

CHAPTER 2

US Economic Freedom in a Trade War

Robert Lawson and Matthew D. Mitchell

After World War II, the United States played a key role in encouraging nations to lower their barriers to trade. But in recent decades, the US's commitment to free trade has waned. In 2023, the US ranked 56th out of 165 countries in terms of freedom to trade. Contrary to President Trump's claims, most major US trading partners have lower barriers to trade than the United States. Now, due to the President's trade war, US citizens will soon pay some of the highest tariffs in the world. We use these tariffs to offer an estimated preview of US economic freedom in 2025. They cause the country's trade freedom rank to fall from 56th to 76th place, and the US's overall economic freedom rank to fall from 5th to 10th.

1. The Historical Role of the US as Global Advocate for Free Trade

For the past nine decades, the US government has been a leading advocate of global free trade. Following the Smoot-Hawley tariffs of 1930—an infamous spasm of protectionism that many blame for worsening the Great Depression—leaders of both major political parties worked to make the United States the world's leading proponent of free trade.

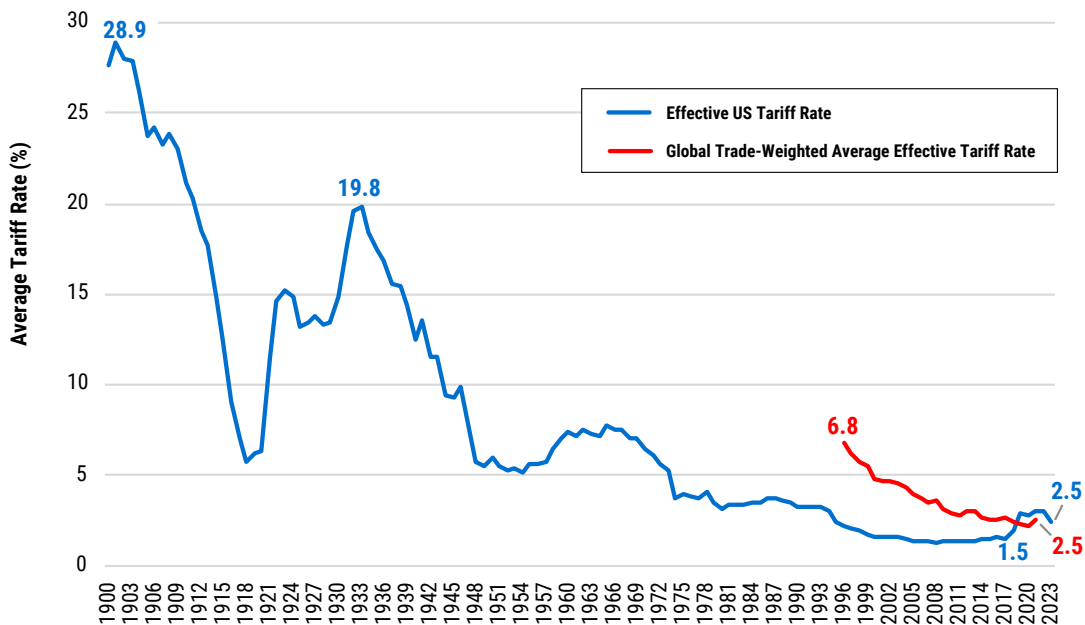
Believing that free trade was both economically and strategically important, Congress empowered presidents to negotiate reciprocal tariff reduction agreements with other countries, beginning in 1934.¹ And in the decades since, presidents from both parties used this power to negotiate multilateral and bilateral free trade agreements that reduced tariff and non-tariff barriers to trade.

As shown in figure 2.1, the effective US tariff rate fell from 19.8% in 1933 down to less than 2% before the beginning of the first Trump Administration. As these trade deals lowered the rate that Americans pay for foreign-sourced products and services, they also opened foreign markets to US exporters. Figure 2.1 also shows the global average effective

1 Before the enactment of the Reciprocal Tariff Act (RTA) of 1934, Congress set individual tariff rates. This meant that politically organized producers with foreign competitors could often successfully pressure individual members of Congress to support higher tariffs, even if these tariffs imposed greater costs on consumers. The RTA, however, changed this dynamic. It empowered presidents to negotiate tariff reduction agreements with other countries that Congress could then approve or disapprove with a simple majority vote. Since a president's constituency is the entire country, presidents have typically been less susceptible to the pressures of individual producers and have instead pursued free trade agreements that have benefitted the public at-large.

tariff rate (in years for which data are available). By 2021 the average global rate was down to 2.5%.

