

Economic nationalism and the breakdown of the post-war order

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In contrast to 2016, the new year has opened with relative stability in global financial markets. A year ago, markets experienced considerable turbulence in the context of the US Federal Reserve's decision to lift interest rates by 0.25 percentage points, a sharp downturn in the price of oil, and a plunge in bank shares.

Thus far in 2017, it has been all quiet on the financial front, with US markets continuing to hover around the record highs they reached in December in the surge triggered by Donald Trump's victory in the US presidential election.

Behind the appearance of relative calm, however, major shifts have taken place that will have far-reaching consequences, not just for financial markets, but for the world economy more broadly.

One of the most significant features of 2016 was the rise of economic nationalism and the growth of right-wing nationalist and populist movements. The turn to economic nationalism is reflected in many areas of the world, but has found its sharpest expression in the "America First" policies espoused by incoming President Trump and the appointment to his cabinet of figures who openly advance this agenda, with China designated as one of the central targets.

The shift in orientation by the US ruling class has profound historical significance. One of the lessons drawn by the American ruling elites following the disasters produced by the decade of the 1930s, when the division of the world economy into currency and trading blocs led to World War II, was the need to base the post-war order on free trade, with protectionism eschewed at all cost.

What was called the "liberal" trade agenda was itself based on, and underwritten by, the unchallenged global economic dominance of American capitalism, which emerged relatively unscathed from the carnage of the Second World War, in contrast to the devastation of Europe and much of Asia. The war amplified the already dominant position of US industry and finance. American capitalism sponsored the establishment of a set of institutions and programmes—the dollar-based Bretton Woods monetary system, the General Agreement on Tariffs and Trade, the Marshall Plan—to stabilise and pry open the world market to its exports and investments and facilitate the profit-making of US corporations.

Today, after decades of protracted decline, US economic hegemony is a thing of the past and American capitalism finds itself threatened by the rise, in particular, of China. This is fundamentally what underlies the breakdown of the post-war

economic order and the turn of the American ruling class to unbridled economic nationalism.

This has given rise to considerable concern about where the global economic system, and with it the entire system of political relations on which the stability of world capitalism has rested, is now headed.

Fears about the new US orientation were voiced in a column by *Financial Times* economics correspondent Martin Wolf published on January 6. It was headlined "The long and painful journey to world disorder."

"It is not true that humanity cannot learn from history," Wolf began. "It can and, in the case of the lessons of the dark period between 1914 and 1945, the west did. But it seems to have forgotten those lessons. We are living, once again, in an era of strident nationalism and xenophobia. The hopes of a brave new world of progress, harmony and democracy, raised by the market opening of the 1980s and the collapse of Soviet communism between 1989 and 1991, have turned to ashes."

What lies ahead, he asked, for the US under a president who repudiates permanent alliances and embraces protectionism, and a battered European Union facing "illiberal democracy" in the east, Brexit, and the possibility that Marine Le Pen could be elected to the presidency in France?

Financial Times columnist Gideon Rachman also devoted his first piece of the year to the same processes. Before Trump promised to "Make America Great Again," he wrote, China, Russia and Turkey had already turned to what he called "nostalgic nationalism." In Japan, Prime Minister Shinzo Abe was leading an energetic campaign for "national revival," while in India, Prime Minister Narendra Modi was combining a push to "modernise India" with an appeal to "Hindu pride."

There was also a strong appeal to nationalism in the Brexit referendum, with the Leave campaign's stress on a "Global Britain," an attempt to appeal to "memories of the time when the UK was a dominant world power, not just a member of the club of 28 European nations."

Rachman noted that it was somewhat difficult for any party in Germany to openly campaign on the slogan "Make Germany Great Again." But while the slogan might be absent, at least to this point, similar forces are at work there—above all in key foreign policy, military and academic circles, where the assertion is heard repeatedly that Germany cannot simply function as a power within Europe, but must exercise its influence on a global scale.

The turn to economic nationalism is not rooted in the personality

or psychology of Trump, Le Pen or any of the other political leaders. Nor is it simply a device by various politicians to exploit seething popular dissatisfaction with the existing economic and political order and use it for their own political advantage.

