USTR Comment: New Free Market Trade Tools to Foster American Manufacturing

The Office of the United States Trade Representative has invited comment on the Presidential Memoranda on "America First Trade Policy" and "Reciprocal Trade and Tariffs."

The purpose of this comment is to spotlight newly proposed free market trade policy tools (options beyond tariffs) which can help make the Trump Trade Doctrine a resounding success. The President and Congress could deploy these tools unilaterally, or in trade agreements, to foster American manufacturing, eliminate unfair anti-competitive market barriers, and make sure trade policy promotes prosperity for all Americans, first and foremost.

First, I write in support of the recommendations of Shanker Singham, CEO, Competere LLC (comment # USTR-2025-0001-00110154).

Mr. Singham points out that President Trump has contributed greatly to a new understanding of trade realities: "…that trade policy must now take into consideration not only border measures and tariffs but also conditions of domestic competition, regulatory barriers, property rights protection, in short measures internal or external that have an adverse impact on US firms."

Mr. Singham has long studied exactly these kinds of non-tariff trade barriers, which he calls Anti-Competitive Market Distortions (ACMDs). Working with a team at George Mason University, Singham and his colleagues developed the **ACMD Economic Model** which can be used to score the trade openness of any country. The model can also be used as a rational basis on which to apply reciprocal tariffs, to encourage less open nations to match US trade openness.

In addition, Mr. Singham also proposes a remedy for private firms harmed by ACMDs, and specific language for inclusion in trade agreements, to eliminate and deal with ACMDs. All together, his proposals provide rational, well considered mechanisms to put the Trump Trade Doctrine into practice, while providing certainty, transparency, fairness and stability to market participants.

Secondly, I write to draw your attention to another new reciprocal trade tool, Rapid Innovation Funds (RIFs). RIFs create a big positive incentive to join a free & fair trade agreement: a reciprocal international supply side tax cut between nations party to a trade agreement, to reduce the cost of manufacturing for America and its trade partners simultaneously. RIFs offer nations accelerated international investment flows that speed up innovation, growth, and on-shore manufacturing across all industries, sectors and technologies. RIFs do so

without picking winners and losers, or risking damage to America or our allies through the higher prices, lower growth and ill will that tariffs could bring.

The RIF proposal was first fully articulated last fall in a study by the Institute for Free Trade in London.[1] RIFs were presented as part of a larger proposal, the Climate & Freedom Accord (CFA),[2] a free market international framework alternative to conventional Green Deal policies, such as climate protectionism (e.g. CBAM), carbon pricing (e.g. ETS), wealth transfer subsidies (e.g. IRA), and Net Zero forcing agreements (e.g. The Paris Accord).

The CFA strategy leans into the tendency of free markets to deliver the cleanest environments and lowest emission economies, because freedom leads to competition among innovators to constantly improve the efficiency and benefits of their products. So the CFA proposes an innovation acceleration strategy that combines free market policies to remove the barriers and costs faced by innovators, across the board, without picking winners or losers. Doing so accelerates the pace of all innovation, including the pace of environmentally beneficial innovation.

RIFs follow this strategy, by lowering the cost of all investment in manufacturing, property, plant and equipment and associated labor, which speeds up innovation. While originally designed to offer a free market, positive incentive alternative to carbon tariffs (to avoid the low growth, uncompetitiveness and higher prices that all tariffs risk), RIFs work just as well as an alternative to ordinary tariffs. A big carrot, rather than a big stick. Quite simply, RIFs combine a "free world free trade club" framework, with an internationally reciprocal fiscal mechanism to promote international investment flows for onshore domestic manufacturing.

Specifically, RIFs are tax exempt private debt (no tax on interest income for bonds, loans or savings accounts) where the funds are used to finance property, plant and equipment (PP&E), including the labor to build, run and maintain such PP&E. RIFs lower the cost of capital by perhaps 30%, depending on prevailing tax rates.

RIFs could become law either through an act of Congress, or by internationally reciprocal provision in a trade agreement, ratified by the Senate. Under the CFA, RIFs would empower private developers, entrepreneurs, funds and banks to raise tax exempt debt in any participating country (using bonds, loans, savings accounts, mutual funds, etc.) and invest the funds in PP&E in any Accord nation. RIFs could unlock vast international capital flows for all Accord nations.