Figure 2.1: Effective US and Global Tariff Rates (1900–2023)



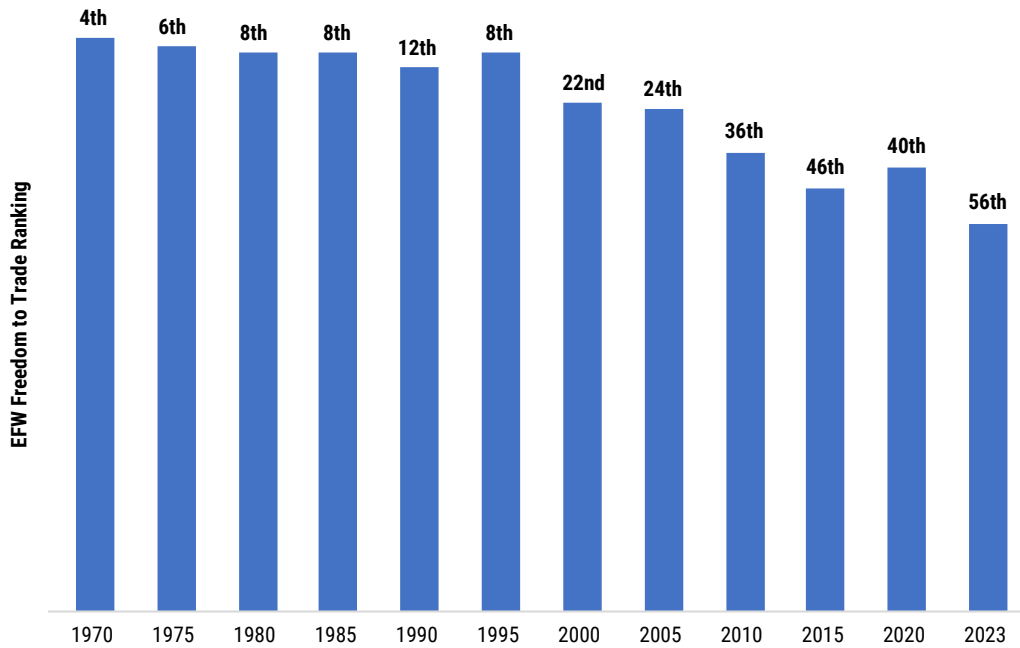
Sources: US effective tariff rate: Budget Lab, 2025a; Global effective tariff rate: Snoussi-Mimouni and Drevinskas, 2023.

2. US Trade Freedom Has Been Falling for Two Decades

Although the US continued to reduce tariff rates up until the first Trump Administration, it has allowed other non-tariff barriers to trade to grow in recent decades and as a result, the US has failed to keep up with other countries as they liberalized. Figure 2.2 shows the US's trade freedom ranking, as measured by the index published in *Economic Freedom of the World* (EFW). As recently as 1995, the US ranked 8th in the world. But as the US fell behind and others liberalized, the US fell to 56th by 2023.

