

Summary of “Using and Abusing Government Intervention and  
Trade Policy in the 2009-2010 Financial Crisis “

Vinod K. Aggarwal  
Professor and Director, Berkeley APEC Study Center

17th August 2009

The financial crisis of 2009-2010 has been unprecedented in its global impact, harkening comparisons to the 1930s Great Depression. However, the response to current the financial crisis has been very different in many ways, with fewer U.S. banking failures thanks to the support by the Federal Reserve and deposit insurance, and less turn toward higher tariffs, quotas, or arrangements than in 1930s.

Yet, there has been a rise in what is called “murky protectionism” by Richard Baldwin and Simon Evenett. Governments have been using health and safety standards, buy national provisions, and “green policies” to boost their domestic economies—often in a hidden discriminatory manner. Such policies can quickly escalate into trade conflict that will harm the economic recovery prospects of the global economy.

A new website Global Trade Alert (<http://www.globaltradealert.org/>) provides a listing of measures taken or contemplated by governments (types, countries implementing and those affected, etc). This highly innovative and crucial effort sheds light on countries’ protectionist actions, although the data is still incomplete and by design, does not illuminate the strategies of countries in the crisis.

In the context of fiscal stimulus, many governments are using the financial crisis as an opportunity to undertake a variety of protectionist policies that can be categorized as follows: 1) Relatively inefficient firms have been actively lobbying for government action (such as the General Motors and Chrysler); 2) Firms innovating new products who put pressure to restrict competition (such as lobbying tariffs to those that have not accepted cap and trade controls); 3) Government led efforts such as the widespread aid to their financial sector (U.S. and Europe) and export promotion policies (China); and 4) Governments make efforts to promote newly developing industries through restrictive measures as is seen in China. Such an industrial policy approach has been pursued most egregiously by China and to a lesser extent by the U.S.

The efforts by governments to resolve the financial crisis are welcome but efforts to give firms unfair competitive advantages will further undermine a level playing field through the use of murky protectionist measures and should be roundly condemned.