

Protectionism

Humpty Dumpty economics

Politicians seeking to appease popular opinion with protectionist measures could set back a global economic recovery for decades, says Jon Entine

Speaking to Labour party supporters in 2007, UK prime minister Gordon Brown pledged “British jobs for British workers”, a promise that startled even some political supporters. Now, as he prepares to host the G20 summit this month, he’s singing a different tune, urging governments of the world’s largest economies to resist the fast-rising tide of protectionism – and he’s getting a cold shoulder from many on the left.

The new, fractured world order is creating a challenge for unions and other activists, many of whom have viewed globalism warily, as a front for exploitation of poorer but resource- or labour-rich countries by western multinationals.

Grimsby, a hard-knock harbour town on Britain’s east coast, has emerged as Britain’s Ground Zero for the anger and frustration caused by what Brown has called a “financial hurricane”. Its fortunes have collapsed with the drop in foreign trade. Demonstrators have threatened the lives of Italian workers at the Lindsey oil refinery, who were imported by Total, the French oil firm. Bringing such workers in is perfectly legal under EU rules that guarantee the free movement of labour, but it rangles locals.

This renewed inward focus is muddying the hopes of policy coordination in Europe, where an economic Iron Curtain seems to be falling. Germany in particular looks guardedly at the escalating needs of the EU members to the east.

The last time the world witnessed such a virulent bout of protectionism was in the 1930s, when global capital flows collapsed, dragging down world trade with them. But classic forms of economic nationalism such as tariffs and

quotas should be somewhat muted this time because of the treaties tied to the World Trade Organisation. The real danger is political, as unions and political activists of the right and left urge a “go it alone” strategy, undermining a coordinated response to the recession.

Spend it at home

Nothing in Barack Obama’s stimulus bill created as much controversy as a Democrat provision, with old-guard union support, that required that US steel, iron and manufactured goods be favoured in the infrastructure projects funded by the government.

The provision was cheered by blue collar leftist pundits. “Buy America or Bye America”, warned the New Republic’s John Judis, who contends that if stimulus dollars are spent on overseas products, “the government would be throwing away money” – an oddly navel-centric view of stimulus in a world laced together by trading relationships. Remember, it was just last autumn that western governments were hoping that China, India and other export-focused economies would cushion the economic slide and provide the basis for a quick recovery.

At their extremes, globalism and economic nationalism are as much religious movements as economic philosophies. There are winners and losers in both approaches, and enough unintended consequences from quick policy reversals to make any reasonable person cautious.

That’s one reason why waffling on this issue by Nobel prize winner, and columnist for the New York Times, Paul Krugman, has everyone so flustered. He’s one of the few hard-edge leftists who had consis-



Old prejudices simmering in Grimsby

The last time the world witnessed such a virulent bout of protectionism was in the 1930s

tently supported free trade. Now he’s flip-flopped, sort of.

“The economic case against protectionism is that it distorts incentives,” he wrote recently. But now, he says, governments are floundering, offering uncoordinated responses. That means “we’ll end up with too little fiscal stimulus, everywhere” – unless we keep within our own borders.

Why would turning inward help? He never really explains other than to state his belief that countries acting selfishly will create more jobs than keeping the protectionist gates low, at least temporarily.

The fuzzy thinking by the me-firsters is understandable as they face enormous pressures to embrace the politically popular policy measures that could ratchet down the distress.

But it is facile to say that when the world recovers, we’ll just rejoin the global economy. As Krugman himself warns, the (questionable) benefits to the US of limited protectionism could easily be swamped if other nations make identical calculations. “If we go all protectionist, that will shatter the hard-won achievements of 70 years of trade negotiations – and it might take decades to put Humpty Dumpty back together again.”

Maybe we shouldn’t push him off the wall. ■



**COLUMNIST:
JON ENTINE**

Jon Entine is an adjunct fellow at the American Enterprise Institute in Washington DC.
runjonrun@earthlink.com
www.jonentine.com