

IEA Current Controversies No.82

# THE IMPORTANCE OF IMPORTS

Julian Jessop  
July 2021



IEA Current Controversies papers are designed to promote discussion of economic issues and the role of markets in solving economic and social problems. As with all IEA publications, the views expressed are those of the author and not those of the Institute (which has no corporate view), its managing trustees, Academic Advisory Council, or other senior staff.

# Contents

About the author	4
Summary	6
Introduction	8
The case for free trade	10
Why tariffs on food imports are a bad idea	15
Why we should not fear trade deficits with the EU	19
Ten bad arguments against unilateral free trade	24
References	27



**Julian Jessop** is an independent economist and Economics Fellow at the Institute of Economic Affairs. He has over thirty years of experience gained in the public sector, the City and consultancy, including stints at HM Treasury, HSBC, Standard Chartered Bank and Capital Economics. Julian was Chief Economist at the IEA until December 2018 and continues to support our work, especially schools and university outreach, on a pro bono basis. He has a First Class degree in Economics from Cambridge University and post-graduate qualifications in both economics and law.

# Summary

- The UK government promotes international trade under the banner 'Exporting is GREAT'. This is laudable, but the economic benefits of free trade come mainly from what countries *import*, rather than from what they sell overseas.
- This may seem counter-intuitive. Many still argue that imports are 'bad', that import substitution is 'good', and that we should reduce our dependency on global supply chains by 'buying British'.
- This paper therefore refreshes the arguments in favour of free trade in the light of three current controversies: the potential opening up of UK markets to cheaper agricultural imports, the impact of Brexit on UK trade, and lessons from the Covid pandemic.
- Free trade happens when people can buy goods and services from whomever and wherever they like, without obstruction from governments. This allows people to specialise in whatever they do best and maximises consumer welfare.
- Arguments against tariff-free trade usually boil down to saying that British families must pay higher prices to subsidise farmers or steelworkers who cannot compete with more efficient producers elsewhere. Worries about 'unfair' competition, or the benefits of self-sufficiency, rarely stand up to serious examination.
- Free trade between individuals may sometimes lead to substantial imbalances between countries, such as the large trade deficits that the UK has run with the EU. But this is not necessarily a bad thing: many UK consumers may simply prefer German cars or Spanish holidays to their British equivalents.
- Anything restricting these choices will therefore leave people worse off. New barriers to trade with the EU might prompt some UK consumers to

switch from EU imports to local products, but this should not be seen as a 'benefit' of Brexit.

- Consumers are already free to choose to 'buy British' – with their own money. While it may also be tempting for governments to favour suppliers from their own country, or region, this is rarely in the long-term interests of the people that they represent.
- This form of protectionism usually subsidises inefficient production, raises prices, and undermines productivity. 'Buying British' is not necessarily good for employment, either. Free trade may eliminate some jobs, but it also creates many others – typically in businesses where the prospects are better.
- International trade allows countries to spread risks by accessing a wider range of suppliers, making them more resilient to shocks. Indeed, the pandemic has illustrated the benefits of globalisation: imagine if every country had tried to develop and produce its own vaccine.
- Concerns about the impact of imports on the environment are usually misplaced as well. Importing foods and other goods from countries that can produce them more efficiently can actually be better for the planet than 'buying local', even if transport costs are higher.
- In short, free trade benefits both parties – or else it would not happen at all. This means that imports and importing are GREAT, too.

# Introduction

The UK government promotes international trade under the banner ‘Exporting is GREAT’<sup>1</sup>. This is laudable, but the economic benefits of free trade come mainly from what countries *import* rather than from what they sell overseas.

Indeed, the UK should start from the position that the optimal tariff on all imports is zero. If that means lowering barriers to trade unilaterally, without waiting for other countries to reciprocate, then so be it.

This is not always an easy argument to make. If exports help to support local businesses and create jobs, or contribute to Gross Domestic Product<sup>2</sup>, it seems logical to assume that *imports* must do the opposite. It is therefore often taken for granted that exports are ‘good’, that imports are ‘bad’, and that a ‘flood of cheap foreign imports’ would be even worse.

