A Cautious Case for Economic Nationalism

J.W. Mason

The term "global capitalism" expresses a contradiction. Sovereignty, democracy, and economic regulation are national but, as we are constantly reminded, the economy is global.

Elite opinion replies without hesitation: International trade and foreign investment work, thanks to the magic of the market. It's national governments that are old-fashioned, obsolete. Globalization is a fact. If it limits space for political control of the economy, so much the better.

Socialists, however, must hesitate: We neither have faith in automatic adjustment by markets, nor are we willing to give up conscious regulation of the economy. We are torn between seemingly incompatible goals—to build genuinely democratic international governance; to preserve space for regulation of economic life; to advance the interests of the particular national constituency we are accountable to; and to address pressing global needs like climate change and inequality.

How do we negotiate these three terms—nation-states, markets, and the people who we hope to represent within or against them? If you're an economist, one natural starting point is Dani Rodrik's widely cited formula of "the trilemma." Rodrik argues that, of national sovereignty, democratic government, and international economic integration, you can have two of them but not all three. When Rodrik introduced the trilemma in the 1990s he, like most liberals, believed it was the nation that should go. Globalization is inevitable; if it prevents national governments from delivering what's needed for democracy, then political authority must shift to a supranational level. But now he's having second thoughts. Recently he wrote in the *New York Times*, "We must reassess the balance between national autonomy and economic globalization . . . we have pushed economic globalization too far . . . [and put] democracy to work for the global economy, instead of the other way around."

For both liberal advocates of economic integration and for its critics, this question, the political question, is key. The strongest arguments against (and for) continued globalization focus not on the direct effect of trade and finance on living standards and economic outcomes, but on the ways in

which those links constrain the choices of governments. As long as democratic politics operates through nation-states, it is likely any left program will require some degree of delinking from the global economy.

Almost all economists agree on the virtues of free trade—it's been a catechism of the profession since Adam Smith. Their support for free trade is premised on two main arguments: first, that deficits are self-correcting—meaning, payments between countries will always be balanced by some automatic adjustment of prices, today usually conceived of as floating exchange rates; second, that international trade allows countries to specialize according to their inherent capabilities or endowments. Underlying both these claims, and giving them their moral force, is a liberal cosmopolitanism that views national borders as suspicious, if not illegitimate, and the exchange of value between strangers as inherently positive. It is striking how much the classic arguments for free trade—from James Mill to Milton Friedman—depend as much on the cultural and political benefits of internationalism as they do on its economic benefits.

The realities of international trade and finance, however, present a number of challenges to the free-trade view.

First, there's the claim that exchange rates balance trade, which we've heard most recently in discussions of various Republican plans for import taxes. This confidence in the self-adjusting properties of flexible exchange rates is not borne out historically. There are endless examples of currencies failing to respond correctly to trade flows; and even when exchange rates do move, trade doesn't necessarily respond. The lack of domestic substitutes for many imports, the fact that export industries are among the largest users of imported goods, and the tendency for trade to be invoiced in a few global currencies are among reasons to doubt that even the "right" exchange rates would do much to balance trade.

Trade is in any case a small part of the overall balance of payments, which is dominated by large financial flows—foreign lending and borrowing, and sales and purchases of foreign financial assets. Restrictions on these capital flows were encouraged after the Second World War. But the consensus has since reversed, with capital mobility now a bedrock principle of the international order and market volumes growing spectacularly. These financial flows, mostly unrelated to trade or production, can move exchange rates far from the levels trade flows would predict and create payments problems even for countries that do not have large trade deficits.

The second plank of the free-trade orthodoxy is that, in the long run, trade makes everyone better off, by allowing countries to specialize according to their comparative advantage. The problem here, as critics from Alexander Hamilton to Ha-Joon Chang have noted, is that following comparative advantage turns out to be inimical to industrialization and development. To

Greek economist Yanis Varoufakis, pictured speaking in Vienna, still holds out hope of a Europe of the people. Is this position out of step with the times? Photo by Franz Jachim.

industrialize is, by definition, to develop sectors in which a country currently is not competitive.

More generally, economic links between countries constrain the choices of national governments. For orthodox economists, who think they have scientifically proven the best policies for everyone, these constraints are not a problem. They may even be a good thing. But the broader the questions we want to bring into the domain of politics, the more we are going to have to "get prices wrong" from the perspective of the international trade system.