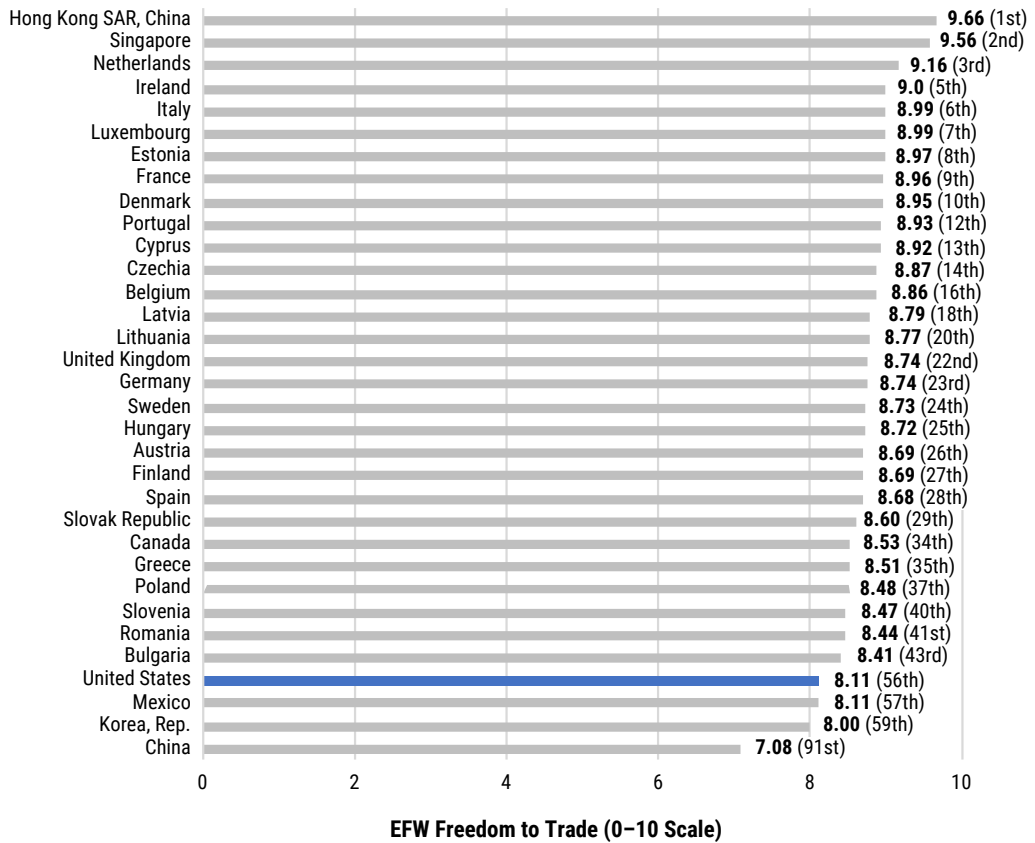
Figure 2.3 shows 2023 trade freedom scores and ranks for select countries. President Trump contends that “the United States has been ripped off by virtually every country in the world” (Renshaw et al., 2025). In particular he has singled out Canada, Mexico, China, and the countries of the European Union. Figure 2.3 shows, however, that with the exception of China, the President's favorite targets have either comparable or far more liberal trade practices than the US.

Figure 2.2: US Ranking in Freedom to Trade



Source: Authors' calculations.

Figure 2.3: Freedom to Trade, Select Country Scores and Ranks (2023)



Source: Authors' calculations.

3. Measuring US Trade Freedom

To better understand what has happened, we must take a closer look at how the EFW measures trade freedom. The trade freedom area of the EFW is made up of four components, three of which have sub-components:

1. **Tariffs.** This component is measured by three sub-components: tariff revenue, tariff rates, and the standard deviation of tariff rates across tariffed goods.
2. **Regulatory barriers to trade.** This is measured by two sub-components: non-tariff trade barriers and the cost of importing and exporting goods.²
3. **Black market exchange rates.** This component measures the difference between the official exchange rate and the black-market exchange rate, if there is one. A larger difference is an indication of greater restrictions on currency exchange and, therefore, international trade.
4. **Controls on the movement of capital and people.** This component is measured by four sub-components: financial openness, capital controls, freedom of foreigners to visit, and protection of foreign assets.

Like the broader index itself, each of these components is converted to a 0 to 10 scale, with 10 indicating the highest degree of trade freedom and 0 indicating the lowest. Figure 2.4 shows US trade freedom (the solid line) and its four components (the patterned lines) from 1970 through 2023. It shows that US trade freedom peaked in 1980 at 9.3 on the 10-point scale, began to slide for the next two decades, and then declined more precipitously in the last decade and a half.

It also shows that much of this decline was driven by controls on the movement of capital and people. In particular, the US imposed steeper capital controls in 2009 and more stringent limits on the freedom of foreigners to visit in 2014. Together, these changes reduced the score for this component from around 9 in 2000 to less than 6 in 2023.