A number of recent developments have brought these issues to a head, yet again. One is the controversy over trade deals which might allow agricultural products to be imported tariff-free into the UK from countries such as Australia and New Zealand. This has led to more-or-less explicitly protectionist demands for relatively inefficient UK farmers to be shielded from ‘unfair’ foreign competition.

---

1 See the website <https://www.great.gov.uk/>.

2 It is true that imports are subtracted from GDP. But this is simply to avoid double counting, as imports are already included in the other components, namely consumer spending, government spending, and business investment. Lower imports might therefore simply be offset by a fall in these components, leaving overall GDP unchanged.

Another new development is the impact of Brexit on UK trade with the EU and the rest of the world. The UK's large deficit in trade in goods with the EU is still seen by many as a 'cost' of EU membership. Correspondingly, any reduction in this deficit is seen as a 'benefit' of Brexit, and as an opportunity to 'buy British' instead. This narrative has some protectionist themes too.

The fallout from the Covid pandemic and growing concerns about environmental harms have also encouraged calls for action to reduce the UK's perceived dependency on global supply chains and replace them with domestic production. Again, these concerns are often misplaced. In particular, importing goods from countries that can produce them more efficiently can actually be better for the planet than 'buying local', even if transport costs are higher.

This paper therefore recaps the arguments in favour of free trade and in defence of imports, and then applies them to these new issues.

It concludes with a summary of points that can be used to rebut the arguments most often made by protectionists and other opponents of trade liberalisation – using the case for unilateral free trade as a hook.

# The case for free trade

Almost everyone accepts the principle that international trade in goods and services can bring substantial economic and social benefits (Boudreaux 2018, Irwin 2020). Nonetheless, special interest groups continue to insist that an exception should be made for their particular industry. Various forms of protectionism are also still popular with some in the media, many politicians, and the general public.

It might help to begin with a quick recap of the arguments in favour of free trade.

Adam Smith (1776) famously emphasised the benefits of specialisation: trade improves welfare by allowing people to concentrate on whatever they do best. Even if it were possible for every person to grow all their own food, make their own clothes, and meet all their needs for shelter, healthcare and entertainment, the results would clearly be less than ideal.

If it makes no sense for an individual to try to be self-sufficient in everything, why should the government make it harder for anyone to import something from another country, especially if that country can produce the same thing more cheaply?

David Ricardo [1817] (1951) took this idea further by showing that it is not even necessary for one country to have an *absolute advantage* (being able to produce anything more cheaply than a trading partner) in order for there to be gains from trade. Instead, each party simply needs to focus on what they do best compared to the alternatives available to them.

This is the concept of *comparative advantage*. For instance, I could probably clean my own windows and perhaps even do so more efficiently than the person I currently pay for this task. But any time I spent cleaning windows

would carry a substantial opportunity cost, because I could earn a lot more money working as an economist (yes, really). So, I am better off if I stick to economics and pay someone else to clean my windows.

On the other hand, my window cleaner may be more efficient at cleaning windows than some of the alternatives available to them. Their opportunity cost of cleaning windows is therefore lower than mine, giving them a comparative advantage. We should then be able to agree a price for window cleaning that leaves both of us better off than if no 'trade' took place at all.

The principle of comparative advantage is important when thinking about trade between countries too, as the box illustrates. It is often assumed that the UK can only trade successfully with, say, China, if the UK has an outright advantage in the production of a particular good or service. In fact, China might be better at everything, but there could still be gains from trade.

The economic and social benefits of free trade also go well beyond specialisation.

John Stuart Mill (1848) developed the point that increased openness to trade makes countries more efficient in *whatever* it is that they do. In today's terms, it boosts productivity. Examples include the ability to import better machinery and equipment (and thus improve the quality of the capital stock), the greater sharing of knowledge, and the additional competitive pressure on domestic producers.

A consistent theme here is that the purpose of economic activity is – or should be – to improve wellbeing by providing the goods and services that people want at the best possible combination of quality and price. It is not about supporting particular businesses or protecting particular jobs. This means that the interests of consumers should be paramount.

In this sense, exports could almost be regarded as a 'bad' thing. Goods and services that are exported are goods and services that local consumers are unable to enjoy themselves. The main benefit of exports is simply to earn money that can be spent on other goods and services, or to pay for imports, and they can be seen as only a means to this end.

