https://www.internationalviewpoint.org/spip.php?article1607

Crisis of capitalism

The sirens of protectionism

- IV Online magazine - 2009 - IV409 - February 2009 -

Publication date: Friday 6 February 2009

The crisis of 1929 unleashed inter-imperialist trade conflicts which then contributed to transforming the crisis into a long depression and a world war. The capitalist crisis unleashed in 2008 will be all the deeper in that it has been delayed by a level of indebtedness without precedent in capitalism. It could be all the more devastating if the first protectionist measures and the premises of trade conflicts are confirmed.

[https://www.internationalviewpoint.org/IMG/jpg/Noentanglements.jpg]
Frame from Prelude to War documentary film, part of the w:Why We Fight series.
Image: Wikimedia

The capitalist leaders are conscious that their world is on the brink of the abyss and that protectionism would be a step too far. They have not forgotten the lesson of the Great Depression. In June 1930, nine months after the Wall Street crash, two Republican members of Congress introduced the so-called Hawley-Smoot Tariff Act, which increased tariffs to a record level on more than 20,000 imported products. More than a thousand economists then signed a petition denouncing this move. Several countries quickly responded by erecting their own trade barriers.

Trade between the US and Europe fell by three quarters in two years. According to US data, world trade fell by 66 % between 1929 and 1934. At the end of the Second World War, the governments included in the Bretton Woods agreement a reduction of tariffs on imports, the prelude to the signature of the GATT agreement some years later.

The discourse of the G-20

Pascal Lamy, director of the World Trade Organisation (WTO), knows very well that the impact of a protectionist spiral would be considerable, but prefers vague formulae: “There is certainly a risk, there is no doubt… We do not know too well what the impact will be. What is certain is that it will be bad rather than good”. He added that nonetheless: “protectionism is not a rational thing, it is a kind of psychic, psychological drive that seizes economic actors when they feel in danger [1].

The members of the G-20, meeting in Washington on November 14, 2008 to discuss the crisis, envisaged the adoption of measures to stimulate demand by expansionist budgetary and monetary policies, but also by renunciation of any kind of protectionism.

Similar exhortations have not been slow in coming. The 21 member countries of the Asia-Pacific Economic Cooperation Forum (APEC) undertook in a common declaration to maintain a "firm position” against any protectionist temptation in reaction to the world crisis.

Meanwhile the French and Brazilian presidents affirmed on December 23 the will of Europe and Brazil to “work together” to exit the crisis, and called for the conclusion of the Doha cycle trade negotiations in 2009. “We cannot put off the liberalisation of trade” after the defeat of these negotiations, said Brazilian president Lula. In these times of crisis, it is “essential to resist protectionism” added European Commission president Barroso. “Nothing would be worse than protectionism”, chimed in French president Sarkozy.

President Bush on January 12 warned against the protectionism of which he suspects Barack Obama: "'It would be a huge mistake if we became a protectionist nation”. And added: “In tough economic times, the temptation is to say, well, let's just throw up barriers and protect our own and not compete". The outgoing Secretary for Commerce in the Bush Administration also warned against protectionist tendencies, in the US, China and elsewhere.

Limitation

Curiously, a provision, perhaps the most significant of the G-20, has been little remarked on: the limitation to 12 months of the undertaking to not take protectionist measures. Why limit this cardinal principal of capitalist globalisation to 12 months? Undoubtedly for two reasons.

Firstly it is about rebuilding confidence by letting it be understood that the crisis would be no longer than the most recent ones and will be over at the end of 2009. With the tempest over, incentives to protectionism will become limited and manageable by the WTO's mechanisms of conflict settlement. Everything indicates, despite the expected denial of the leaders and the economists in their service, that the crisis will on the contrary be the most serious since that of 1929.

The second reason is that the leaders of the G-20 know that the crisis is lasting and that many countries will fall prey to the protectionist siren songs. So this is only about putting off their implementation.

The information gathered and presented below show that the implementation of protectionist measures is still limited but that their preparation is very active and promises to deepen the crisis. The day after their signature of the G-20 statement, most of the countries began to sharpen their protectionist weaponry.