At the global level, what stands out is the absence of what Yanis Varoufakis calls a surplus recycling mechanism. Over here, let's say, are trade flows, doing what they do; over there are financial flows, doing what they do. If these payments don't all happen to balance, some active mechanism is needed to "recycle" money from the surplus countries to the deficit countries. After the Second World War, Marshall Aid and foreign military spending channeled dollars from the United States, then the main surplus country, to the rest of the world. Many countries also adopted capital controls limiting financial flows, allowing them to keep their balance of payments in an acceptable range.

When countries are unable to impose such controls, the real activity of production and trade gets whipsawed by the shifting hopes and fears

of foreign investors. Do investors today want to hold Greek bonds? Then Greece gets a property boom. Tomorrow they don't? Then it gets a grinding depression.

In the absence of capital controls, most countries are tightly restrained by the need to hold the interest of fidgety international financial markets. They must send a steady flow of goods and services to the United States and elsewhere in the North in order to self-insure against capital flow reversals, as well as to pay for the property their elites acquire in rich countries and, of course, to service public and private foreign debt. Trade surpluses are often seen as a sign of competitiveness (good) or mercantilism (bad), but when they are required to compensate for persistent financial outflows, they might better be seen as a form of tribute.

We can see this clearly in Africa, as meticulously documented in *Africa's Odious Debts*, by James K. Boyce and Léonce Ndikumana. First, a government borrows money from abroad, usually for some development project. Then, the foreign currency balances created by the loan are appropriated by the country's wealthy elite—they become personal bank accounts in New York or London. Finally, the country as a whole is compelled to generate an export surplus to service the debt. In effect, African oil, diamonds, and chocolate are turned into private wealth in the United States and Europe. It's only a minor crime in the scale of things that the United States gets its chocolate and diamonds for free. The great crime is that African communities are prevented from using their claim on these resources to develop their own collective capabilities.

Countries unable to meet their external obligations, and unwilling to simply default, must turn to the international community, usually the IMF. Originally envisioned as offering a more or less automatic line of credit to countries in balance-of-payment difficulties, the IMF today in fact reinforces and formalizes the constraints imposed by financial markets. Debtor countries surrender control over tax, policy, public employment, privatization of public assets, and a raft of other decisions to their creditors. Elite opinion often sees this surrender of public authority not just as a necessary cost of globalization, but as one of its benefits. The economic historian Bradford DeLong evocatively calls neoliberalism "a counsel of despair": it would be best, he says, if a poor country's government would make the right choices on its own, but it won't. So "if a reduction in its economic role . . . can be required as a price for rapid incorporation . . . into the global economy, such a reduction *should* be required."

A decade ago, Europe offered a promising alternative model, shifting sovereignty upward from nation-states without sacrificing democracy. But what once appeared as a project to extend and solidify the achievements of postwar social democracy on a continental scale today seems like a concerted campaign to roll them back. Supporters of the Eurosystem have described it as an attempt to recreate the gold standard—to reimpose the

discipline of markets on states that have slipped free of it. Like the larger world system, the Eurosystem starts from the principle of unlimited financial flows based on the unanchored expectations of financial markets, and then demands that real productive activity and standards of living adjust to accommodate them.

Since this would destroy society if really adhered to, the system is buffered with offsetting public flows, on conditions set by unaccountable authorities—most importantly, the European Central Bank. The effect has been to reverse the gains of two generations of European workers. We've seen this most clearly in Greece, where fiscal and banking crises—stage-managed by the ECB—have allowed the "troika" of the central bank, the European Commission, and the IMF to overrule the country's elected government and force through a comprehensive program of austerity, privatization, and deregulation. But a less dramatic version of the same treatment has been meted out to Italy, Spain, Portugal, and the rest of the European periphery. At the height of the fiscal crisis, the ECB—to the applause of much of European business and finance—used its authority to, in effect, send ransom notes to the governments of the afflicted countries, refusing to perform a normal lender-of-last-resort role unless they agreed to far-reaching programs of liberalization.