Why then is protectionism still so popular? There are numerous real-world examples of the benefits of a more open economy. Despite this, many still argue that we need to be saved from ‘cheap foreign imports’ which could wipe out inefficient local producers who must be sheltered behind protective tariffs and quotas.

In part this is because trade barriers typically provide a large benefit to a small number of people who find it easier to form lobby groups and attract sympathy. It is difficult for politicians to resist calls that ‘something must be done’ to protect small farmers, or steelworkers. The gains from free trade, though greater, are usually less visible and more evenly spread.

It is also all too common for trade to be presented as a zero-sum game: if one party gains, another must lose. This often seems to be the view of trade negotiators, or at least those claiming to be experts in this field. For example, the elimination of tariffs on food imports is widely seen as a ‘concession’ that the UK needs to make to gain access to foreign markets, rather than (as it should be) a win for UK consumers.

There are many other flimsy arguments which still strike a chord with the public. In particular, it is often claimed that tariffs are necessary to protect jobs. It is true that free trade is likely to ‘destroy’ some jobs in some sectors. But free trade creates more jobs in those sectors where countries do have a genuine advantage. Jobs in these sectors are also likely to be higher paid and more secure.

Furthermore, lower prices do not just help consumers. Money saved by buying cheaper imports is money that can be spent on other goods and services, including those produced at home. Cost savings from cheaper imports also benefit other businesses directly. For example, lower food prices are good for the hospitality sector, and cheaper steel helps domestic manufacturing.

This is not to say that there are *no* costs from free trade. However, since free trade improves overall welfare, it should be possible to help those who might lose out to adjust, and still leave society as a whole better off.

We can now dig further into these issues by looking at three current controversies: the potential opening up of UK markets to cheaper agricultural imports, the impact of Brexit on UK trade, and lessons from the Covid pandemic.

## A worked example of comparative advantage

Suppose there are two countries, with the same resources, A and B, making two goods, smartphones and toy cars. Table 1 shows how much each country could produce of each good, assuming they spend half their time making smartphones and half making toy cars. Without trade, this is also the amount of each good that each country can consume.

**Table 1: Production and consumption in the absence of trade**

	Country A	Country B
Smartphones	100	50
Toy cars	200	50

In this example, A has an *absolute* advantage in producing both smartphones and toy cars, but B has a *comparative* advantage in making smartphones. This is because the opportunity cost – what you have to give up – of making a smartphone in country B is one toy car, whereas in country A it is *two* toy cars.

There is therefore a possibility here for mutually beneficial trade. Country B could specialise in making smartphones, allowing country A to focus on making toy cars.

If country B makes only smartphones, it can produce 100 units, allowing it to keep 50 and export 50. Country A can then reduce its production of smartphones to 50 and increase production of toy cars to 300.

**Table 2: Production with specialisation**

	Country A	Country B
Smartphones	50	100
Toy cars	300	0

Country B will want more than 50 toy cars in return for exporting 50 smartphones to country A, so that it ends up in a better position than if no trade had taken place. But country B could offer up to 100 cars and still be in a better position too. Table 3 assumes they split the difference and settle at 75.

In this example, then, country B exports 50 smartphones to country A in return for 75 toy cars.

**Table 3: Production, exports and consumption with specialisation and trade**

	Country A			Country B		
	Production	Exports to country B	Consumption	Production	Exports to country A	Consumption
Smartphones	50	-	100	100	50	50
Toy cars	300	75	225	0	-	75

Crucially, both countries are better off (each by 25 toy cars) as a result of specialisation and trade, even though country A is more efficient at producing both goods. This is because importing smartphones from country B allows country A to produce a larger number of toy cars, creating a surplus that both can share.

---

## Why tariffs on food imports are a bad idea

Many people worry about the implications of eliminating the tariffs and quotas that the UK applies to agricultural goods imported from countries such as Australia and New Zealand.

For example, Minette Batters, president of the National Farmers Union, has argued<sup>3</sup> that removing tariffs would make it ‘all but impossible’ for British family farms ‘to compete with vast volumes of imports from the southern hemisphere produced in a very different manner’.

There might be some valid concerns here. But this isn’t a million miles away from saying that British families must pay higher prices to subsidise farmers who cannot compete with imports produced in countries with a comparative advantage in agriculture. Put another way, would people be quite so eager to defend tariffs on agricultural imports if we called them a ‘tax on food’?

