State and Nation: Nationalism in the International Economy

Economic Nationalism
Clicker Quiz

• Which world would you prefer living in
• A. --a world in which every American is 25 per cent wealthier than now and every Chinese is much wealthier than the average American,

• B. A world in which Americans are only 10 per cent wealthier than now but ahead of the average Chinese?
Today’s menu

I. Review: Community as Nation-State

II. The Nation in the international economy: Economic Nationalism
   – Assumptions:
   – Policies
   – Size and structure
   – Liberal Response and Econ. Nat. Retort
   – Economic nationalism and war
Review: Nations and States

- Nations are communities that fill the vacuum left by liberalism and socialism
- They evoke emotion, not reason
- They are tied to a commitment to land, not globalization or international communism
- They evoke solidarity, not competition
- They provide an identity bigger than ourselves
- They provide security, not individual striving
- **Nations need States**—both internally and externally---
  The national community is hierarchical
The Political Economy of the nation-state

• States are main actors
• They care about their community and want it to grow
• Purpose: They pursue power to protect the community—even from markets
• They want influence over other states to make themselves richer
Central Assumption of Economic Nationalism: International Anarchy

- No government over states
- States compete with each other to survive
- International trade is a PD game
- Relative gain is more important than mutual gain. Why? Everyone wants to be a monopolist—wants to be ahead of the competition.
# Anarchy prevents Free Trade

<table>
<thead>
<tr>
<th>ME (Defect (protectionism))</th>
<th>YOU (Cooperate (free trade))</th>
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<tbody>
<tr>
<td>3,0</td>
<td>5, 5</td>
</tr>
<tr>
<td>You keep your market open, I close mine, I win, you (your consumers) lose</td>
<td>Comparative advantage, efficiency, Lower consumer prices and Growth for all</td>
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<tr>
<td>0,0</td>
<td>0,3</td>
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<tr>
<td>We both close our markets; you close yours, I retaliate, you retaliate, and so on..... High consumer prices Low growth</td>
<td>I keep my market open but you close yours; -- you win, I (my consumers) lose</td>
</tr>
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Policies of economic nationalism: Protection, Market Control, economic warfare

- Self-sufficiency (Keynes)
- Protect the nation’s economy from others in the market
  - Tariffs
  - Non-tariff barriers to trade
- Market Control
  - Subsidies
  - Dumping
  - monopoly
- Economic Warfare
  - embargoes
- Retaliation
Why national self-sufficiency?

• It leads to peace. Why?

Energy Independence: “The closest thing we’ve seen to a real ‘peace movement’”
Protectionism: Closing markets

Protectionism

- Tariffs
  - Increase Prices
- Quotas
  - Limit Supply

Decrease Trade
Policies: Market Control
Policies: Economic Warfare: embargos
Iran
North Korea
What policy the economic nationalist pursues depends on how big the nation-state is

• Small states benefit more from trade than large states.

• Large states can use trade and trade-withholding strategies as a foreign policy tool
  – Influence, leverage
  – They can also use their resources to create a liberal international economic system.
    • Can offer an open market, cheap exports, trade finance,
The economic liberal response to economic nationalism

- Lower aggregate wealth
- Consumers are hurt
- Liberal trade helps the nation: a blessing
The Economic Nationalist’s Retort

• What’s good for the whole global 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 $\rightarrow$ colonialism, invasion, war, occupation
- US sanctions on Japan in 1930s led to Japan’s attack on the US at Pearl Harbor
- Military-industrial complex and in liberal societies—another form of economic nationalism
  - Military contracts to national companies
  - Political “pork barrel” to create jobs shielded from the market
  - War profits
- Nationalist ideology assists in this project
The End