

Obama's lethal game of beggar-thy-neighbour

The 'Buy America' policy, proposed by the most protectionist Congress in memory, is a piece of disastrous economic folly

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The talk at Davos is grimmer this year than last - grimmer, but also better focused. The causes and extent of the financial crisis are better understood, though the hunt is still on for ways to stop the rot penetrating the global economy. It helps, too, that some fancy theories have bitten the dust.

Last year's pet Davos theme, the supposed "decoupling" of China and other emerging titans from the American economy, the idea that they could thrive independently, has been badly mugged by reality. As the US went into a tailspin, so did Chinese exports. China's growth rate has halved, from more than 12 per cent in 2007 to just over 6 per cent; tens of millions have lost their jobs and China's (very nouveaux) rich have lost fortunes invested in collapsing housing and stock markets.

Making the first visit by a Chinese leader to Davos, Wen Jiabao, China's Prime Minister, insisted that his country would hit 8 per cent growth this year through "hard work". But his main purpose was to showcase China's readiness to co-operate in a concerted rescue effort. If China's leaders ever bought that "decoupling" myth, they are by now badly rattled by the weight of evidence to the contrary. They know they need the US and Europe to recover, and fast, because China's thrifty consumers, most of whom have little disposable income, cannot begin to compensate for the slump in Western demand.

They also know that the Obama Administration will not tolerate Chinese policies "that put US workers and businesses at a disadvantage": a conveniently elastic concept that could cover anything from foul play to cheaper wages. They have been told that the new Congress contains strong "anti-trade or anti-China constituencies". Mr Wen arrives in London tomorrow looking for a stalwart free-trade friend at court, prepared to help Beijing to weather coming storms in the US-China trade relationship.

Mr Wen deserves a sympathetic ear - provided he accepts that alliances are mutual by nature and that China courts trouble by slipping export tax rebates to thousands of its manufacturers. If this year's Davos topic, "shaping the post-crisis world", is not to look ludicrously optimistic a year hence, markets must be kept open even in the teeth of massive trade imbalances. But in mid-crisis, where we actually are, it is hugely tempting to pull up the drawbridge.

Growth indicators turn sourer with every week that passes. The IMF this week downgraded its 2009 global forecast - yet again - from 2.2 to 0.5 per cent. Its forecast, to cheer you up further, consigns Britain to the ninth circle of hell, with the economy contracting by 2.8 per cent this year, worse even

than the eurozone's 2 per cent and far worse than the 1.6 per cent drop the IMF expects in the US. International trade, the great engine of the boom decades, will shrink this year for the first time since 1982.

Politicians are turning protectionist on the sly, slipping manufacturers discriminatory subsidies, dressing up state aid as training, raising tariff barriers and inhibiting global capital flows by encouraging the banks that they now part-own to intervene to concentrate their lending "at home".

Trade leadership will have to come from Britain because it will not come from the America of Barack Obama. There, "economic patriotism" is the new protectionism, prettily wrapped in stars and stripes but just as damaging to the world's prospects of recovery as was the 1930s variety.

Is Mr Obama a protectionist? Instinctively, yes; he has never seen a free-trade deal he would actually vote for, and he talks about trade policy as a tool "to support good American jobs". But as the election campaign wore on, he toned down his invective against foreign competition, and, because his economic team is basically free trade, the jury is still out.

The verdict, however, will be in very soon. At the behest of the most protectionist Congress in memory, Mr Obama may be about to repeat, at the dawn of his presidency, the same historic error that the much derided Herbert Hoover made just before quitting the White House in 1933. In the depths of the Great Depression, he signed into law the innocent-sounding Buy America Act. It required the US Government to use American suppliers in all public contracts. Less notorious than the Smoot-Hawley Tariff Act, "Buy America" did huge damage. It proved a disaster for US manufacturing exports and the global economy. Other governments followed suit, and it took decades to begin to reverse the closure of markets.

Now, prodded by America's mighty steel lobby, a key congressional committee has voted, 55-0, to attach a still more rigorous "Buy America" clause to President Obama's stimulus package. It bars federal funding of any public projects "unless all of the iron and steel used is produced in the United States". The clause could be extended to asphalt, cement, heavy machinery, you name it. US dollars, the committee intones, must be used to create "American jobs in America, not Chinese jobs in China".

Leave aside value for money. Pass over the detail that the US does not produce enough steel to meet domestic demand. Admit that, when economic activity evaporates as precipitately as it has this winter, "saving" jobs looks more important than ensuring long-term competitiveness. Admit, further, that all governments are in the hidden subsidy game right now, whether they boast about it, as in France, or deny it as stoutly as Lord Mandelson - whose "this is not a bailout" brings to mind Magritte's famous "ceci n'est pas une pipe" painting.

Agree, finally, that when you are the newly elected US President and the money you are preparing to print runs into the trillions, the queue at the trough is bound to form pretty fast. But the scale of the temptation is precisely what makes Congress's populist "Buy America" rider an irresponsible, innumerate, pernicious bit of political and economic folly.

If Mr Obama blocks this clause, he will anger the Left. If he does not, retaliation is inevitable. That will shut American workers out of "hundreds of billions of dollars of new business". Caterpillar, to take just one example, is actively bidding for big infrastructure projects in China; it reckons that "Buy America" would kill its prospects there.

The truth politicians need to ponder is that the financial crisis has made sophisticates of us all. Most of us understand far more about how globalisation works, how the pieces hang together, than we did before everything went pear-shaped. We have made the connection between prosperity and globalisation - at the simplest level, that cheap T-shirts from Bangladesh leave us with more money for other things. We do worry about our ability to compete; we demand clear and impartial trade rules. But we can see how beggar-thy-neighbour protectionism creates more beggars - costing, not "saving", jobs. It is time the language of politics caught up with us.

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