It often feels like we have learned nothing from the Corn Laws,<sup>4</sup> which imposed tariffs and other restrictions on imports of food in the early nineteenth century. Going back further, an Act of Parliament in 1571 made it compulsory for almost everyone over the age of six to wear a cap of

---

3 ‘You can’t level up by throwing our family farms under a bus’, *Daily Mail*, 16 May 2021 (<https://www.dailymail.co.uk/debate/article-9583115/NFU-president-MINETTE-BATTERS-level-throwing-family-farms-bus.html>).

4 The Corn Laws, which operated from 1815 to 1846, blocked the import of cereal grains, a key element in the urban working-class diet, to protect farmers’ incomes - and thus landlords’ rents. They became a major political issue when bad harvests forced up the price of food in the 1840s. The repeal of the Corn Laws is seen as a key moment in the movement towards free trade, and (because of opposition to the landowning interests) in the movement towards popular democracy.

English wool on Sundays and holidays, in order to support sheep farmers and hat makers.

The arguments of those opposing tariff-free imports are now rather more sophisticated. But they are still weak.

One common line of attack is that foreign competition is somehow 'unfair'. In particular, UK farmers might have to produce to higher standards than those in Australia or New Zealand. But it is still important to unpick exactly what this is about.

It could mean that the quality of home-grown foods is higher. If this indeed the case, consumers should be free to decide whether to pay a premium for the superior UK products. This is an issue for product labelling and marketing, not state intervention.

Alternatively, it could mean that animal welfare standards are lower overseas, thus reducing the cost of imports compared to home-grown foods (this is now the main objection to 'chlorinated chicken', given the lack of evidence that chlorination is a risk to human health). But this is not necessarily an issue to be tackled with tariffs or quotas either. Again, consumer choice and market pressures are likely to be far more effective. In any case, there is plenty of evidence from other countries that goods for export are produced to higher standards than those destined for local customers.

Or it could mean that imported foods are somehow dangerous to consumers themselves. This is an allegation often made about hormone-injected beef, or the widespread use of antibiotics. But if these practices are indeed a serious risk to human health (and this is disputed), the correct policy response is surely an outright ban on foodstuffs made in this way, rather than a crude attempt to use tariffs to price them out of the market.

Another increasingly common argument is that shipping meat from the other side of the planet is not the way we should be doing things, because of the impact on the environment. But this argument is also flawed, for two reasons.

First, the carbon footprint of imports can often be lower than those of domestic suppliers. This is because the increased environmental cost of transporting goods long distances are often offset by more efficient production initially, with less use of energy, fertiliser, and other inputs.

---

This was illustrated by Saunders et al. (2006) in the case of dairy products and meat imported to the UK from New Zealand. Webb et al. (2013) looked at a wider variety of foodstuffs and concluded that while in some cases (potatoes, apples, and beef) the ‘global warming potential’ of UK production may be lower than that of imports, in the case of others (tomatoes, strawberries, poultry and lamb) it may well be higher.

Ritchie (2020) has provided a helpful summary of data on the relative importance of transport costs as a share of food’s total carbon footprint and concludes that what you eat is far more important than where your food travelled from.

It may even be better overall to grow some foods or flowers in hot countries, and then fly them in, rather than attempt to grow them here in artificial conditions.<sup>5</sup>

Second, import tariffs are a blunt tool to deal with environmental externalities. These should be tackled instead by specific taxes directly linked to the harm involved (such as carbon taxes), or by targeted subsidies where farmers provide some wider public benefit (such as making the countryside more attractive, protecting wildlife, water management, or carbon capture).

Indeed, government subsidies already account for the majority of the income of most English farms (DEFRA 2020), which is an indication of their inefficiency. The UK’s proposed post-Brexit subsidy regime will at least tighten the link between these payments and specific environmental benefits.<sup>6</sup>

The importance of ‘food security’ is wildly exaggerated, too. It is hard to see the circumstances where the UK would face an existential crisis resulting from a shortage of lamb chops. If anything, being able to source food from a wide variety of suppliers from around the world should reduce the UK’s vulnerability to shocks.

