NATIONALISM AND ECONOMIC NATIONALISM

National Political Economies of Community
The Nation as community

- Nations are a community of strangers tied together by a common identity
- What is the identity that ties strangers Together?
The Creation of a Common Identity. How?

- Common symbols and myths
- Common language
- Common ethnicity
- Common religion
- Sense of common history and culture
- Sense of belonging to a particular “land”
National Identity is mystical

• The identity is not an accident but a mystical “given”
• National uniqueness
• Nations have “souls”
Nations are communities that fill the vacuum left by liberalism and distributive justice

- They evoke emotion, not reason
- They evoke solidarity
- They provide an identity bigger than ourselves
- They provide security
- They provide an arena for cooperation
Emotion, land, tradition, religion, sense of historical mission,

• "My country 'tis of thee, sweet land of liberty, of thee I sing." Land of the Pilgram's pride, land where my fathers died, from every mountain side, Let freedom ring.

• My native country thee, Land of the noble free
  Thy name I love. I love thy rocks and rills, Thy woods and templed hills, My heart with rapture thrills, Like that above.

• Our fathers' God, to thee, author of liberty, to thee we sing.
  Long may our land be bright, with freedom's holy light; protect us by thy might, Great God our King.
But they depart from the previous notion of community .......

- Often hierarchical: nations create states
- Property rights, markets are possible in national communities but threaten them

- Liberal nations are in tension
Nationalism in the International economy

• Robert Reich’s question
economic nationalism in the international economy

• States are main actors
• They care about their community and want it to grow
• They pursue power to protect the community—even from markets
• They want influence over other states to make themselves richer
Assumptions about international system

• States pursue power to protect the community—even from markets

• They want influence over other states to make themselves richer at their expense
Why? Because of Anarchy

• No government over states
• States compete with each other to survive
• International trade is a PD game
Anarchy prevents cooperation

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<th>Defect (protectionism)</th>
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<tr>
<td>Cooperate</td>
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<td>mine, I win, you lose</td>
<td>retaliate, you retaliate, and so on.....more free</td>
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<td>trade</td>
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Policies: Protection

• Protect the nation’s economy from others in the market
  – Tariffs
  – Non-tariff barriers to trade
Protectionism

Tariffs
- Increase Prices

Quotas
- Limit Supply

Decrease Trade
Policies: Market Control

- Subsidies
- Dumping
- Monopoly
Policies: Economic Warfare: embargos
Trading partners will retaliate against these measures

- Anti-dumping duties
- Raise their own tariffs and quotas
The liberal response

- Lower aggregate wealth
- Consumers are hurt
- Liberal trade helps the nation: a blessing

The Economic Nationalist’s Retort

- What’s good for the whole system (aggregate wealth) might not be good for the nation
- The nation must be protected
The Great Depression
What are the best Explanations?
JOBLESS MEN
KEEP GOING
WE CAN'T TAKE CARE OF OUR OWN
CHAMBER OF COMMERCE
Prosperity Phase

• the economy is operating at or close to full capacity.
• New jobs $\rightarrow$ full employment.
• Increased lending and spending $\rightarrow$ aggregate demand.
Transition phase.

- Growing demand for loans -→ interest rates above the expected return on some proposed investments.
- Wage demands exceed gains in productivity.
- Production inputs become more expensive.
- Costs of doing business increase across the board, the profit margins of firms begin to fall.
- Some firms lay off workers, → labor unions organize
- Rate of investment declines → business sells off inventory
Recession or Depression Phase

• consumer borrowing and spending slow down ➔ Firms postpone capital spending + lay off more workers ➔

• Pessimistic mood
Moving back to the prosperity phase

- Decline in currency value $\rightarrow$ exports $\rightarrow$ Investment
- Businesses start to buy more inputs and more labor.
- New jobs spur consumer optimism $\rightarrow$ increased spending.
The Business Cycle
The Prosperity Phase in the 1920s: International Interdependence and the division of labor

• The Liberal Dream comes true!

**From 1922 to 1929:**
- U.S. annual GNP growth of 5.5%
- 23% GNP growth
- Employment up 17%
- Production up 50%
- Fed debt reduced by 25%
- Real wages up 15%
- Unemployment never above 5%
Prosperity in the 1920s

Prosperity and Thrift
The Coolidge Era and the Consumer Economy
1921-1929
Growth of production
Growth of consumerism
Comparative Advantage seemed to be working the way it was supposed to…

• Not only the U.S. but the entire industrial world prospered
Why so much International interdependence? The gold standard

- The Gold standard
- Freely exchangeable currency
- Gold Standard led to fluid exchanges in trade
Why so much interdependence?

Credit

- Credit greased the wheels of interdependence
- Trust and confidence greased the wheels of credit.....
Britain as the World’s creditor
Germany didn’t prosper: Reparations

The International Financial System
Under the Dawes Plan and Young Plan
1924-30

$2.6 Billion in War Debt Payments

U.S.  →  Allies

$2.5 Billion in Loans

Germany

$2.0 Billion in Reparations Payments
Germany’s debt exceeded its national income in 1923 and could not pay its international debts. The government printed money which led to hyperinflation.
Prosperity and warnings....

And there were hidden problems in the U.S. . . .

