

[Common Error No. 77](#) [1]

Written by [Dr Madsen Pirie](#) [2] | Monday 31 March 2008



77. "We must subsidize our industries, to compete with foreigners who do the same to theirs."

We want industries that can compete on world markets. They can do that by matching the products of their rivals in both quality and price, and by learning to adapt quickly to changing market conditions and being able to spot emerging opportunities. When foreigners subsidize their industries they are making them depend on government aid rather than on their own qualities. Industries so supported become complacent, finding it easier to get government funds than to adapt to competitive markets.

In an ideal world we would buy the subsidized goods from abroad, being grateful that foreign taxpayers were stupid enough to send us cheap goods. If they pay higher taxes it limits their own economy, and if they do it for our benefit we might be grateful for their largesse. The lower prices we paid would leave us more resources to spend on other things, which means richer.

In this less-than-ideal world, foreigners sometimes subsidize their exports in order to drive our domestic competition out of business. That domestic industry clamours for equivalent assistance to secure a level field, and we end up in a world where everyone is worse off.

Far better in the first instance to secure international agreements against this kind of predatory dumping. The World Trade Organization has gradually proved effective at ending this beggar-my-neighbour attitude which only holds back wealth creation and economic expansion. It requires countries which sign up to its great benefits to desist from the subsidies which bedevil trade.

When we suspect that subsidized goods are flooding into our markets, the correct response is to insist on compliance with WTO rules. The worst response is to subsidize our own producers in retaliation. This helps neither the taxpayers who have to support it, nor the businesses which then become dependent on continuing government support.

[blog comments powered by Disqus](#) [4]

Source URL: <http://www.adamsmith.org/blog/tax-and-economy/common-error-no-77>

Links:

[1] <http://www.adamsmith.org/blog/tax-and-economy/common-error-no-77>

[2] <http://www.adamsmith.org/taxonomy/term/5779>

[3] http://disqus.com/?ref_noscript

[4] <http://disqus.com>