---

5 A not dissimilar point was famously made by Adam Smith, long before worries about climate change: *By means of glasses, hotbeds, and hotwalls, very good grapes can be raised in Scotland, and very good wine too can be made of them at about thirty times the expense [of imported wine]. Would it be a reasonable law to prohibit the importation of all foreign wines, merely to encourage the making of claret and burgundy in Scotland?* (Smith [1776] (1904): Book 4 Chapter 2).

6 The Department for Environment, Food and Rural Affairs has also proposed a system of lump sum payments to older farmers to assist them to retire – an example of how potential losers from free trade can be helped to adjust (DEFRA 2021).

The hard reality may simply be that agriculture in Australia and New Zealand is more productive, thanks to factors such as more favourable weather or economies of scale - for instance, Australia is apparently home to eight of the ten largest farms in the world. But these are examples of the legitimate economic advantages that lie behind the gains from trade, not examples of unfairness.

In short, tariffs on imported food are at best an ineffective way to improve welfare. In practice, they usually do far more harm than good.

---

## Why we should not fear trade deficits with the EU

Next, let us think about the implications of the UK's departure from the European Union.

Trade between the UK and the EU fell sharply after the end of the transition period on 31<sup>st</sup> December 2020 (ONS 2021). UK goods exports to the EU slumped by around 42% in January 2021 compared to the same month a year earlier, while UK imports from the EU were down by 20%.

These figures partly reflect the impact of Covid on global trade, but the falls both in exports to the EU and in imports from the EU were much larger than those for trade with the rest of the world. This is consistent with both theory and evidence that any increase in trade frictions will reduce the amount of trade being done.

Fortunately, trade has since recovered as businesses have adapted to the new rules. By April, UK goods exports to the EU were essentially back to pre-Brexit levels, while early survey evidence points to a further improvement in May. Nonetheless, it is reasonable to argue that UK exports to the EU are still lower than would have been expected, given the recovery in the EU economy (Springford 2021).

In contrast, UK imports from the EU have remained relatively depressed, to the extent that the UK is now importing more from the rest of the world. This partly reflects changes in the pattern of demand associated with Covid. For example, the UK is importing fewer cars, which mainly come from the EU, and more clothing and PPE, which mainly come from Asia. But again, it seems inevitable that additional trade frictions are reducing UK imports from the EU.

The upshot is that the UK's deficit in trade in goods with the EU has shrunk by around £3 billion per month. Many view this as a 'good thing'. The fact that the UK imported more goods from the EU than it exported to the EU is still seen by many as a 'cost' of EU membership. Correspondingly, any reduction in this deficit is seen as a 'benefit' of Brexit, and as an opportunity to 'buy British', or at least reduce 'dependency' on the EU.

That might be an appealing narrative, but it has some protectionist elements too.

Since trade is voluntary, it is reasonable to assume that at least some UK consumers prefer German cars, French cheeses, or Italian wines, to those goods produced at home. Similarly, the UK runs a large deficit in tourism with Spain (and the rest of the world) because Brits like to drink sangria and turn pink in the sun.

Worrying about these bilateral deficits makes no more sense than my worrying about the persistent trade deficit I run with my window cleaner, or my local branch of Sainsburys. Should I refuse to take my family holiday in Spain unless an equal number of Spaniards agree to take a summer break in the Surrey hills?

The new barriers to trade between the UK and the EU may well result in a reduction in imports from the EU and an increase in domestic production, and this will mitigate some of the costs. But in what sense does this substitution make the UK better off overall?

It clearly does not seem to benefit consumers. When faced with a free choice, they preferred German cars, French cheeses and Spanish holidays. How does raising prices post-Brexit and restricting that choice improve *their* welfare?

What economists call 'trade diversion' may be part of the answer. The UK's membership of the EU will, in the past, have diverted trade away from the rest of the world: barriers to imports from the US or the Commonwealth will have artificially raised the price of US or Commonwealth goods and services relative to those produced by Germany, France and Spain. It will also, incidentally, have given a misleading impression of the importance of the EU as a market for the UK.

Brexit has changed this situation, so it is inevitable that the UK will now trade more with countries outside the European Union. However, whether

this is positive or negative for the UK economy overall will depend on what happens to trade barriers both with the EU and with the rest of the world. If the only change is that it becomes harder to do business with the EU, that is still a net loss, even if imports can be replaced by imports from the rest of the world.