- Wages lagged behind profits
- Fewer purchases
- Commodity prices fell
- Farmers couldn’t pay debts
- And couldn’t purchase goods
- Manufacturing began to lose jobs and profits...
Agricultural depression

- Mechanization increased the power to produce
- Super abundant output and
- Inelastic demand
- What happens to price?
- No possibility to shift when comparative advantage shifts
Agricultural Decline

US Farm Prices (1928-1935)
Crash and Spread

• The crash of 1929 and the spread of economic crisis

• The spread of the depression from finance to industry

• Britain could no longer be the lender of last resort, the buyer of other’s exports, or infuse credit into the system

• The internationalization of the crisis
The crash of 1929 and the spread of economic crisis

- 1929 Stock market crash
- But what if prices fell, even just a little?
The spread of the depression from finance to industry

- World prices plunge
- World Trade falls
- Unemployment skyrockets
The internationalization of the crisis

• End of American capital export
• Pulled out foundation from Europe’s postwar revival
• Collapse of world production
• Collapse of world trade
clinging to the gold standard makes things worse
The world responds with economic nationalism
Leaving the Gold Standard

PRESIDENT'S SIGNATURE ENACTS CURRENCY LAW

Wilson Declares It the First of Series of Constructive Acts to Aid Business.

Makes Speech to Group of Democratic Leaders.

Conference Report Adopted in Senate by Vote of 43 to 26.

Banks All Over the Country Hasten to Enter Federal Reserve System.

Gov.-Elect Walsh Calls Passage of Bill A Fine Christmas Present.

WILSON SEES DAWN OF NEW ERA IN BUSINESS

Aims to Make Prosperity Free to Have Unimpeded Momentum.
Protectionism: The Smoot-Hawley Tariff
Don’t Trade
More economic nationalism around the world

• Tariffs and qualitative restrictions
• The world disintegrates into fiercely competing national economic systems
• Every state for itself!
Trade became bilateral

Bilateral Trade and barter

- Currency manipulation
- Exchange controls
Deutschland erwacht!

In allen Ecken der deutschen Nation ruft Adolf Hitler das erwachsende Volk zum Befreiungskampf auf.

Hitler auf seinem Deutschlandzug bei der Zwischenlandung in Danzig.

Hitler beim Vorlesen einer erneuerbaren nationalsozialist. Geschäftstelle.

Oben: Hitler schreitet die Front der S.A. ab.

Nebenstehend: Die Jugend begrüßt den Führer des kommenden Deutschlands.

Unten: Hitler spricht mit mecklenburgischen Landarbeitern.
Germany invades Poland
Could it happen again?

Some similarities
The celebration of technology is common to both periods
People then, as now, were transfixed by the stock market.
Heavy consumer borrowing characterizes each era.
There's a parallel faith in the Fed
The Communitarian Prescription for Depression:

• Reduce the sphere where money matters
  “Happiness lies not in the mere possession of money; it lies in the joy of achievement, in the thrill of creative effort. The joy and moral stimulation of work no longer must be forgotten in the mad chase of evanescent profits. These dark days will be worth all they cost us if they teach us that our true destiny is not to be ministered unto but to minister to ourselves and to our fellow men.”
Marxist explanations

- Exploit others
- Grow or Die
- Overproduction
- Underconsumption
Liberal Explanations

![Diagram showing economic cycles with peaks, troughs, and recoveries.](image)
Market solution: “purge rottenness out of the system”

• After the 1929 crash, Treasury Secretary Andrew Mellon advised the government to cut spending to balance the budget, and leave desperate banks, businesses, and families to fend for themselves because the market alone would "purge the rottenness out of the system."
Liberal Prescriptions: Free Trade and Comparative Advantage

• Everyone grows and everyone in the system grows. Everyone is better off than they would be without trade

And imagine a multilateral version of this

<table>
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<td>England</td>
<td>1</td>
<td>10</td>
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<td>Portugal</td>
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Total goods produced = 27  note: efficiency increases total number of goods available
The Liberal explanation
Economic Nationalist Explanations

International Anarchy

States seek security

- Close markets
- Protect domestic industry
The Tendency toward Economic Nationalism

- The Logic of the Welfare State
- The Logic of Protectionism
# Tendency toward economic nationalism

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Solutions

• International Hegemonic Leadership
• Institutions
  – Domestic
  – International
Hegemonic Leadership

• What does “leadership” mean
• It means assisting others in the world economy
Why does a Liberal International Economy need Hegemonic Leadership?

• Weaknesses of liberalism
  – Growth through free trade
  – At home: free to fail
  – Need for political and social stability
  – The two don’t mix
  – Governments topple when society is unstable

• Tendency toward economic nationalism
Solutions: Leadership

• a central source of the Great Depression in the 1930s was a lack of British leadership and the unwillingness of the U.S. to provide leadership in the world economy.
• Leadership is needed to stabilize the world economy.
• leadership means three things:
  1. providing a market for distress goods
  2. providing long-term lending
  3. discounting in crisis
Hegemonic Power softens contradictions

- Extend credits for payment deficits
- Offer a market for others’ goods
- Be a lender of last resort
- This will stimulate free trade
What does it take to be a hegemon?

• 1. Control over raw materials
• 2. control over sources of capital
• 3. control over markets
• 4. competitive advantages in the production of highly valued goods—technology
• 5. Military power
The U.S. had the capability to “lead”

• It had the capability to
  – Extend credits for payment deficits
  – Offer a market for others’ goods
  – Be a lender of last resort
• But lacked the willingness to lead
• Why?
But was unwilling.... Why?

• Three domestic pressures
  – Business
  – Labor
  – Ideology of economic nationalism
Solutions to the Crisis: Institutions and Hegemony
Keynes and Institutions

• Keynes’ critique of Versailles Peace settlement
• Opposition to laissez faire at home and international financial anarchy
• The need for domestic and international institutions
Internationally: A suicidal daisy chain

• Extraction of reparations from Germany, the loser of WW I
• Germany paid reparations with loans from the US
• And paid back those loans with new loans from the US
Web 2.0