Nationalist and protectionist policies offer a dual advantage to the bourgeoisie of each country: 1) transferring a part of the crisis to competitor countries, and 2) diverting abroad the discontent of the workers as it prepares to exploit them still more severely.

Protectionism in the "defensive" sense, namely restrictions on international trade, is increasingly offset by what some call today "neo-protectionism", or "offensive" protectionism, in other words a whole set of public measures supporting entire economic sectors in the face of international competition, so as to defend their shares on the national market. These measures are generally contrary to the agreements signed under the guidance of the WTO, notably the antidumping agreement and the agreement on subsidies and compensatory measures.

The first failure of the G-20 was registered precisely on the question of international trade. Noting the absence of sufficient consensus among the biggest economic powers, WTO director general of the WTO, Pascal Lamy, renounced convening the ministerial meeting specified by the G-20 summit before the end of 2008 to settle the negotiations of the Doha cycle. Not only have these negotiations been stalled since 2001, but the WTO registered an increase of 40 % in anti-dumping complaints in 2008.

Salvaging the banks

In a great number of countries, governments have adopted plans to salvage the banks stretching from guaranteeing deposits or interbank loans, to the buying out of toxic assets, via recapitalisation and even partial or complete nationalisation. The massive injections of funds and public guarantees give the banks of the rich countries a huge competitive advantage over their equivalents in the dominated countries. In these conditions, the dominated countries feel themselves justified in rejecting all liberalisation of the trade in services, beginning with the provisions of the General Agreement in Trade in Services (GATS).

In the countries where these plans are sufficient, they strengthen the national financial sector and favour concentration, including the control of foreign banks. This “neo-protectionist" dimension has not escaped the European Commission. It has not failed to note that these plans to rescue banks were contrary to article 101 of the Lisbon Treaty, which forbids the constitution of dominant positions. Community law has nonetheless not stopped the movements of banking restructuring and concentration: the buyout of Fortis by BNP-Paribas, HBOS by Lloyd-TSB, LBBW by the regional bank of Bavaria, of Dresdner by Commerzbank, or Bradford & Bingley whose good bits have been shared out between Abbey and Santander. These rescue plans, without approval from the Commission are moreover deemed contrary to article 107 of the Treaty which forbids state aid.

In France, in consideration for loans of 10.5 billion Euros to the banks, the government requested that the latter increase their credits to companies and individuals. This point poses problems for the Commission which sees in it a competitive advantage benefitting the banks. In granting more loans these banks could thus rely on state aid to win clients. The Commission has recommended a remuneration of at least 10% of the public funds put at their disposal, which is deemed to be too high by Paris.

A big test: cars

The car industry is in crisis. On the world scale, factory production capacity is 92 million vehicles per year, whereas demand was hardly 60 million in 2008 [2] and will collapse in 2009.

In a speech made a little before the recent G-20 summit, the British Prime Minister Gordon Brown called on president-elect Barack Obama not to rescue the three big constructors of the US car industry, on the pretext that world competition had rendered their decline irreversible. A rescue would only push back the inevitable, and at a heavy price for the taxpayers, he argued. Contrary to what Brown had undoubtedly imagined, it was Bush, in violation of all neoliberal dogma, who took the decision to grant 17.5 billion dollars to Chrysler, Ford and General Motors.

The plan excluded foreign producers established in the US, but asked the auto union to accept pay conditions worse than those of foreign brands. The protection of the car industry has taken a nationalist and militarist accent in the US, at the initiative of trade union leaders and the politicians of both camps. For example, Michigan senator Carl Levin defended the plan in the Senate arguing that support to the sector was justified by the need to maintain a military edge, whether in military transport, robotics or other technologies.

According to Renault boss Carlos Ghosn, “job destruction will be massive in the countries which do not help the cars sector to finance itself” and he requested, in the name of European constructors, the astronomical figure of 40 billion Euros so as “to create liquidity” and “favour the revival of credit”. The French government responded with some hundreds of millions in aid “to innovation”, a billion for each of the two subsidiary banks of PSA and Renault, and bonuses for the scrapping of vehicles older than 10 years.

