept in order to get access to export markets. But that's wrong, and in fact, it's ridiculous.

“ We need to get away from demonizing imports. ”

The purpose of production is consumption, after all. Why do people go to work every day? It's so that they have the ability to consume the things that they want to consume. Exports can increase your income, but imports also make your dollars go farther. Both are important, and both are good.

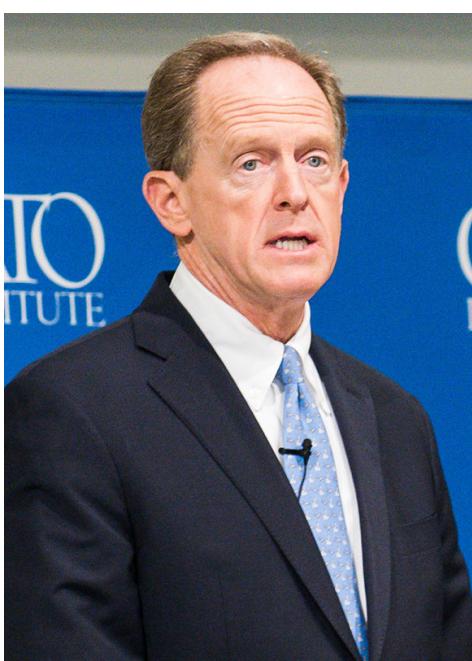
The fact is that the vast majority of us live better than our parents and almost all of us live better than our grandparents. Even if, unlike me, you come from a wealthy family. There are things we have and take for granted today that didn't exist when our grandparents were growing up. And a large part of that increased wealth is because of our ability to freely trade with the rest of the world. It's not just the advances in technology, it's also because trade is so much freer today than it was back then.

We need to be out there making this case, but I think it does take presidential leadership, too. It's hard to substitute for an American president who's willing to stand up and make the case and pursue expanding trade.

Until 2016, the benefits of freer trade were largely understood by presidents, who advocated for trade agreements regardless of political party. I am concerned that this understanding is quickly evaporating, and that we are entering a new era of protectionism. Free trade is suffering from an alarming bipartisan lack of support in Washington.

It seems that a new variety of trade protectionism comes into vogue in Washington each week:

- the assertion that “national security is economic security” in order to justify tariffs on steel, aluminum, and autos;
- calls to re-shore supply chains, as if this will somehow strengthen them;
- all permutations of tough-on-China policies, even if it means hurting American manufacturers or lower-income consumers;
- the United States Trade Representative’s vague and deceptively branded “worker-centric” trade; and
- the protectionist cult classic: so-called “fair” trade.



Noticeably absent from the debate on trade policy today is really any consensus in favor of free trade. Once a noncontroversial line item in Republican party platforms, free trade is now treated as a radical minority view.

I was the lone Senate Republican to vote against the United States-Mexico-Canada Agreement (USMCA)—an agreement that was designed with the explicit intent to diminish trade!

Because I hold this apparently radical view, a certain former president once nicknamed me “Pat ‘No Tariffs’ Toomey”—which, I think, was intended to be an insult. Obviously, I did not take it that way.

Unfortunately, this new anti-trade zeitgeist appears to be more than a blip on the political radar: the Biden administration has continued the same misguided policies as the last administration.

The administration has vigorously opposed attempts to secure a mere tariff exemption process for American importers of Chinese products. We've still made no progress on reforming "national security" tariffs, despite the Trump administration's flagrant abuse of that statute. And, the Biden administration has failed to negotiate any new trade agreements with our allies—not the UK, not Taiwan, not Kenya.

America has lost its way on trade, and this is something that should concern all Americans.

On November 26, 1988, in his final radio broadcast from Reagan Ranch, former president Reagan reiterated his support for free trade and his opposition to protectionism. Two months prior, the U.S. Congress had—with an overwhelming majority—passed the implementing legislation for the historic free trade agreement between the United States and Canada. At the time of Reagan's broadcast, the United States was still waiting for Canada to internally ratify the agreement.

“U.S. leadership would do well to re-embrace free trade.”

"Our peaceful trading partners are not our enemies, they are our allies," he explained. "We should beware of the demagogues who are ready to declare a trade war against our friends, weakening our economy, our national security and the entire free world—all while cynically waving the American flag."

The next month, the Canadian Parliament approved the agreement—ensuring Canada's entry into force on January 1, 1989. Just a few years later, the United States-Canada pact became the foundation for what was, at the time, the largest free trade agreement in history: the North American Free Trade Agreement (NAFTA). Subsequent presidents followed Reagan's lead, concluding free trade agreements with 17 additional countries.

U.S. leadership would do well to re-embrace free trade with that same vigor.

We should also remember that the moral superiority of freedom—including the freedom of voluntary exchange—doesn't end simply because a border has been drawn between nations.

Free trade is natural, just, and makes Americans more prosperous. ■



CATO PROFILE

Colleen Hroncich

Colleen Hroncich is a policy analyst with Cato's Center for Educational Freedom. She has a degree in economics from the University of Maryland, and prior to joining Cato, she worked on educational freedom in Pennsylvania for the Commonwealth Foundation.

Your degree is in economics. How do economic principles inform your work on education?