Put another way, if it becomes more expensive to import from the EU, the additional costs can be mitigated by importing more from elsewhere, but this does not leave UK consumers or businesses in a better position than if Brexit had not happened at all.

In contrast, there could be a net gain if Brexit is used as an opportunity to lower barriers to trade with the rest of the world. This would allow the UK to import more from countries that can produce goods and services more efficiently than exporters based in the EU. In such a case, replacing imports from the EU with those from the rest of the world would be a win for the UK economy.

At this point, some readers are probably thinking that 'buy British' is good for British jobs. That might be true, in some cases: free trade does tend to 'destroy' jobs in sectors where countries do not have a comparative advantage. But free trade also *creates* jobs in those sectors where countries *do* have an advantage. This should be a net gain, because jobs in more productive sectors are likely to be higher paid and more secure. We also have many other ways to help those who might lose out (including welfare benefits and help to retrain).

For example, if Asia can make clothes more cheaply this may well mean that fewer people are employed making clothes in the UK. But in a flexible labour market they should be able to find higher paid, more sustainable jobs higher up the value chain (such as marketing or design) or in other sectors where the UK has a comparative advantage. In addition, the money that UK consumers save by buying cheaper clothes can be spent in the UK economy on other goods and services.

These points apply just as much to the local level as they do at the national level. There is currently much interest in the 'Preston Model' (or variations in other UK towns and cities), where councils prioritise spending on local suppliers in the name of 'community wealth building' (Preston City Council 2020). This is seen by some as part of the solution to regional inequalities and a means to 'level up'.

Some aspects of the 'Preston Model' are appealing, such as greater diversity in forms of ownership (competition and plurality is generally good), and increased devolution of tax and spending decisions. But the case for discriminating in favour of local suppliers is weak.

Supporters of the Preston Model usually wave this issue away by saying that local contractors should only be awarded contracts if they can show that they can compete on price, performance, and quality – in which case, what is special?

Or they claim that winning local contracts also makes it easier for local companies to expand and compete with larger firms for contracts in the rest of the country. But that still implies that local taxpayers have to overpay to begin with – as well as increasing the risk of cronyism<sup>7</sup> if not outright corruption.

It is certainly hard to see a strong case for protecting employment in industries that have become uncompetitive. This is not 'writing off' people who work in these industries: it is important to have a strong welfare safety net to support them until they can find new jobs. Since free trade boosts overall welfare, it should be possible to compensate the losers in this way and still leave the economy better off.

Some also argue that the UK could and does make better cheeses, wine, and so on, if only shops could be persuaded to stock them, and consumers were more aware of them. But what, precisely, is the market failure that prevents this from happening now? If there is already plenty of latent demand for UK produce – and money to be made selling it – why does the government need to get involved at all?

A similar point applies to UK exporters. It may well be that some would be better off prioritising sales to faster growing markets outside Europe. They will hopefully benefit from the reduction in trade barriers with the rest of the world that the UK's new freedom to make independent trade deals now allows. But there is no benefit in forcing them to find new markets by reducing their access to the EU.

What is more, if we were to take 'buy British' to its logical conclusion, we should restrict *all* imports, whether from the EU or the rest of the world,

---

<sup>7</sup> 'Cronyism' can be defined as the award of contracts or positions of influence to friends or associates without due process or effective competition. No money may change hands and no laws may be broken, but the effect is pernicious nevertheless.

in order to shield UK firms from competition. Most people would, I hope, reject this as crude protectionism.

A better argument might be that a country may not be able to run large trade deficits for ever. It is true that the balance of payments has to balance. If a country is importing more than it is exporting, the difference has to be paid for somehow, for example, by selling assets to the rest of the world.

However, it still makes no sense to worry about the bilateral deficits between one country and another. And even if a country is running a large trade deficit overall, the free market already provides a mechanism to correct this – in the form of a floating exchange rate. The UK current account deficit has averaged 2½% of GDP since 1990 – not a big deal. When it has got too big, sterling has fallen to correct it.

In summary, new barriers to trade with the EU might prompt some UK consumers to switch from EU imports to local products, and prompt some UK exporters to switch from EU markets to others further afield. But these forced choices are likely to reduce welfare and should not be seen as a ‘benefit’ of Brexit.