While tariffs, like all taxes, would tend to depress growth, studies indicate that RIFs would likely increase GDP per capital. The Growth Commission studied the impact of

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[1] https://ifreetrade.org/publication/an_economically_sustainable_global_climate_accord

[2] https://ifreetrade.org/pdfs/IFT_GlobalClimateAccord_v1.pdf

CBAM carbon tariffs vs.the CFA on the UK growth.[3] They found that the CBAM lowered UK GDP by £600/person, while the CFA (with RIFs) increased UK GDP per capital by over £1,000, an order of magnitude difference that deserves the attention of all policymakers.

RIFs would also be incredibly cost effective. First, under the CFA, RIFs are paid for by phasing out all conventional wealth transfer subsidies, such as those in the IRA or CHIPs Act, which could amount to trillions of dollars over time. Moreover such subsidies actually reduce GDP per capital, and total employment. So this shift to RIFs would expand the tax base.

In additions, RIFs are more cost effective than most tax cuts because they use, and increase, financial leverage. RIFs give a tax cut were returns are low (debt) and rake in tax revenue where returns are high (equity). They drive down cost of debt, while leveraging up equity returns. That means RIFs attract both new debt and equity investment at the same time. This makes RIFs highly cost-effective. Since average equity returns typically run 350% higher than average debt returns, a typical energy project using 50% equity, 50% RIFs, would net 350% more tax revenue on equity returns than tax expense on RIF debt.

That is a very good deal, indeed. This spread means that the tax expense of RIFs would be about 70% less, per dollar invested, versus any equity side tax cut, or subsidies such as IRA tax credits.

RIFs are also highly democratic and inclusive investment frameworks. Investors and entrepreneurs, large and small, can easily take advantage of the simple RIF tax rate cut. This ease and inclusiveness compares favorably to highly complex US style investment tax credits, that pick technology winner and losers, constrict markets, favor the ultra-wealthy, subsidize bankers and lawyers, and shut out small investors and entrepreneurs.

RIFs are tax rate cuts that promote success, not wealth transfer subsidies, which promote failure and mediocrity. RIFs do not rob Peter to pay Paul. Instead, every Paul (whether investor, entrepreneur or even a savings account holder) simply keeps more hard-earned profit. Therefor RIFs, like any well-designed supply side tax cut, will not promote failure, subsidy dependence or economic bubbles. Instead, RIFs will scale up the most successful innovators faster than otherwise possible.

One caveat: good design remains essential. Any free market policy that seeks to remove barriers can be impaired by interaction with other non-free market policies that impose distortions, such as cronyism favoritism, or the progressive tax code, or tax preferences for favored investors, such as pension funds or endowments. So readers intrigued by the RIF proposal are urged to pay close attention to the details, as

[3] https://www.growth-commission.com/2024/10/08/the-impact-of-carbon-leakage-mechanisms-on-growth/

explained in the IFT study and the CFA itself, where such possible distortions and unintended consequences are fully explored, with solutions incorporated into the RIF design. For instance, the CFA considers how RIFs can avoid the many problems that plague the tax exempt US municipal bond market, and also mechanisms to make sure RIFs to not create any debt bias.

While tariffs can provide a big stick to get nations to the negotiating table, they can also cause blunt force trauma in the form of higher prices, lower growth and ill will not only among our allies, but among Americans themselves. RIFs by contrast provide a big carrot beneficial to all nations, that encourages investment in manufacturing, but avoids all the problems and ill will that tariffs can bring. RIFs offer a powerful trade tool much needed right now, that can make sure the Trump Trade Doctrine ends in success.

Lastly, please note that although I serve as the Co-Chair or the Climate & Freedom International Coalition Meeting, and I have recommended the work of participants in the coalition, I do not speak for the participants in the coalition. The recommendations above, though informed by my experience working with many scholars and think tanks concerned with free markets, trade and competition, are entirely my own.

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March 9, 2025