

The
Economist

The Economist explains

The Economist explains

Why is free trade good?

Donald Trump is in a stand-off with Adam Smith



The Economist explains

Mar 14th 2018 | by A.F.

PROTECTIONISM is back. On March 8th President Donald Trump signed into law tariffs of 25% on steel imports and 10% on aluminium, to come into effect two weeks later. It is unclear which countries will be hit. Even if exemptions are expanded beyond Mexico and Canada, this is still a big step for the president to take. Mr Trump tweets that this is for the best. By levying these tariffs, the story

goes, the American economy will be better off because jobs in the steel and aluminium sectors will return to the homeland from foreign countries that have “stolen” them. Such thinking has traditionally been known as “mercantilism” and it is easy to see why it appeals. We buy things from that country, instead of making them ourselves. If we made them ourselves, we would have more jobs and this would make us better off. So why is the mercantilist argument wrong?

That is a question close to the heart of *The Economist*. It was founded as a newspaper in 1843 to campaign against high import tariffs and in favour of the principles of free trade. The issue of the day was the Corn Laws. These were a series of taxes and restrictions on imports of grain, designed to favour British farmers. Local produce had been losing out to cheaper foreign imports. The Corn Laws succeeded in blocking them, thereby increasing profits for farmers and landlords. But in the process they made bread more expensive and hunger more widespread. The Corn Laws were bad for Britain even though they claimed to be standing up for British produce. With bread costs consuming the budgets of households nationwide, other industries (and the wider economy) suffered. The industries Mr Trump’s tariffs aim to protect face similar problems. But just like corn in 19th-century England, tariffs on steel will impose a real cost on those who consume it.

Latest stories

Can Donald Trump sack Robert Mueller?

THE ECONOMIST EXPLAINS

American corporations come out against Donald Trump’s proposed tariffs

GRAPHIC DETAIL

Dogs and cats may have been involved in Maya rituals

SCIENCE AND TECHNOLOGY

[See more](#)

These arguments in favour of free trade are laid out by Adam Smith, a Scottish economist, in “The Wealth of Nations”, his magnum opus published in 1776. “It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy...What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom.” In essence, if two

parties want to swap something with each other, no government should stop them. They want to swap because it will make them both better off, and to hinder them is to do damage. Both parties will suffer, as well as those who might have benefited

had they been allowed to proceed unhindered. This is not as complex as some suggest, for free trade is as simple as “I’ll cook, and you wash the dishes.” We swap the proceeds of our labours, and both profit by doing so. There is no point in two of us making separate pans of spaghetti in the same kitchen. That is what trade barriers force us to do and we are both impoverished as a result, losing both time and money that could have been better spent.

This is not to say that jobs have not been lost in America due to cheaper foreign imports. They have, and those who have suffered should not be ignored. But protectionism will destroy more jobs than it creates. Analysis by Trade Partnership, a consultancy, suggests that once Mexico, Canada and Australia have been factored out and possible retaliation has been factored in, Mr Trump’s tariffs would cause nearly 13 jobs to be lost for every one gained in steel or aluminium production, and every state would see a net loss of jobs. Sounds like a bad deal for America.

[Give a gift for just \\$12](#)

Give *The Economist* for just \$12 for 12 weeks.

Subscribers enjoy preferential rates on our gifts.

Give friends and family access to *The Economist* via print, online and our apps.

[Give a gift for just \\$12](#)