In the midst of France’s plan, Sweden has developed a 3.4 billion dollar rescue plan for Saab and Volvo who employ a total of 20,000 people in that country. And the German recovery plan announced in January envisages 1.5 billion Euros in help for the cars sector.

First condemnation of China by the WTO

In December 2008, the Appellate Body of the WTO confirmed its condemnation of the Chinese regulation which obliges Chinese car manufacturers to pay a supplementary tax of 15 %, in addition to the 10 % of customs duties collected normally on imported spare parts, if they do not use a sufficient quantity of parts manufactured in China. In 2007, exports of car spare parts from the European Union (EU) to China exceeded 3 billion Euros. The total trade in goods between the EU and China exceeded 300 billion Euros in 2007.

This was the first complaint raised by the EU, supported by the US and Canada, against China and it was the first time that a dispute with China reached the level of the reports of the Special Group of the Appellate Body. China how has a time period to negotiate to bring its measures into compliance with WTO legislation, after which the EU could adopt trade sanctions if China does not end its violation of that legislation.

In Russia, the Prime Minister, Vladimir Putin, has also launched a car rescue plan: "When our production sites have no other choice than to reduce their production, I think that it is totally inadmissible to spend money in buying imported cars". The Putin plan consists of subsidising loans for the purchase of Russian vehicles, guaranteeing the bond issues of Russian constructors at a level of 70 billion roubles (1.8 billion Euros), subsidies to encourage public bodies to renew their car fleets, and, a classic protectionist measure, increased customs duties for imported vehicles, including second hand ones. As an immediate consequence imports of Japanese vehicles have fallen, and there have been street protests organised in Vladivostok by port workers and Toyota importers and distributors.

Recovery plans

In the United States, the United Kingdom and in China, the recovery plans amount to hundreds of billions of dollars. The priority for these plans is not the revival of household consumption but large scale infrastructural projects. One of the reasons for this, openly proclaimed, is to strengthen the attractiveness of the territory for capital. The governments justify their privileging of the promotion of supply rather than demand by arguing that the national economic tissue will be thus in a position to profit from the recovery in the spending of neighbours. Accumulation before the satisfaction of needs is at the heart of the logic of capital. It is the dynamic which leads to chronic crises of overproduction, but capital knows no other logic.

Main recovery plans at January 15, 2009

Country	Amount (billions $)	% of GDP
United States	775	5
Japan	720	14
China	586	20
United Kingdom	177	8
Germany	70	2
South Korea	50	6
France	26	2

However there is a second reason for the choice in favour of large scale and infrastructural works: it favours national producers much more than foreign suppliers. Here also the choice is a neo-protectionist one.

The Indian trade minister has criticised these recovery plans: “The recovery plans decided on in Europe and in the United States include highly protectionist aspects with respect to certain markets, but also certain industrial sectors. Throughout these years, the West has asked us to open our markets and now we perceive the temptation for them to do the contrary so as to support industries which, in all cases, could not survive by themselves” [3].

Exchange rate wars

Recovery plans on this scale imply budget deficits which could put in question the solvency of some states. So the latter also have recourse to another significant anti-crisis weapon, monetary policy. Letting the currency depreciate favours exports and discourages imports. The measure is all the more durable since in the deflationary climate of the countries in crisis inflation does not risk eliminating the passing advantages of a devaluation. The war of exchange rates, as in previous crises, can strongly contribute to the burial of the declarations of cooperation of the G-20.

In spring 2008, the US Federal Reserve (FED), in spite of the inflationary threat (with oil barrels close to 150 dollars), reduced its interest rates, and brought the dollar down against the euro, to a record 1.60 dollars per euro. Strengthened by this exchange rate competitiveness, US exports grew at an annual rate of 3.4 % in the second quarter of 2008. The fall in rates accelerated on December 16, 2008, when the FED brought its key interest rates down to between 0% and 0.25%.

Faced with the collapse of the dollar and the pound (approaching parity with the euro), the equivalent of competitive devaluations, the other countries were not inactive. The Central Bank of Japan showed a new monetary suppleness, bringing its rates to 0.1 %, down from 0.3 %, to prevent the yen from continuing to appreciate. Even the European Central Bank finally abandoned its habitual orthodox tone.

