Today’s menu

- I. Nation as Community
- II. The Nation in the international economy: Economic Nationalism
  - Assumptions:
  - Policies
  - Size and structure
  - Liberal Response and Econ. Nat. Retort
  - Economic nationalism and war
- III. business cycle
- IV. Great Depression
  - Prosperity,
  - Transition
  - Recession and Depression
  - war
Review: 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?

I. Nation as Community
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”
- Evoke solidarity of “us” vs. “them”
- Provide security in a common identity
- Provide for the engagement of emotions
And it departs from the “umbrella” notion of community ........

- Nations are often able to create “states.”
- Liberal states permit smaller communities to form within them.
- States have a monopoly on violence are sovereign over the nation.
- States are hierarchical, tasked with defining and carrying out the “general will”
- Property rights, markets, rationality are possible in national communities but threaten them

- Liberal nations are in tension
Nations and war

• Nationalism as the ideology of Nations
• Great departure from the liberal ideal.....
  – Reason, rationality, human equality vs. emotion, uniqueness of the nation
  – Economic liberals believe in free trade and the idea that comparative advantage $\rightarrow$ specialization $\rightarrow$ trade $\rightarrow$ international interdependence $\rightarrow$ peace
  – Nationalism based on difference, often superiority, a permissive condition for war
  – War and the military distort the market, undermine democracy and liberal values
Nationalism in the International economy

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

- States are main actors
- They care about their national community and want it to grow
- They pursue power to protect the national community—even from markets
- They want influence over other states to make themselves richer
- No government over states
- States compete with each other to survive
- International trade is a PD game
### Anarchy prevents cooperation

<table>
<thead>
<tr>
<th></th>
<th>Cooperate (free trade)</th>
<th>Defect (protectionism)</th>
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<tr>
<td><strong>cooperate</strong></td>
<td>5, 5</td>
<td>0,3</td>
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<td></td>
<td>Comparative advantage</td>
<td>I keep my market open but you close yours; I lose an export opportunity but consumers benefit</td>
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<td>Growth for all</td>
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<tr>
<td><strong>Defect (protectionism)</strong></td>
<td>3,0</td>
<td>3,3</td>
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<td></td>
<td>You keep your market open, I close mine, I win, you lose an export opportunity but consumers benefit</td>
<td>We both close our markets; you close yours, I retaliate, you retaliate, and so on.....</td>
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**Economic Nationalism: Assumptions**
Policies: Protection, Market Control, economic warfare

• Defensive policies: Protect the nation’s economy from others in the market
  – Tariffs
  – Non-tariff barriers to trade
• Offensive policies: Market Control
  – Subsidies
  – Dumping
  – monopoly
• Aggressive policies: Economic Warfare
  – embargoes
• Retaliation
What policy you pursue depends on how big you are

- Trade gives small states more benefits than large ones.
- Trade enmeshment isn’t good for any state’s social stability, big or small.
- Large states can easily close their markets, small states can’t.
- Large states can use their markets to create political influence, leverage (embargos, threats of closure, etc.).
- They can also use their resources to create a liberal international economic system.
  - Can offer its open market, cheap exports, trade finance,
  - But then they’re bound by the rules of membership in that system (WTO).
The liberal response
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 state must accumulate wealth to enhance the power to provide security.
Nation-states, nationalism, economic nationalism, and war

- Protectionism threatens other nation-states
- Market control threatens others

- Nation-states seek to amass resources: imperialism → colonialism, invasion, war, occupation
- Nation-states build militaries both to protect from aggression and to commit acts of aggression
- Military-industrial complex and in liberal societies
  – Privatization of the military
  – Political “pork barrel” to create jobs shielded from the market
  – War profits
- Nationalist ideology assists in this project
GREAT DEPRESSION

III. Business Cycle

1920s—Prosperity phase

Transition phase
Review: Prosperity Phase

• the economy is operating at or close to full capacity.

• New jobs $\rightarrow$ full employment $\rightarrow$ union growth

+ 

• Increased lending and spending $\rightarrow$ growth in 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, → unemployment growth.
- Rate of investment business ↓ firms sell off inventory → prices fall.