In two recent books, Wolfgang Streeck makes a scathing critique of the neoliberal vision of globalization and its application in Europe. He sees the ground crumbling under democratic politics as governments are increasingly accountable to the *marktvolk*, the people of the market, instead of the *staatsvolk*, citizens of a particular state. Europe today, he argues, resembles Friedrich Hayek's 1930s vision of "catallaxy"—a state that exists only to enforce property rights, leaving all other substantive issues to the mercy of markets. Back in the 1930s, Hayek saw how deep trade and financial ties could make socialism impractical at the national level, while any supranational authority would lack the legitimacy to carry out such a program itself. "In the international sphere, democratic government should only prove to be possible if the tasks . . . are limited to an essentially liberal program," he wrote in 1948. And so it's proved, says Streeck; today, the European Union is a "liberalization machine."

Arguably, this rolling-back of social democracy has been the goal of the European project at least since the creation of the euro. Still, we should be careful to distinguish political ends to which European institutions have been put from any inevitable logic of integration itself. It is perhaps easier in the English-speaking world to dismiss the whole project as a mistake than from Europe's periphery, where coups and dictatorships are still living memory. There, "Europe" still has a powerful appeal as the embodiment of liberal democracy and the rule of law—as a bulwark for popular rule rather than a fetter on it. Varoufakis, for instance, still holds out hope of a Europe of the people. But this position seems increasingly out of step with the times.

Struggles for the welfare state and popular rule are becoming struggles against Europe.

Is there space in these new populist movements for the left? Not in their current form. They are defined largely around opposition to the free movement of people. Migration is the one area where today's globalization has not recapitulated the earlier globalization of the pre–First World War era. Then, movement of people as well as goods and money was largely uncontrolled; but today this is the case only within Europe. For some on the left, the moral and economic case for free migration is so strong it overwhelms whatever arguments might be made to oppose it on other grounds. Perhaps mass migration weakens solidarity among working people, but the historical evidence is hardly conclusive. In the United States, at least, much of our socialist and labor movements have been imported, and the periods of highest immigration historically were hardly fallow of radical politics.

In any case, we have to weigh on the other side the benefits to migrants themselves. Progressive economists like Suresh Naidu argue that the income gains when a poor migrant enters a rich country are so large that the benefits of more open borders far outweigh any other global program of redistribution. On the numbers, it's hard to disagree. But the economic argument may miss the value most people place on remaining in their home. There's no question that NAFTA helped drive mass immigration from Mexico to the United States, by overwhelming traditional Mexican agriculture with cheap American produce. To the economist, it's all for the best that Mexican farmers find higher paid work in the United States—free movement of people, in this view, is not only morally right but, like free trade in goods, necessary for the efficient allocation of labor. But do the migrants themselves share this view? To be clear, any progressive politics needs to be unequivocally pro-migrant. But one might argue that freedom to migrate is like the freedom to sleep on park benches—something that should absolutely be defended, but also something that, in a better world, there would be much less need for.

The case for a left nationalism is further challenged by the salience of the truly global problem of climate change. Surely the need for an international program of decarbonization sets strict limits to any program of economic delinking? On the other hand, it's not clear how much international coordination is in fact required in developing responses to climate change. Globalization isn't the reason that Floridians vote for denialists while their streets fill up with seawater. The great obstacle to making climate policy the overwhelming priority it should be isn't primarily that the costs of inaction will be paid by other countries, but that they'll be paid by our grandchildren and great grandchildren. If the hard coordination problem is not between countries, but between generations, then the national demos may still be

the only way to address it.

Even if we want to delink, is it possible? Perhaps it's easier than we think. As Paul Krugman, among others, has noted, the shift from manufacturing to services tends to reduce rather than increase the role of international trade. In the United States, at least, the vast majority of what we produce and consume stays within our own borders. The past decade has in many respects been one of deglobalization rather than globalization, with the growth of trade and financial flows decelerating sharply compared with the 1990s and 2000s. The period since 2008 has been the first sustained period since at least the 1970s when international trade failed to grow as a share of world GDP.