Timothy Geithner, Obama's Treasury Secretary, declared in January to the Senate Finance Committee: “President Obama - backed by the conclusions of a broad range of economists - believes that China is manipulating its currency” to boost its exports. China defended itself immediately: “Criticising China without basis on the question of exchange rates can only serve US protectionism and will not contribute to finding a real solution to this question” said the Chinese trade minister.

Attempting to confront the domination of the dollar, China has decided on an experimental basis to pay with its currency, the yuan, for goods exchanged between two regions (the Yangtze delta and that of the Pearl River) and Hong Kong and Macau. The measure is described by the official daily “China Daily” as “the first step towards the transformation of the yuan into an international currency”. Two provinces in the south/south-west, the Guangxi and the Yunnan, should also acquire the right to use the yuan to trade with the members of the Association of Southeast Asian Nations (ASEAN).

Sovereign funds

States disposing of high foreign currency reserves like China, Japan or countries running high oil surpluses have for some years set up sovereign funds with hundreds of billions of dollars which can invest in any country, including in the industries of the country of origin to protect them against a buyout by foreign capital.

Some developed countries, without possessing a structural balance of payments surplus, are nonetheless tempted by a tool of this type allowing them notably to “protect” their industrial jewels

The French example in relation to “economic patriotism” is until now the most striking. The French president Nicolas Sarkozy has created a “sovereign fund” â€” called Fonds stratégique d’investissement (FSI – Strategic Investment Funds) â€” equipped with 20 billion Euros to defend the so-called strategic sectors of French industry, the Caisse des dépÃ´ts et consignations (CDC – Consignment and Loans Fund) becoming the spearhead of its strategic and industrial choices. The French president compares his initiative to “what the oil producing countries, the Russians and the Chinese do”. He says that “this is not about securing out of date activities but investing in the future, stabilising the capital of enterprises with know-how and key technologies, tempting prey for the predators who would like to benefit from a momentary stock market undervaluation”. The neo-protectionist dynamic of the sovereign funds has not escaped IMF criticism [4].

The USA

While preaching neoliberalism, US presidents have often taken protectionist measures to safeguard the interests of big companies. It was Bush who introduced high rates of protection for steel produced in the United States, to safeguard national production. As indicated above, the measures taken by Bush against the crisis in 2008 already included, consciously or not, provisions favouring national enterprises faced with competition. The new Foreign Investment and National Security Act, voted through in 2007, gave the US president significant powers to limit foreign investment in the name of a very broad and de facto protectionist definition of internal security.

The coming months will see the implementation of the policies announced by president elect Obama who, while certainly affirming his free trade convictions, has announced that he will ensure the protection of jobs in the United States, arguing that people do not want cheaper T-shirts if it means the disappearance of their jobs. The new Congress and the president are tempted to set up new protectionist barriers behind the screen of new social and environmental standards. Obama has announced his intention, strongly supported by the AFL-CIO leaders, of renegotiating notably the North American Free Trade Agreement which in 1994 created a free trade zone between the United States, Canada and Mexico.

When he sat in the Senate, Obama approved a free trade agreement with the Emirate of Oman, but opposed the signing of the so called DR-CAFTA (Dominican Republic and Central American Free Trade Agreement) which created a free trade area between the United States, the Dominican Republic and the countries of Central America. He approved the draft free trade treaty with Peru, but opposed proposals for the ratification of free trade agreements with South Korea and Colombia.

The European constructor Airbus could in this context lose the 35 billion dollar mega-contract for tanker aircrafts for the US air force. First selected in February, with its partner Northrop Grumman, in competition with Boeing, the European enterprise saw its contract cancelled for an ”evaluation error" in June. “When you’ve got such an enormous contract for such a vital piece of our U.S. military arsenal, it strikes me that we should have identified a US company that could do it", said Obama.

The completion of the so called Doha cycle of negotiations will be all the more difficult inasmuch as Obama is a partisan of the policy of high subsidies reflected in the law on agriculture voted through in May 2008. He is also a fervent partisan of subsidies for ethanol production. He has also undertaken to invest 150 billion dollars over ten years in energy research.

