Believing One's Own False Theories*

Prabhat Patnaik

Liberal bourgeois writers tend to explain the problems that arise under capitalism not by the immanent tendencies of the system but by the capriciousness of particular governments. This way they can continue to believe in their own false theories that prettify capitalism, while putting the blame for the travails it generates on political bloody-mindedness. One such instance of prettification is the portrayal of the system as one where international trade is beneficial for all. Centuries of colonialism which played havoc with the economies of the conquered countries, causing poverty, unemployment and underdevelopment, by forcing an exploitative trade relation upon them, should have left no scope for such prettification, but colonialism alas never figures in bourgeois economics.

Now, one obvious assumption, among many, that underlies the belief that international trade benefits all, is that all countries experience full employment of all "factors of production" (including labour), both before and after trade. Trade just leads to a change in the bundle of goods that is produced by fully using all the factors that were also fully used earlier; this change involves for each country greater specialisation in the production of those goods where it has a "comparative advantage". Through trade therefore, the world output, taking all countries together, increases, and this is what creates the possibility of all countries benefitting from trade. The worst that can happen to any country in this situation is that it may not gain from trade; but there is absolutely no reason why it should lose from it.

But, far from there being full employment of all factors both before and after trade, capitalism on its own is characterised, as one exceptional liberal bourgeois economist, John Maynard Keynes, had recognised, by an almost perennial demand constraint, that is, by a perennial state of over-production, or what he called "involuntary unemployment". Trade in such a case becomes primarily an instrument for exporting unemployment to one's trading partner, by running an export surplus vis-à-vis it; the stronger the demand constraint, and the more acute the situation of unemployment, the greater would be struggle among countries to export unemployment to one another. In this struggle, unemployment would also be sought to be exported to countries which may not themselves be capitalist.

The neoliberal order involving relatively unrestricted flows of goods and service and of capital, including finance, across country borders, had been set up on the bourgeois argument that trade was beneficial for all, so that neoliberalism, being conducive to trade, was supposed to benefit all. But after the collapse of the American housing bubble when the world economy got into a protracted crisis of over-production (that is, experienced serious demand constraint), the game of protecting one's own economy against imports of goods began in right earnest. The idea was to produce at home the goods that were hitherto imported, and thereby increase domestic employment at the expense of employment abroad (which amounts to exporting unemployment to them). And the same metropolitan economies that had arm-twisted the third world to accept the neoliberal order, took the lead in protecting themselves against imports by violating the rules of the same neoliberal order. The country specifically targeted was China which had been a shining example of export-led growth; such exports had been achieved to a significant extent under the aegis of metropolitan capital that had located itself in China and was exporting back to the metropolis.

Western liberal bourgeois economists see protectionism against Chinese goods as being caused by political bloody-mindedness vis-à-vis China, and attribute western violation of neoliberal rules to this bloody-mindedness; in fact, however, it is the crisis of over-production, which is a result of the immanent tendencies of capitalism, that underlies such protectionism, and not any pure political desire to punish China. There may well be such a political desire too, but to see that alone as giving rise to protectionism in the west is to exonerate capitalism from its immanent contradictions, and to perpetuate the fable that, but for this act of victimisation, free trade would have continued and been beneficial for all.

Such frantic attempts to export unemployment through the pursuit of what are called "beggar-my-neighbour" policies, had characterised the period of the Great Depression of the 1930s. Government spending to boost aggregate demand was not tried during much of the 1930s anywhere, other than in the fascist countries that had armed themselves in preparation for the war. Roosevelt's New Deal was no doubt introduced during the early1930s, but was promptly truncated the moment the US economy showed some signs of recovery, leading to a resumption of the crisis. It is only when war appeared imminent that the liberal capitalist countries went in for government spending on armaments. But before large-scale government spending was undertaken, exporting unemployment through "beggar-my-neighbour" policies was pervasively resorted to, with competitive exchange rate depreciations characterising most countries after they had gone off the gold standard; but since everybody was trying such "beggar-my-neighbour" policies, it was not much of a success for overcoming depression in any single country. Protectionism in the third world however, especially in Latin America, sowed the seeds of import-substituting industrialisation in that continent. The crisis thus acted as the harbinger of industrialisation in the third world.

We are once more seeing a move towards protectionism in the metropolis now under the guise of an attack on China's export success. But it is not a case of geo-political rivalry spoiling the wonderful regime of free trade that neoliberalism had ushered in, as the liberal economists would have us believe; rather, it is protectionism as a response to the crisis, as a means of exporting unemployment, that is being directed against what is perhaps the most strikingly successful exporting country in the world. Geo-political rivalry provides an alibi; the US can argue that it believes in the free trade that it preaches, but has to reckon with geo-political realities because of which it is imposing protectionist measures against China. The truth however is the other way round; under the cover of geo-political rivalry it is engaged in exporting unemployment to China through its protectionist measures.

China is unlikely to be greatly handicapped by American protectionism; it has been diversifying its production away from the export to the home market for some time now, in anticipation precisely of such an eventuality of western resistance and also to ward off domestic peasant disaffection. In fact, some years ago it had adopted a document called "Towards a Socialist Countryside" that visualised much higher State spending in rural China.

This entire episode highlights the pitfalls of a strategy of export-led growth in today's context: if a country, especially a large country, is successful in achieving a high rate of export-led growth, then it would sooner or later invite resistance from the metropolitan economies. So far we have talked about resistance arising only in the context of an over-production crisis. But even when there is no marked over-production crisis, the persistence of an export surplus vis-a-vis the leading imperialist country on the part of a successful exporting country, which leads both to a loss of jobs from, and greater indebtedness of, the former to the latter, would also invite resistance from the leading country.

Even before China, Japan, which posed no geo-political challenge to the US, had suffered a similar fate: its great success in achieving export-led growth had eventually led to American resistance to Japanese exports, bringing down Japan's rate of growth. It is possible to argue that the current American measures in the context of the Ukraine war also constitute an instance of such resistance against Germany's success in achieving export-led growth: the blowing up of the Nord Stream pipeline which makes any resumption of cheap Russian gas supplies to that country nearly impossible and thereby raises costs of production of German industry, knocks out all prospects of reviving German export success in the foreseeable future.

Of course merely cutting out imports is not enough to generate growth; it raises employment and output but in a once-for-all manner. There has to be a perennial exogenous growth stimulus to generate sustained growth in the economy. Increasing government spending, if financed either by a fiscal deficit or by taxes on the rich, can provide such a stimulus; but globalised finance capital typically opposes both such ways of financing larger government spending. The leading metropolitan country therefore will have to do much more than merely protecting its economy against imports, to overcome the crisis.

*** This article was originally published in the Peoples Democracy on September 10, 2023.**