Business Cycle: Transition Phase
Recession or Depression Phase

• consumer borrowing and spending slow down $\rightarrow$ Firms postpone capital spending + lay off more workers $\rightarrow$ exports decline $\equiv$ deflation

• Pessimistic mood
Moving back to the prosperity phase

- Decline in currency value $\rightarrow$ increase in exports $\rightarrow$ increase in Investment
- Businesses start to buy more inputs and more labor.
- New jobs spur consumer optimism $\rightarrow$ increased spending.
The Business Cycle
Example: The Great Depression
What are the best Explanations? Liberal, Marxist, or Economic Nationalist?
Prosperity


IV Great Depression: Prosperity
The Prosperity Phase in the 1920s: International Interdependence and the division of labor

• The Liberal Dream comes true!
Growth of consumerism

• consumer spending, which then made up three-quarters of the economy. (Today it's about two-thirds.)
• the Federal Reserve tried to rein in what might have been called the irrational exuberance of the era.
• In 1928, the Fed maneuvered to drive up interest rates. So interest-sensitive sectors like construction slowed.
Figure 1: Real GNP Per Capita, 1919-1930

Source: Romer (1982).

Great Depression: Prosperity
The gold standard led to more trade

- The Gold standard
- Freely exchangeable currency
- Gold Standard led to fluid exchanges in trade
Comparative Advantage seemed to be working the way it was supposed to...

• Trade increases.....Not only the U.S. but the entire industrial world prospered
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

Where did the credit come from? The market wasn’t self-regulating:

Britain as the world’s creditor

Throughout the 19th century, Britain played the role of the world’s creditor, in order to keep free trade alive. 1) Britain maintained a relatively open market for the exports of countries in balance of payments difficulties, 2) provided contracyclical foreign long-term lending, and 3) acted as a lender of last resort in times of exchange crisis.
One underlying problem was the international indebtedness caused by the Versailles peace settlement in 1918. Most countries did not have the surpluses necessary to pay their bills, and the U.S. was the net creditor. The Germans paid their reparations essentially with funds borrowed from America; Germany's creditors then used the same funds or other American loans to pay off their debts to the U.S. In 1929, when the stock-market crash cut off all U.S. investment overseas, it was clear how precarious the system had been. Within two years, reparations and interallied debt payments were abruptly cut off as well.
Germany’s debt exceeded its national income in 1923 and could not pay its international debts. The government printed money which led to hyperinflation.
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 Decline and Depression

US Farm Prices (1928-1935)

Great Depression: Transition
The crash of 1929 and the spread of economic crisis

- World prices plunge
- World Trade falls
- Unemployment skyrockets
clinging to the gold standard makes things worse
The world responds with economic nationalism
Commodification of Money
The Intl. Gold Standard

• Just like the commodification of labor, Polanyi argued that the gold standard wouldn’t work.
• Global Market Place Without Global Government!
• “Gold standard and constitutionalism were the instruments which made the voice of the City of London heard in many smaller countries which had adopted these symbols of adherence to the new international order”
Leaving the Gold Standard

Great Depression: Depression/Recession
Protectionism: The Smoot-Hawley Tariff
Trade stops, US economy declines even more.
More economic nationalism around the world

• Tariffs and qualitative restrictions
• The world disintegrates into fiercely competing national economic systems
• Every state for itself!
Deutschland erwacht!

In allen Ecken der deutschen Nation ruft Adolf Hitler das erwachende Volk zum Befreiungskampfe auf.

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

Nebstehend: Die Jugend begrüßt den Führer des kommenden Deutschlands.

Unten: Hitler spricht mit mecklenburgischen Landarbeitern.
Germany invades Poland
Overview: Cause and Effects

**Economic Causes**
- Agricultural overproduction
- Widening gap between rich and poor
- Stock market crash due to buying stock on margin.

**Political Causes**
- Hoover follows hands-off policy towards business
- Few regulations in place over companies

**The Great Depression**

**Economic Effects**
- Deflation
- Unemployment at 25%
- Drop in production

**Political Effects**
- Foreign Affairs: Hitler takes power in Germany in part due to hyperinflation.
- FDR elected in 1932
- New Deal programs increase govt. role in economy
Could it happen again?