There is a lot of nonsense written too about the benefits of reducing the reliance on imports. It is true that you would not want to depend on a limited number of suppliers for any essential product, especially if national security is involved. But international trade actually allows a country to *diversify* and spread risks.

Indeed, contrary to many people’s opinions, the Covid pandemic has illustrated the benefits of globalisation. Imagine if every country had tried to develop and produce its own vaccine. The Covid crisis has also underlined the benefits of international trade in goods such as personal protective equipment. It is far more efficient, and safer, to be able to source these from a variety of competing suppliers worldwide, rather than tie up resources in domestic capacity that will rarely be needed.

The pandemic has raised concerns too about the vulnerability of international supply chains. But these chains have generally held up remarkably well. Where supply chains have indeed proved fragile, companies that are dependent upon them can be left to work this out for themselves, without government intervention.

## Ten bad arguments against unilateral free trade

Oddly, many people who say they support free trade in principle still oppose any unilateral action to reduce trade barriers. Here are the main objections, with some counterarguments...

1. *'Removing tariffs unilaterally would throw away a bargaining chip in future negotiations'.*

Imposing tariffs on imports into your own country is an act of self-harm, not a 'bargaining chip', and giving them up is a benefit, not a 'concession'. Modern trade deals are also about far more than just tariffs on goods, so there is still plenty to negotiate. In the meantime, consumers will be better off and, by demonstrating the benefits of lowering tariffs, other governments will be under increasing pressure to follow anyway.

2. *'Tariffs are necessary to level the playing field when other governments subsidise their exports'.*

If other governments are foolish enough to spend their own taxpayers' money subsidising cheaper goods or services for export, why should UK consumers and businesses not be allowed to benefit? There might be an exception where a country artificially lowers prices to gain a dominant market position, then raises them again once the competition has been eliminated. But this risk can be minimised by trading freely with a wide variety of different potential suppliers.

3. *'Tariffs are necessary to protect domestic producers from cheap imports produced to lower standards'.*

If imports are cheaper because they are of lower quality, that's something that can and should be left to consumers. If imports don't meet basic

---

standards - and especially if they are dangerous in some way - then they should be banned outright: tariffs are not the right tool to deal with this problem.

4. *'Tariffs are necessary to offset much lower labour costs in other countries'.*

Why should UK consumers not be allowed to benefit from the fact that people in other countries are willing to work for less? It may still be right to worry about 'sweatshop' labour, but the best way to tackle this is by addressing the fundamental causes of low wages in developing countries. Foreign-owned or export-focused companies in these countries already tend to pay more and operate to higher standards than domestic businesses. Free trade helps here by boosting investment and productivity and allowing wages to catch up with those in advanced economies – a win-win.

5. *'Tariffs are necessary to prevent trade deficits from getting too big'.*

We already have a market mechanism to do this – a flexible exchange rate. In any event, there is little evidence that imposing tariffs on imports can reduce the overall trade deficit.

6. *'Only small countries, such as New Zealand, Hong Kong and Singapore, have adopted unilateral free trade'.*

So what? The principles are the same regardless of size. Indeed, the sectors that might initially be adversely affected by unilateral free trade (for example, agriculture and manufacturing) are proportionately less important to the UK than in these examples.

7. *'Tariffs raise billions for the Treasury – we need the money'.*

Tariffs fall on the consumer. Every tax should of course be judged on its own merits, not by the amount of revenue that it raises. But the amount of income from tariffs is small in any event. It also needs to be set against the lost income and increased demand for subsidies from the inefficiencies created by increased frictions to trade.

8. *'We should be encouraging UK consumers and businesses to reduce reliance on foreign suppliers / buy British'.*

These decisions are best left to consumers and businesses. The government has no particular wisdom in deciding how best to spend household budgets or run private companies.

9. *'Tariffs protect jobs'*.

Tariffs might 'protect jobs' in some businesses, at least in the short run, but usually end up costing more jobs in others. Irwin (2020: 135) cites the example of President Trump's tariffs on imported steel introduced in 2018, which are estimated to have cost US consumers and businesses more than \$900,000 a year for every job saved. In contrast, lowering trade barriers tends to create jobs in more efficient sectors, where jobs are better paying and more secure.