Studying economics helps you understand human behavior in a very practical way. When it comes to education, this means realizing that competition will produce better results than a monopoly system. Parents choosing the educational options that work for their children is better than kids being assigned to a school based on where they live. And when people have the resources to make their own education choices, entrepreneurs will step up to create a variety of options.

You spent 17 years as a stay-at-home mom before returning to policy work. How has that unusual career trajectory and your experiences as a parent shaped your policy perspectives?

I saw with my own four children that one size didn't fit all, which is what first got me interested in the idea of educational freedom. We used tax credit scholarships for several years to send our kids to a school we loved, so I understand the impact these policies can have. I also think my nontraditional path has given me a more conversational—and less wonk-ish—style of communicating, which I hope helps me share these important policies with more people.

What is the most common misunderstanding you encounter when making the case for educational freedom?

People tend to equate "public education" with "public schools," as in our conventional government-run district schools. But the district system stems from the transportation and communication challenges of the 1800s, not from some educational benefit of assigning children to schools based on where they live. Today we have the ability to fund students instead of a system so kids can receive the education that works best for them.

How has the pandemic affected the demand for alternatives to public schools?

The last two years have shown parents how little say they have when it comes to their children's education in their local school system. This includes COVID-19 policies, like in-person versus remote and masks versus no masks, as well as the hot-button content issues around race and gender. At the same time, they've gotten a taste of new models that are more flexible and engaging. This has spurred demand for alternatives—and more than 20 states have responded by passing new or expanded school choice policies. ■

The Promise of Liberty

In 1965, Joe Sedita was 21 years old and traveling Western Europe when he saw firsthand the failures of communism. After touring a rebuilt Europe, Joe entered East Berlin through Checkpoint Charlie, where he recalls that, “the rubble was still on the ground.”

“It was a revelation that stayed with me forever, in thinking about how much was accomplished in so short a time in those places in Europe that embraced freedom,” Joe says. “You can’t take anything for granted, and it’s astonishing to me the way this collectivist impulse keeps coming back when there’s so much historical evidence that it impoverishes people.”

One reason Joe is a Cato Sponsor is that he wants to partner in the Institute’s work to “create a rational dialogue about what works and what doesn’t.” The liberty movement “has a substantial fight on our hands,” Joe says.

“Liberty has existed in healthy nations and was invented in healthy nations. The fastest way to lose it is to lose your sense of yourself as a nation that values liberty,” Joe explains. “We really must have a society that protects liberty and the freedom of people to make their own way in the world.”

Joe believes Cato’s principled, nonpartisan mission allows it to bring people together and improve their understanding of today’s biggest challenges. “I think that as time goes along, we’re finding more people we can count as allies who are amplifying our message, or at least some part of it, in ways that are useful.”

The rewards of freedom were inherited by Joe, as his own family had benefited from the economic opportunities of America. His grandparents left Sicily at the turn of the 20th century and paved the way for Joe’s father to attend law school and his uncle to become a three-term mayor of Buffalo, New York. Joe followed in his



father’s footsteps and practiced law, serving as an assistant district attorney, the chair of the Criminal Justice Section of the New York State Bar Association, and a regulatory and administrative defense attorney for many years. While his travels exposed him to some of the very worst consequences of authoritarianism, whether of fascism or communism, his work as an attorney brought him face-to-face with the pernicious effects of government intervention at home.

Today, like many in Cato’s community, Joe hopes to correct policy failures such as “the criminalization of the regulatory environment, the delegation of the legislative function to the bureaucracy, metastatic regulation, the stupidity of substance prohibition, and the death penalty.”

Joe also believes that “it is good to remind ourselves about the gigantic progress that’s been made with free markets.” When he speaks to friends about these issues, he stresses that “capitalism is a cooperative construct, and it’s getting smothered by government intervention.”

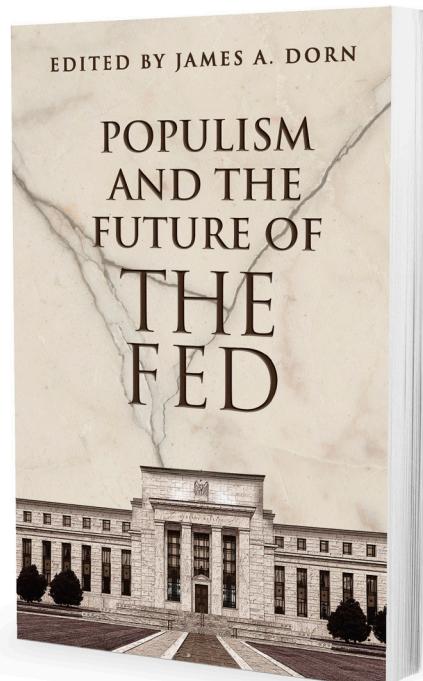
So we’re proud at Cato to count Joe as a partner in our work to build appreciation for our shared values by increasing the quality and quantity of our communications and outreach activities. Joe’s decision to create a gift for Cato in his estate plans in addition to his generous annual contributions is made even more meaningful by his personal engagement with our resources and scholars. We look forward to working together over the coming years to convince even more people to see liberty’s promise for a freer and more prosperous world. ■

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FORMER CHAIRMAN, HOUSE FINANCIAL SERVICES COMMITTEE



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