4. Accounting for Trump's Tariffs

This was the state of the world in 2023. But the first six months of the second Trump Administration have radically changed the US approach to trade. Figure 2.5 shows what has happened to the effective US tariff rate through the time of this writing (July 22, 2025). US tariffs have seesawed up and down as the Administration has imposed new tariffs, reversed course (sometimes hours later), re-imposed tariffs, had tariffs struck down by courts, and then had tariffs temporarily reinstated by courts.

2 Reliable measures of regulatory trade barriers are not available before the year 2000.

Figure 2.4: US Economic Freedom to Trade Internationally and Its Components (1970–2023)

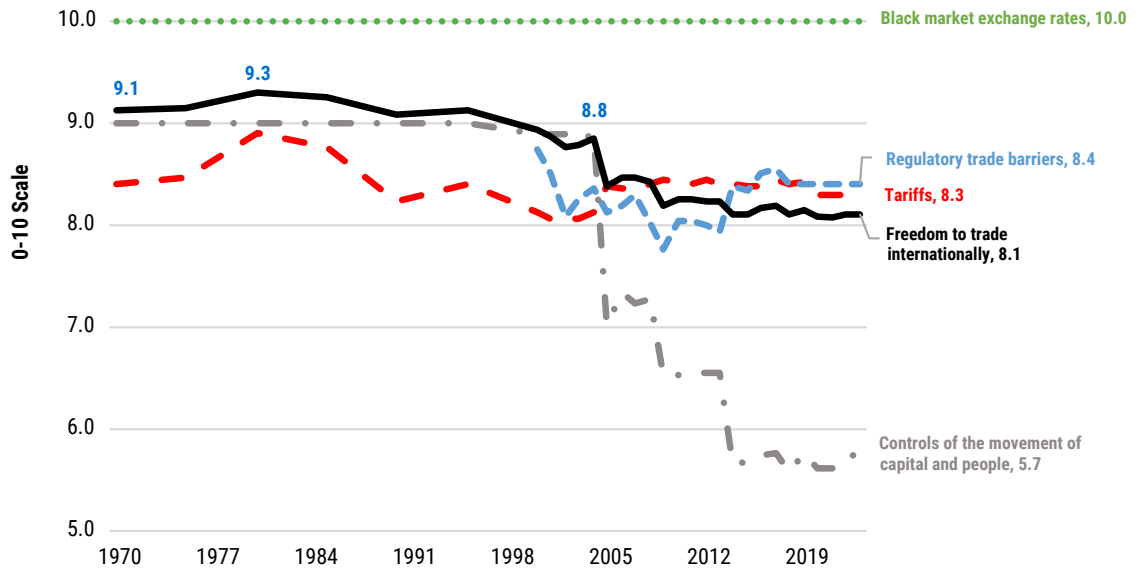
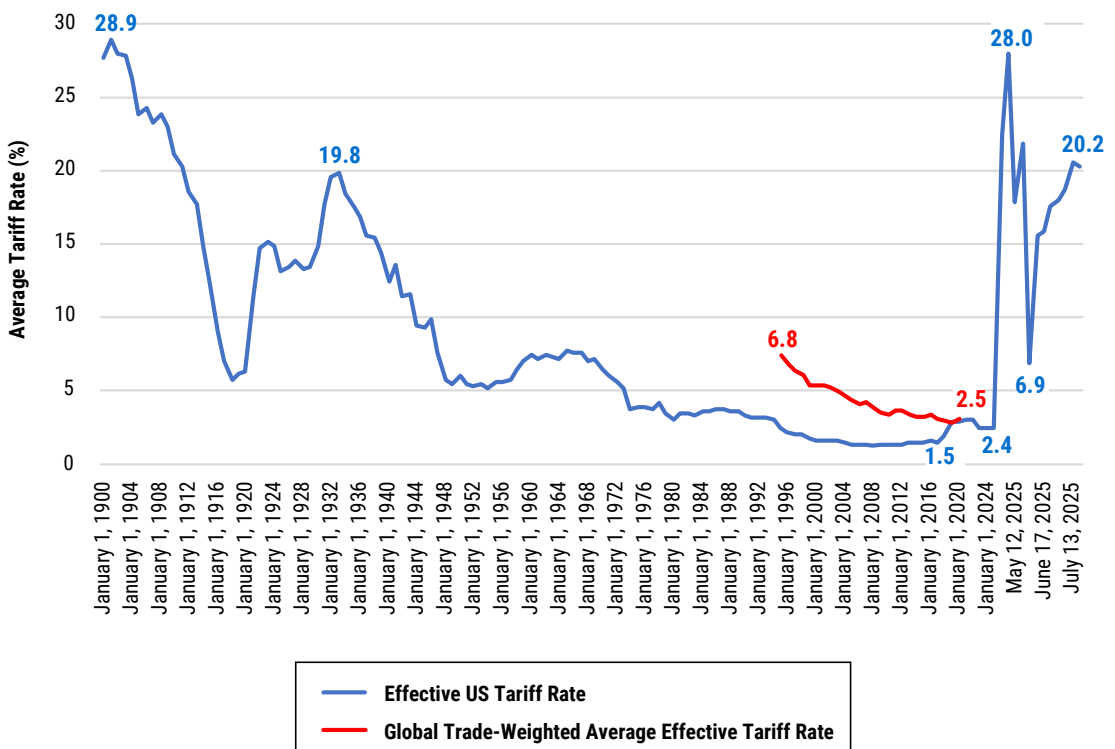