Finally, faced with the ban on hormone treated beef in the European Union, the US has extended the list of European products whose custom duties will be raised from March

23 to 100%: cheese, meat, fruit and vegetables, cereals, chewing gum, chocolate, chestnuts, fruit juice, mineral waters and fats. The US also announced in January that it was going to report the EU to the WTO with the aim of obtaining authorisation to export chlorine disinfected poultry to Europe.

China

The new US president must meet the challenge of China, which generates the biggest US trade deficit. The Bush administration, during the week of December 19, 2008, that is immediately following very strong criticism made of its cars rescue plan, had already complained to the WTO about China, accusing it of unduly supporting the exports of its branded products. Mexico immediately supported this complaint. While most of the enterprises established in China already benefit from exemptions in the tax havens of the special economic zones (SEZ), the Chinese government has granted tax exemptions to national exporters to render them more competitive.

“”We were disturbed to find that China still appears to be using WTO-illegal measures to promote its exports, ranging from textiles and refrigerators to beer and peanuts” said US Trade Representative Susan Schwab. “We are determined to use all resources available to fight industrial policies that aim to unfairly promote Chinese-branded products at the expense of American workers”, she added. The US complaint opens the way to bilateral discussions with China, a member of the WTO since 2001 and the object of more and more complaints.

China immediately rejected the US and Mexican accusations. “China has always respected WTO rules and is opposed to trade protectionism” said the Trade Ministry on its internet site. Nonetheless, China, condemned for its car spare parts import system, has just at the end of 2008 lost its first appeal on the subject since joining the WTO in 2001, faced with the EU, US and Canada.

At the end of 2008, China opened an antidumping investigation targeting imported European screws and bolts. It was responding to the imposition by the European Union of import duties of up to 87% on these same products. China is the biggest world producer of them and the EU is its biggest customer with imports of 575 million Euros in 2007.

In addition, Philippe Mellier, head of Alstom Transport, the second biggest rail company in the world, has just denounced protectionism on the Chinese rail market “As expected the market has been closed gradually to allow Chinese enterprises to prosper”. His proposals explicitly pose the development of a protectionist spiral: “If the market closes today, we do not think that it is a good idea that other countries open their markets to such a technology because there is no reciprocity”.

The Western groups do not wish to be left out of the vast recovery plan announced in China at the end of 2008, a significant part of which concerns infrastructures. China wishes increasingly to privilege Chinese enterprises, notably for the high speed Shanghai-Beijing line. Chinese protectionism is being contested all the more by Alstom and the two other big hitters in the sector (Bombardier and Siemens) inasmuch as the Chinese trains sector is trying to expand abroad into their fiefdoms, notably in the area of freight. Chinese constructers are accused of using technologies derived from those of foreigners, supplied on the condition that they would be limited to the local market.

Russia

On the basis of crisis, a “reasonable protectionism” from the state will aid Russian producers to maintain their position on the world market, according to the Russian vice Prime Minister SergueÃ¯ Ivanov. “In a context of world financial instability our producers will hardly maintain their position on the world markets without a reasonable protectionism from the state. In his view, Russia should support “industrial exports, especially in sectors as competitive as space, nuclear energy, and air and naval construction”.

In addition to the cars support plan described above, the Russian government has already on December 11, 2008 increased import duties on pork and poultry, which will undoubtedly lead to a response from the United States. Russia is the biggest market for US chicken producers, whose exports amounted to 740 million dollars in 2008.

The developing countries follow

Certainly, the existence of the WTO and of regional agreements (the most important being the European Union) mean that 2009 is very different from 1930. The developed countries will find it difficult to unilaterally raise their customs duties. But the same is not true for developing countries, because of the big margin which exists there between the theoretical maximum duties concluded inside the WTO and the real duties applied (known as “consolidated” duties). On January 9, Pascal Lamy observed that there was, “in Ecuador, Argentina, Indonesia, India, a tightening of procedures” going in the direction of a renewal of protectionism.

