US under fire over steel and farm policies

Nick Beams
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Whether the Bush administration's decision to impose duties of up to 30 percent on imported steel in March will prove as historically significant as the infamous Smoot-Hawley tariff of 1930 remains to be seen. But the US move, followed by last week's $180 billion farm industry subsidy bill, has resulted in a marked sharpening of trade tensions within the global economy.

Last Friday the Japanese government announced that it had imposed a 100 percent retaliatory tariff on US steel imports: the first time Tokyo has taken such a step in a trade dispute. The decision, which takes effect on June 18, will hit $4.88 million worth of steel and steel products.

Wider action could follow. Japan will impose duties on $123.43 million worth of US goods if the World Trade Organisation (WTO) rules against the US on the steel tariff. The Japanese decision was followed shortly after by Brazil, which announced it would also be taking the US to the WTO, thereby joining the European Union and other steel producers.

The European Commission has already drawn up two lists of goods it intends to hit in retaliation for the US steel tariff. The shorter list, which will be imposed after June 18 if the US fails to offer compensation, is valued at $342 million and proposes the doubling of tariffs on goods ranging from fruit juices, textiles, steel products and rice. The longer list is valued at $583 million.

The US policies on steel and farm subsidies came under intense criticism at last week's meeting of the Organisation for Economic Cooperation and Development (OECD), which comprises the world's 30 largest economies.

The meeting began with the issuing of a joint note signed by International Monetary Fund director-general Horst Koehler, World Trade Organisation director-general Mike Moore and World Bank president James Wolfensohn warning that increased protectionism could jeopardise the decisions agreed last November in Doha, Qatar on a new round of tariff reduction. Without naming any country, the note was clearly directed at the US.

"Any increase in protectionism by any country is damaging," the note said. "Such actions will hurt growth prospects where fostering growth is most essential. And they are sending the wrong signal, threatening to undermine the ability of governments everywhere to build support for market-oriented reforms. How can leaders in developing countries or in any capital argue for more open economies if leadership in this area is not forthcoming from wealthy nations."

The exchanges at the meeting were described as very frank. Belgian prime minister Guy Verhofstadt who chaired the discussions, said it would be very hard to sum up all the words used to condemn US actions. By blocking access to their markets, wealthy nations were only sowing the seeds of hate against themselves, he said.

Mexican president Vincente Fox, addressing the European Parliament, warned that US farm subsidies risked causing disruption to global agricultural markets.

The 18-nation Cairns group of agricultural countries, which includes countries not part of the OECD, issued its own statement condemning the US farm bill. "At $180 billion over the next decade, the sheer size of this package will hurt farmers round the world," it said. "The impact will be particularly damaging on developing countries, net food exporters and importers alike."

A communiqué issued after the OECD talks, drawn up against US opposition, said the organisation welcomed the Doha agenda and pledged itself to "reject the use of protectionism." The American representatives objected to the wording because they said it would paint the US as protectionist even though it was not specifically named.

At the conclusion of the OECD talks, deputy US trade representative Peter Allgeier said Washington was committed to free trade and the fulfilment of the Doha agenda. Another member of the US delegation, Andrew Natsios of the US Agency for International Development, hit out at the European Union.

"I would just urge the Europeans to stop their protectionist stand and look at their own policies, which are the problem," he told reporters. "I think there's a little hypocrisy in arguing that our subsidies are a problem. If

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the Europeans would reform their subsidies we'd be certainly willing to discuss the subject."

But any such discussion threatens to be even more acrimonious. According to a report in the April 17 edition of the British newspaper, the *Guardian*, the European Union has already prepared its bargaining counter against demands that it dismantle the controversial common agricultural policy. Under the plan, set out in a draft 1,000-page document, the EU has set out a long list of policies it wants other countries to adopt, including the opening up of water, telecommunications, post and financial services.

"The EU wants its companies to be able to compete on an equal footing with local firms which will require its trading partners to scrap rules banning foreign competition and ownership in sensitive parts of their economies. The strategy is the fruit of years of lobbying by Europe's financial services sector which is hoping to expand throughout Latin America and Asia," the *Guardian* commented.

Critics of the US moves to protectionism generally ascribe the motives to electoral concerns. An article in the *Washington Post*, for example, put the decisions on steel and the farm subsidy to the electoral considerations of Bush adviser Karl Rove. "You increasingly get the sense that what really matters in Washington these days is the 2004 electoral map in Rove's head. If a decision looks like it will expand the number of states that will vote Republican, then it's good," it said.

Given that Bush lost the popular vote in the 2000 election and was only hoisted into power by the Supreme Court such considerations no doubt play a part. But they are not the only factors, and, in the final analysis, not even the primary ones.

The history of international trade reveals that the rise of protectionism is an expression of deep-seated conflicts within the global economy. In the latter half of the 19th century, the erection of tariff barriers and the formation of cartels was the outcome of the increasingly bitter struggle for markets stemming from what was known as the "great depression" in prices and profits of that era.

Likewise, the trade war measures of the 1930s were both a product and a cause of the economic collapse of that decade.

Today, the world economy is once again afflicted by over-capacity in many key industries leading to an intense struggle for markets and profits. In steel, for example, over-capacity is estimated to be around 35 percent. Over-capacity in agriculture is likely to be at least that level and it has been calculated that global demand for cars would be met even if US production were completely eliminated. The electronics, telecommunications and computer industries, to name just a few, are all marked by bitter struggles for markets.

It is the existence of such over-capacity, which creates the situation where all sides preach the virtues of "free trade" even as they advance new protectionist measures, insisting that their opponents are to blame. And at the same time, the protectionist drive increases the instability within the global economy, leading to further conflicts.

Some of these dangers were the subject of an editorial in the *Financial Times* on May 20. It said the "growing chorus of international disapproval of US trade policy should leave Washington in no doubt about the depth of worldwide concern that it is sliding into protectionism. If that threat is to be checked, the US must now show clearly that it has heeded the message."

The imposition of steel tariffs and the approval of big increases in agricultural subsidies would be disturbing at any time but were particularly so just months after the launching of a world trade round.

The editorial said those in Washington who viewed attacks on free trade with "indifference" were deluding themselves. If the US were to turn its back on the "open market principles it has preached worldwide it will only encourage others to do likewise—at US expense."

Further, it warned, "US moves to close its market and disengage would also deliver a serious blow to investor confidence. That is a risk the country can ill-afford, when its prosperity depends so heavily on foreign investors continuing to finance its yawning current account deficit by buying US assets."

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