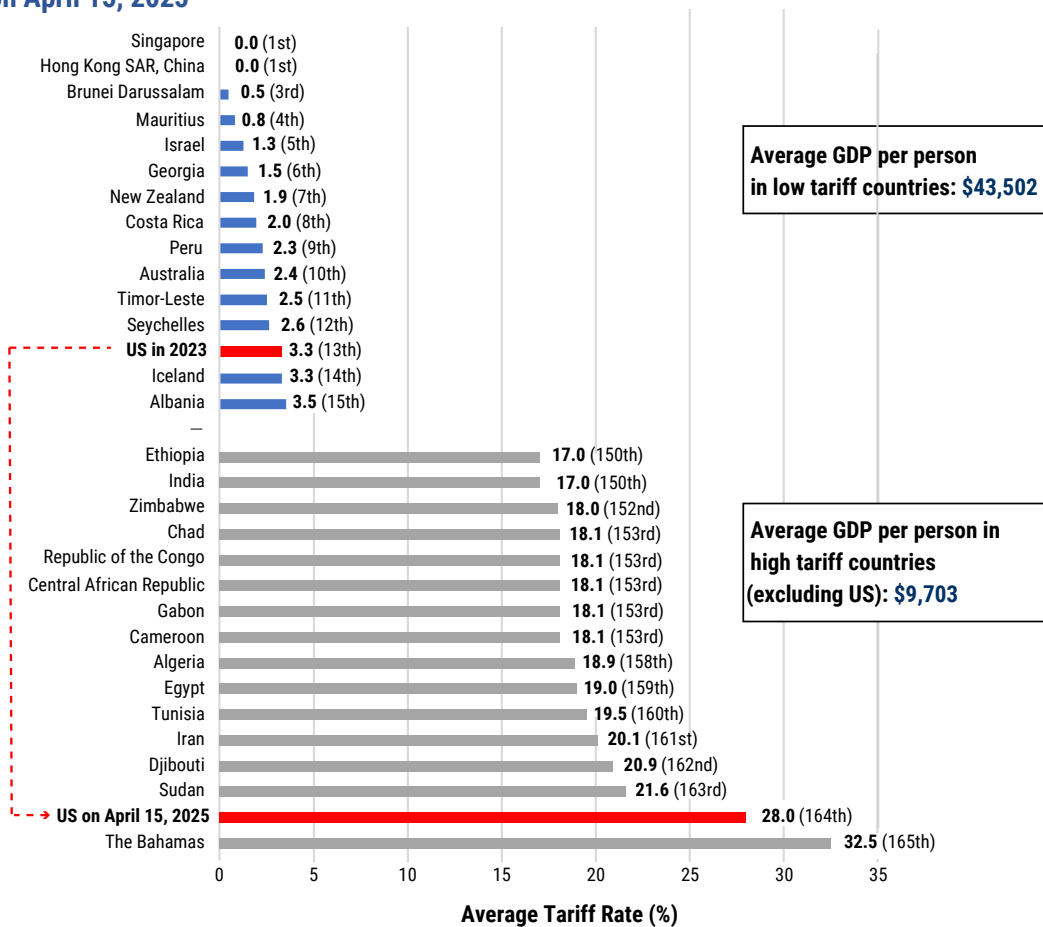
Figure 2.5: Effective US and Global Tariff Rates (1900–2025)



Sources: US effective tariff rate: Budget Lab, 2025a–2025l; Global effective tariff rate: Snoussi-Mimouni and Drevinskas, 2023.