In Asia, beyond the spectacular measures by China detailed above, India, three days after the G-20 statement, introduced an import duty of 20% on soya oils whose international price has collapsed in the crisis. Also at the end of November 2008 measures were taken to protect its special steel and wood production. In December Indonesia introduced import licences and raised import duties on around 500 products. Vietnam announced an increase from 8% to 12% of duties on steel so as to protect its production.

In Latin America Brazil has already raised customs duties. Argentina has drawn up an administrative authorisation on imports. The country’s president, Cristina Kirchner, launching an appeal to industrialists so that they guarantee jobs and avoid dismissals, has promised in exchange to protect local production, notably against the products of their big neighbour, favoured by a strong devaluation of the réal, the Brazilian currency.

The socialist alternative to capitalist disaster

The volume of world trade fell by 2% in 2008 for the first time in half a century. Until then, trade grew twice as quickly as world GDP. It seems likely that this fall will be more marked in 2009, following the deepening of the crisis and the adoption of protectionist measures. Less than two months after the undertaking not to introduce any protectionist measures, it is clear that the breadth of the current crisis of capitalism could end in a new protectionism.

It is doubtful that this new protectionism will end up in a fractioning of the markets as significant as in the 1930s, because the internationalisation of capital is much more advanced and customs barriers, after a half century of trade liberalisation, are lower than then. The average customs tariff has fallen from 40% to 5% since 1947, according to the IMF.

Nonetheless, protectionist campaigns have every chance of unfolding in many countries, with a major objective: diverting workers from the sole positive way out of the crisis, socialism, by preaching national unity and nationalism, indeed xenophobia. The protectionist impulse can only deepen the economic crisis, without presenting the slightest alternative to capitalism. The crisis could lead to restrictions on migration, including even inside the European Union. Germany, Austria, Denmark and Belgium still reject lifting restrictions on access to the countries that joined the EU in 2004. “In a period of economic crisis, it is normal to try first to make our unemployed work before opening our labour market too broadly to foreign workers”, said the Belgian minister of employment, JoÃ«lle Milquet, on January 23.

Contrary to what certain bourgeois or reformist politicians maintain, protectionism is in no way a response to the capitalist crisis. It is only the response of national capital to inter-imperialist competition, which in the extreme circumstances of a crisis of capitalism could transform rivalries between capitals into political conflicts and even wars, as has been the case in the past.

Sectors of the reformist left, some of which have advocated free trade, will discover in the crisis the virtues of a certain degree of protectionism [5]. They only follow the capitalists who have an interest in alternating liberalisation and protection according to the relations of force and the conjuncture.

The workers do not have to fight for market shares, and still less against other workers. The only solution to exploitation and to crises is the expropriation of capital. To advocate protectionist measures, without challenging the market economy, means, involuntarily or not, preparing the ground for trade wars, xenophobia and wars which could emerge from a capitalism with its back to the wall.

The future of humanity lies in the struggle to get rid of capital, not in support for its international expansion (neoliberalism), nor in its consolidation at the national level (protectionism). The distribution of goods and services, just like their production, should escape the dynamic of the accumulation of capital and respond to the needs of humanity, decided democratically. Only a socialist revolution on a planetary scale would allow the implementation of cooperation and solidarity in all areas, including in the area of goods and services.

As against competition which opposes peoples and territories, we must counterpose planning of the world economy based on agreements of cooperation, that is the right of peoples and not capital to decide on the mode of insertion of nations in the world economy. These cooperation agreements will be based on the satisfaction of needs, far from the current logic of accumulation of capital at the expense of the living conditions of workers and the survival of the planet. On a small scale, as yet timidly, this is the road indicated by the cooperation experienced between the member countries of the Bolivarian Alternative for the Americas (ALBA), and beyond that in the context of the Petrocaribe energy agreement.

---

[1] 1. Statement on RTL, November 1, 2008

[2] 2. Source: CSM Worldwide company

[3] 3. “Le Figaro”, January 9, 2009

[4] 4. See article by its director of studies on http: //www.imf.org/external/pubs/ft/fandd/2007/09/straight.htm#autho

[5] 8. This is the case in France with authors such as Emmanuel Todd, Bernard Cassen or Jacques Sapir, or the motion presented by BenoÃ®t Hamon at the last Socialist Party congress