

# The end of free lunches

Most economic analysis can be characterized by the cliché, “there is no such thing as a free lunch.” Said differently, economic analysis focuses on tradeoffs. We face tradeoffs because we have limited resources. For instance, suppose California ends up spending \$100 billion on its high-speed rail project. All of the workers and resources used to produce the fast-train system could have been devoted to building a more efficient and a more environmentally friendly electrical grid. Do you see the tradeoff? To build the high-speed rail, California will have to give up a new electrical grid. It does not have enough resources to produce both.

There are two exceptions to the no free lunch rule. That is, there are two cases when people can get something for nothing. The first case is when a country has an independent central bank. An independent central bank operates as it sees fit and does not take direction from or succumb to pressure from the government. An

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here? The inflation rate is lower, and this benefit comes without a cost.

The second example of a free lunch is free trade. With free trade, a country can become wealthier without its people working any harder or any more frequently. For instance, consider the trade between two states: Maine and Florida. If initially both of these states were self-sufficient, they would each produce everything that they wanted to consume within their own state borders. So Maine’s workers would have to grow oranges for Maine’s consumers. This is an expensive proposition and involves building green houses to protect the plants from

independent central bank allows a country to have a lower inflation rate without sacrificing economic growth. Can you see the free lunch

Maine’s cold climate. Using this costly production process, Maine would produce a small quantity of oranges.

But if Maine and Florida started to trade, the workers in Maine could stop growing oranges and turn their attention to catching lobster, which are abundant in Maine’s coastal waters. If all of the workers and resources that had been devoted to growing oranges in Maine were used to catch lobster, Maine could trade these lobsters for way more Florida oranges than Maine could ever grow on its own.

Florida would offer Maine its oranges at a low price because its weather is perfect for growing oranges. It does not need to build greenhouses. Florida would pass its cost savings on to Maine’s consumers in the form of low prices. With these low orange prices, Maine’s lobster fishermen’s catch would buy a heck of a lot of oranges. Notice that the people in Maine got a free lunch because they got more oranges without working more hours or using more resources.

All Maine’s workers had to do was spend their time on boats rather than in greenhouses.

Unfortunately, Donald Trump’s policies are taking away these free lunches. Trump is attempting to intimidate the Federal Reserve’s policy-making committee into lowering its interest rate target. Trump has threatened to fire Jerome Powell, the chairman of the Federal Reserve. In addition, Trump’s Justice Department leaked allegations that Lisa Cook, a member of the Fed’s policy making committee, inappropriately claimed a house was a primary residence in order to get a lower interest rate on a loan. Generally, such allegations are kept quiet until the charge is investigated and charges are brought. But by leaking the allegation on social media, the Trump administration was able to claim the action was egregious and the Fed policy maker should resign. Then, Trump sent Lisa Cook a letter claiming that he was removing her from her position. At the time I write this, it is unclear

whether Trump has the power to remove her.

The Trump administration’s threats of firing the Fed chairman and Lisa Cook and his threats to criminally prosecute Lisa Cook are just attempts to punish the Fed decision makers who have been resisting Trump’s calls to ease the money supply, which will lower interest rates. But easing the money supply will probably cause inflation and as research has shown, Trump’s meddling will not lead to faster economic growth. Trump is trying to steal our free lunch and if he is successful, we will end up with higher inflation without an offsetting benefit.

Trump’s tariffs are a second way that he is taking a free lunch away from the American people. Tariffs are taxes on goods produced in another country. They will force us to inefficiently make goods on our own that we could get cheaper elsewhere. To illustrate, consider again, the trade between Maine and Florida. If Maine were to put large tariffs on Florida’s oranges, it would

encourage the creation of a Maine orange-growing industry. Workers would be pulled off the lobster boats. Maine would catch fewer lobsters and grow far fewer oranges than it could obtain if those workers had been catching lobsters to trade with Florida for oranges.

Trump’s tariffs against countries would work the same way my hypothetical example of Maine’s orange tariff worked. With the same effort and resources, Americans will become less wealthy as tariffs discourage trade. Tariffs encourage inefficient production and take away the free lunch offered by trade.

Everyone likes a free lunch. But unfortunately, Donald Trump seems determined to take away the free lunches the American people have been enjoying. Once people start to realize that Donald Trump is taking away their free lunches, Trump’s popularity will decline from its present level.

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