Figure 2.6 shows the 15 countries with the highest tariffs in the world in 2023 and the 15 countries with the lowest tariffs in the world in the same year.³ It also shows the effective US tariff rate on April 15, 2025. If this rate had been applied in 2023, the US would have had the second-highest tariff rate in the world. The figure also helps illustrate an important fact about tariffs. High-tariff countries are generally low-income countries while low-tariff countries are generally high-income countries. In the high-tariff countries, average GDP per capita is just \$9,703 per year, whereas in the low-tariff countries, it is \$43,502 per year.

Figure 2.6: 15 Highest and 15 Lowest Average Tariff Rates in 2023 and Average US Tariff Rate on April 15, 2025



Sources: US 2025 tariff rate: Budget Lab, 2025b. All other tariffs: calculations by authors. GDP per capita: World Bank, 2025.

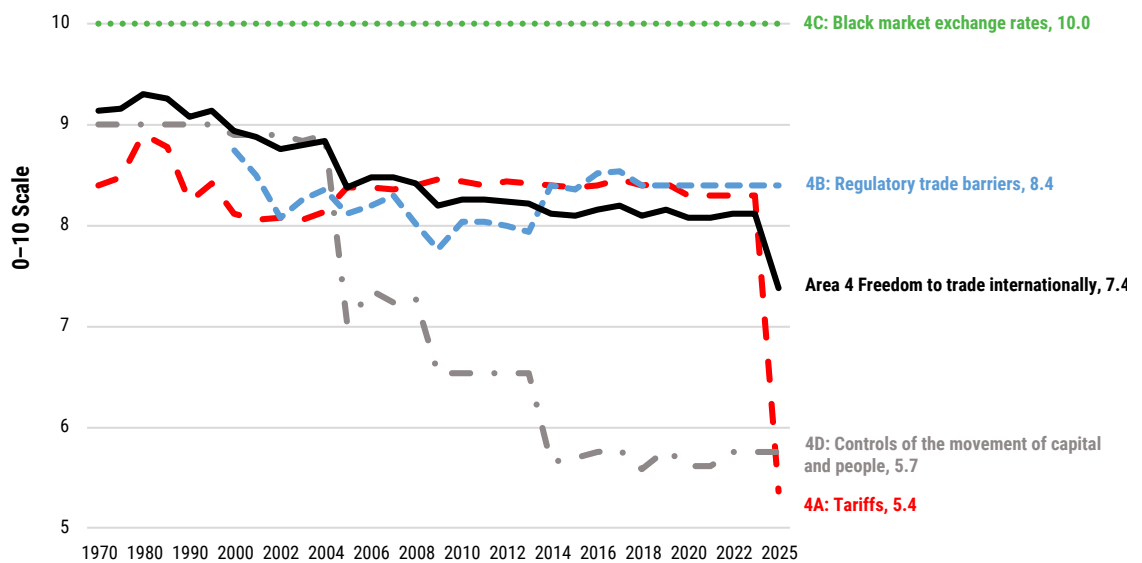
In most cases, when governments announce new policies, we must wait for official government data to be released before we can incorporate these policy changes into the EFW index. With Trump’s tariffs, however, we have real-time access to the rates and revenue

3 The EFW uses the unweighted mean tariff rate. Note that this is slightly different (3.3% for the US in 2023) than the effective tariff rate (2.5%) reported in figures 2.1 and 2.5.

estimates. Using a slightly modified version of our methodology, we are able to offer a preview of the way these tariffs will affect US economic freedom in 2025. To do this, we use the Yale Budget Lab’s (2025b) April 15th tariff rate of 27.9%, the Tax Foundation’s (York and Durante, 2025) estimate that a tariff of 20% will raise about \$340 billion per year (they have not estimated the impact of a 27.9% rate), and our own estimate of the variation in tariff rates.⁴

The results are shown in figure 2.7. Together, these changes cause the US tariff score to fall from 8.3 in 2023 to 5.4 in 2025 and drop the US rank to 161 out of 165 countries in the tariff sub-component—just behind Iran. If we assume no changes in black market exchange rates, regulatory trade barriers, and controls on the movement of people and capital, US trade freedom will fall from 8.1 to 7.4, and the US rank will fall from 56th to 76th, just behind Paraguay. These changes would also reduce the US rank in overall economic freedom from 5th to 10th place.