Such calculations are present, of course. But underneath the political manoeuvres and propaganda, profound objective forces are at work. These forces can be identified by reviewing the course of the world economy since the eruption of the US-based global financial crisis of 2008. This, as the *World Socialist Web Site* stressed at the time, was not a conjunctural downturn, but a breakdown in the functioning of the world capitalist economy.

At their first meeting in 2009, the leaders of the G-20 group of nations, representing 85 percent of the world economy, in confronting the most severe financial crisis since 1929, recognised the inherent dangers of a return to the conditions of the 1930s. From the outset, and at all subsequent meetings, they pledged to avoid protectionist and trade war measures. But the contradictions of the capitalist economy have proven to be more powerful than the pledges of capitalist politicians.

The policies enacted in response to the financial meltdown and the ensuing Great Recession were based on so-called quantitative easing, under which the world's major central banks—the US Fed, the Bank of England, the European Central Bank and the Bank of Japan—pumped trillions of dollars into the financial system. These measures were accompanied in China by a massive stimulus package, based on government spending and the rapid expansion of credit.

The policies of the major central banks averted a total financial meltdown, while the Chinese stimulus provided a significant boost for commodity-exporting countries, from Latin America and Africa to Australia. For a brief period, this created the illusion that the so-called BRICS countries—Brazil, Russia, India, China and South Africa—could provide a new base of stability for world capitalism. That prospect proved to be short-lived.

The unprecedented injection of money into the financial system did little or nothing to promote real economic growth in the major economies, on which the BRICS countries are ultimately dependent, but simply enriched a global financial oligarchy, while the broad mass of the working class were forced to pay for the financial largesse through cuts in real wages, social programmes and living standards, amid a rise in social inequality to record levels.

In the years following the financial crisis, the central bankers and capitalist politicians insisted that the financial measures they had enacted would eventually bring about an economic recovery. But this fiction has now been well and truly exposed. Investment, the key driver of the economy, remains persistently below pre-crisis trends. Productivity is falling. Deflation has become widespread. And, most significantly, world trade growth has slowed markedly. Last September, the World Trade Organisation (WTO) noted that in 2016, the growth in world trade would fall below the rate of growth in global gross domestic product, only the second such occurrence since 1982.

The overall situation is graphically depicted by the fact that the world economy as a whole is one sixth smaller than it would have been had pre-crisis growth trends been maintained.

In response to this situation, the past year has seen, as the WTO noted, the increased use of protectionist measures, especially by the major economies, notwithstanding all the pledges to the contrary. It is within this broad economic context that Trump and his “America First” agenda, and the turn to such economic nationalist policies by other major powers, must be placed.

In the final analysis, they are the response by the ruling elites to their inability to devise any measures to promote sustainable economic growth. Consequently, the world market is increasingly becoming a battleground—a development that will become ever more apparent in the coming year.

There are striking historical parallels here. In the aftermath of the economic breakdown that led to World War I, there were numerous efforts in the decade of the 1920s to devise measures to revive the *belle époque* that had preceded the war. All of them failed, and the major powers responded to the contraction of the world market with a war of each against all, leading ultimately to World War II.

There are many differences between the situation today and that of 90 years ago. But the basic trends remain the same. In fact, the basic contradiction between the development of an interdependent global economy and its division into rival and conflicting nation-states has intensified.

This is reflected in the lamentations of bourgeois economic commentators such as Martin Wolf over the breakdown of globalisation. Just over a century ago, the international capitalist elites implemented their response to the breakdown of the nation-state system, unleashing on mankind the horrors of world war. Three years later, the international working class, through the conscious leadership provided by the Bolshevik Party, led by Lenin and Trotsky, gave its response to the crisis—the 1917 October Revolution in Russia, the first shot in the world socialist revolution.

There are, indeed, lessons of history that must be drawn. If mankind is to avert another catastrophe, the deepening social hostility to the present economic and political order must be transformed into a conscious struggle by the working class for the programme of international socialism, not as some kind of distant hope, but as the only viable and practical programme of the day.

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