10. *'Unilateral free trade is a good idea in principle but politically unacceptable'*.

This is pure defeatism. Governments should try to lead public opinion and there is plenty of evidence to win the arguments. Rebranding tariffs on imports as what they really are – additional taxes on food and other essentials – would be a good start. The benefits of free trade include lower consumer prices, greater productivity, and higher wages, and it can be good for the environment. Free trade is also progressive: the poor benefit more than those who are better off. As Dowd (2017) argues, UK's best post-Brexit trade policy should therefore be to trade as freely as possible with the rest of the world.

In conclusion, the UK should be a global leader in free trade, not wait for others.

---

## References

Boudreaux, D. J. (2018) *Free trade and how it enriches us*. London: Institute of Economic Affairs (<https://iea.org.uk/publications/free-trade-and-how-it-enriches-us/>).

DEFRA (2020) *Farm Business Income by type of farm, England, 2019/20* ([https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/944352/fbs-businessincome-statsnotice-16dec20.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/944352/fbs-businessincome-statsnotice-16dec20.pdf)).

DEFRA (2021) Government launches consultation on exit payments to farmers. Press release 19 May (<https://www.gov.uk/government/news/government-launches-consultation-on-exit-payments-to-farmers>).

Ritchie, H. (2020) You want to reduce the carbon footprint of your food? Focus on what you eat, not whether your food is local. Published by 'Our World in Data' and available at <https://ourworldindata.org/food-choice-vs-eating-local?country=>.

Dowd, K. (2017) A Trade Policy for a Brexited Britain (<https://iea.org.uk/publications/a-trade-policy-for-a-brexited-britain/>).

Irwin, D. A. (2020) *Free trade under fire* (Fifth Edition). Princeton, N. J.: Princeton University Press.

Lightfoot, W., Dupont J., Raby G. and Taylor M. (2018) *Global Champion: The case for unilateral free trade*. London: Policy Exchange (<https://policyexchange.org.uk/publication/global-champion-the-case-for-unilateral-free-trade/>).

Mill J.S. (1848) *Principles of Political Economy*. [Principles of Political Economy \(Ashley ed.\) | Online Library of Liberty \(libertyfund.org\)](#)

ONS (2021) *UK trade: April 2021* accessible at <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/april2021>.

Preston City Council (2020) *How we built community wealth in Preston and Community Wealth Building 2.0*, both accessible at <https://www.preston.gov.uk/article/1339/What-is-Preston-Model->

Ricardo, David [1817] (1951) *On the Principles of Political Economy and Taxation*. Volume 1 of Sraffa, P. (ed) *The Works and Correspondence of David Ricardo*. Cambridge: Cambridge University Press.

Ritchie, H. (2020) *You want to reduce the carbon footprint of your food? Focus on what you eat, not whether your food is local*. Published by 'Our World in Data' and available at <https://ourworldindata.org/food-choice-vs-eating-local?country=>

Saunders, C. M., Barber, A. and Taylor, G. J. (2006) *Food miles - comparative energy / emissions performance of New Zealand's agriculture industry* Research Report 285, Agribusiness & Economics Research Unit, Lincoln University, New Zealand. Available at <https://researcharchive.lincoln.ac.nz/handle/10182/125?s=03>

Smith, A. [1776] (1904). *An Inquiry into the Nature and Causes of the Wealth of Nations*. Edited by Cannan, E. Online version accessible at [An Inquiry Into the Nature and Causes of the Wealth of Nations \(Cannan ed.\), vol. 1 | Online Library of Liberty \(libertyfund.org\)](#).

Springford, J. (2021) *The cost of Brexit: April 2021*. London, Brussels, Berlin: Centre for European Reform (<https://www.cer.eu/insights/cost-brexit-april-2021>).

Webb, J., Williams, A., Hope, E., Evans, D. and Moorhouse, E. (2013) Do foods imported into the UK have a greater environmental impact than the same foods produced within the UK? *The International Journal of Life Cycle Assessment* 18 (7): 1325-1343.



The Institute of Economic Affairs  
2 Lord North Street  
London SW1P 3LB  
Tel 020 7799 8900  
email [iea@iea.org.uk](mailto:iea@iea.org.uk)

  
Institute of  
Economic Affairs