Figure 2.7: US Economic Freedom to Trade Internationally and Its Components (1970–2025)



Sources: Budget Lab, 2025b; York and Durante, 2025; calculations by authors.

4 The EFW uses the unweighted average tariff rate. In this exercise, we use the Yale Budget Lab’s estimate of the pre-substitution effective tariff rate. For the standard deviation of the tariff rate, we had to depart from the standard method. The EFW measures this sub-component by variation in rates across product lines. In this exercise, however, we do not have access to that data, so we gauged it by variation in rates across countries in the tariff schedules announced on April 2, 2025, “Liberation Day.” We omitted non-countries accidentally tariffed by the Trump Administration, such as the uninhabited Heard Island and McDonald Islands.

5. Conclusion: What Does the Future Hold?

In the long run, Trump's trade war may depress US economic freedom even further. That is because researchers have found that trade freedom tends to be a leading indicator of other economic freedoms (Sobel, 2017). When countries move to restrict trade freedom, other areas of economic freedom such as size of government, sound money, and regulatory freedom often soon follow.

We may already be seeing some indication of this in the US. Since launching the trade war, for example, the president has relentlessly pushed the Federal Reserve to loosen monetary policy, a move that, if unwarranted, would cause the US sound money score to fall. Or consider the Administration's conditions for the sale of US steel to Japan's Nippon Steel. In order to make the purchase, Nippon was forced to grant the Administration extraordinary oversight over the company, permitting the president of the United States to personally oversee company decisions regarding board membership, factory locations, capital investment, employment and worker pay, and even naming rights (Beras et al., 2025). If this sort of control were expanded to other companies, it would almost certainly depress the US regulatory freedom score. Finally, to offset the higher cost of living brought on by tariffs, the president has encouraged Congress to consider tariff rebate checks. In response, Senator Josh Hawley has introduced a bill that would send up to \$2,400 to a family of four and cost hundreds of billions of dollars, depressing the size of government score (Bink, 2025).

For more than a century, the United States has been the most prosperous country in the world. Americans represent just 4.2% of the global population yet they produce more than 26% of global GDP. US median income is nearly nine times the global average and the US poverty rate is a fraction of the global rate (Our World in Data, 2025). This prosperity was built on a foundation of economic freedom. And that freedom is eroding thanks to President Trump's trade war.

References

- Beras, Erika, Sally Helm, Marianne McCune, and Willa Rubin (2025). The President's Golden Share in U.S. Steel. *Planet Money* (July 25). NPR. <<https://www.npr.org/2025/07/25/1256217315/nippon-us-steel-golden-share>>, as of July 30, 2025.
- Bink, Addy (2025). 'Tariff Rebates' Proposed: How Would They Work? *The Hill* (July 29). <https://thehill.com/homenews/nexstar_media_wire/5425476-tariff-rebates-proposed-how-would-they-work/>, as of July 30, 2025.
- Budget Lab (2025a). *State of U.S. Tariffs: Week of April 7, 2025*. The Budget Lab at Yale University (April 8). <<https://budgetlab.yale.edu/research/state-us-tariffs-week-april-7-2025>>, as of July 30, 2025.
- Budget Lab (2025b). *State of U.S. Tariffs: Week of April 15, 2025*. The Budget Lab at Yale University (April 15). <<https://budgetlab.yale.edu/research/state-us-tariffs-april-15-2025>>, as of July 30, 2025.
- Budget Lab (2025c). *State of U.S. Tariffs: Week of May 12, 2025*. The Budget Lab at Yale University (May 12). <<https://budgetlab.yale.edu/research/state-us-tariffs-may-12-2025>>, as of July 30, 2025.
- Budget Lab (2025d). *State of U.S. Tariffs: Week of May 23, 2025*. The Budget Lab at Yale University (May 23). <<https://budgetlab.yale.edu/research/state-us-tariffs-may-23-2025>>, as of July 30, 2025.
- Budget Lab (2025e). *State of U.S. Tariffs: Week of May 29, 2025*. The Budget Lab at Yale University (May 29). <<https://budgetlab.yale.edu/research/state-us-tariffs-may-29-2025>>, as of July 30, 2025.
- Budget Lab (2025f). *State of U.S. Tariffs: Week of June 1, 2025*. The Budget Lab at Yale University (June 6). <<https://budgetlab.yale.edu/research/state-us-tariffs-june-1-2025>>, as of July 30, 2025.
- Budget Lab (2025g). *State of U.S. Tariffs: Week of June 17, 2025*. The Budget Lab at Yale University (June 17). <<https://budgetlab.yale.edu/research/state-us-tariffs-june-17-2025>>, as of July 30, 2025.
- Budget Lab (2025h). *State of U.S. Tariffs: Week of July 7, 2025*. The Budget Lab at Yale University (July 7). <<https://budgetlab.yale.edu/research/state-us-tariffs-july-7-2025>>, as of July 30, 2025.
- Budget Lab (2025i). *State of U.S. Tariffs: Week of July 10, 2025 (2025)*. The Budget Lab at Yale University (July 10). <<https://budgetlab.yale.edu/research/state-us-tariffs-july-10-2025>>, as of July 30, 2025.
- Budget Lab (2025j). *State of U.S. Tariffs: Week of July 11, 2025*. The Budget Lab at Yale University (July 11). <<https://budgetlab.yale.edu/research/state-us-tariffs-july-11-2025>>, as of July 30, 2025.
- Budget Lab (2025k). *State of U.S. Tariffs: Week of July 14, 2025*. The Budget Lab at Yale University. <<https://budgetlab.yale.edu/research/state-us-tariffs-july-14-2025>>, as of July 30, 2025.

- Budget Lab (2025). *State of U.S. Tariffs: Week of July 23, 2025*. The Budget Lab at Yale University. <<https://budgetlab.yale.edu/research/state-us-tariffs-july-23-2025>>, as of July 30, 2025.
- Gwartney, James, Robert Lawson, and Ryan Murphy (forthcoming). *Economic Freedom of the World: 2025 Annual Report*. Fraser Institute.
- Our World in Data (2025). Median Income or Consumption per Day vs. GDP per Capita (dataset). World Bank Poverty and Inequality Platform, processed by Our World in Data. <<https://ourworldindata.org/grapher/median-daily-per-capita-expenditure-vs-gdp-per-capita?country=~USA>>, as of July 30, 2025.
- Renshaw, Jarrett, Daphne Psalidakis, and David Lawder (2025). Trump Says Americans Could Feel ‘Pain’ in Trade War with Mexico, Canada, China. *Reuters* (February 3). <<https://www.reuters.com/world/trump-says-americans-could-feel-pain-trade-war-with-mexico-canada-china-2025-02-02/>>, as of July 30, 2025.
- Snoussi-Mimouni, Monia, and Edvinas Drevinskas (2023). Tariffs Applied by WTO Members Have Almost Halved since 1996. Data Blog by the WTO Secretariat (April 13). World Trade Organization. <https://www.wto.org/english/blogs_e/data_blog_e/blog_dta_13apr23_e.htm>, as of July 30, 2025.
- Sobel, Russell S. (2017). The Rise and Decline of Nations: The Dynamic Properties of Institutional Reform. *Journal of Institutional Economics* 13, 3 (September): 549–574. <<https://doi.org/10.1017/S1744137417000017>>, as of July 30, 2025.
- World Bank (2025). DataBank: World Development Indicators. World Bank Group. <<http://databank.worldbank.org/>>, as of July 30, 2025.
- York, Erica, and Alex Durante (2025). *How Much Revenue Can Tariffs Really Raise for the Federal Government?* Tax Foundation (April 10). <<https://taxfoundation.org/research/all/federal/universal-tariff-revenue-estimates/>>, as of July 30, 2025.