These trends may continue or reverse, but the nascent global catallaxy still faces a fundamental problem—the nation-state is not just a vehicle for the aspirations of working people, but also provides a legal framework and political legitimacy without which capital can't exist. Truly deregulated markets tear apart the social substrate in which they grow. Today, no less than in the days of the gold standard, the *marktvolk* must ultimately back up their demands with gunboats; and these they must borrow from a state. The track record of actually existing developmental states is mixed, to say the least. But there's no need for us in the United States and other rich countries to pass judgment. It's enough for us to resist when the coercive power of our own state is used to close off the possibility of people on the periphery finding their own way as best they can.

In the early 1940s, looking back at thirty years of rolling contradictions between national politics and global economics, Keynes proposed a set of international institutions that, he hoped, would manage payments between countries in a way that would preserve both the autonomy of national governments and the coherence of the international order. This vision, implemented in a compromised way at Bretton Woods, has exercised a powerful hold on imaginations ever since. You can't read far in the heterodox economics literature without coming across some new variation on Keynes' 1940s proposals for an international currency, and an international bank to manage it.

But a decade earlier, in the 1930s, Keynes took a different view. Facing the prospect of a beggar-thy-neighbor competition, rather than a wartime alliance, he was less interested in what institutions could govern the international payments system, and more interested in how to make such governance unnecessary. "We each should like to have a try at working out our own salvation," he wrote in a brilliant essay on "National Self-Sufficiency" in 1933. In the previous era, he observed, liberal opinion had held that "the whole world was, or would be, organized on a basis of private competitive capitalism and of the freedom of private contract inviolably protected by

the sanctions of law." But by the 1930s it was clear that this liberal model was no longer widely accepted or acceptable. Without a clear alternative in sight, there was a need for experimentation—and these experiments could by their nature only be national. At the same time, he wrote, the purely economic arguments for integration were much weaker than he had been taught: "Most modem processes of mass production can be performed in most countries and climates with almost equal efficiency." Under these circumstances,

> I sympathize, therefore, with those who would minimize, rather than with those who would maximize, economic entanglement among nations. Ideas, knowledge, science, hospitality, travel—these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible, and, above all, let finance be primarily national.

The vision of a rational, just, and democratic world order is profoundly attractive. We resist the idea that someone's life chances should depend on which side of a border they happen to be born; we are rightly skeptical of national sovereignty as a principle when so much of what happens in one nation is self-evidently determined by choices made in another. So it's tempting to frame the questions of international trade and finance as ultimately problems of global governance. This is the spirit of the many proposals for a new Bretton Woods.

But perhaps one lesson of the current moment is that this is not the best, or at least not the only, approach to the problem. Any kind of international structure, whether trade agreements, labor standards, or financial architecture, needs to be understood in terms of a concrete political project. And the politics of globalization today are not the politics of the left. The European project has been a disaster for social democracy and labor. While one can imagine European integration taking other paths, integration as it has actually proceeded has involved the wholesale rolling-back of the welfare state, public sector, and labor regulation. U.S. efforts to unilaterally impose an international order, meanwhile, have ranged from ineffectual to catastrophic. And the institutional legacies of the last great push to consciously plan the global economy—the IMF and World Bank—have evolved from their original goal of opening up space for more humane policies, to instead reinforcing the shackles of the market.

It is sometimes asked why we should assume that national politics will be more favorable to the left—why can't social democracy be advanced through an international framework? The question is perfectly logical—and might as well come from another planet. Whatever arrangements we can imagine in principle, the systems of social security, labor regulation, environmental protection, and redistribution of income and wealth that in fact

exist are national in scope and are operated by national governments. By definition, any struggle to preserve social democracy as it exists today, is a struggle to defend national institutions. And do we ever, today, see national governments compelled by international agreements or by the pressure of international trade and finance to nationalize private industries, strengthen labor protections, or increase the generosity of social insurance? Or is the pressure invariably in the other direction? A generation ago, you might have pointed toward Europe as a possible example of "leveling up." But not today.

If the fault line today lies between a liberal internationalism on the one side and populist nationalism on the other, there is clearly a viable politics on both sides; the victory of the former is not assured. Globalization no longer has the air of inevitability that it had a decade ago. There are large potential constituencies for a program to defend at the national level egalitarianism, solidarity, and collective decision-making—even where those programs are disingenuous, as with Brexit, or where they ultimately collapse under external pressure and their own incoherence.

In the years to come, will we find ourselves in struggles where a progressive, cosmopolitan vision needs to be advanced against backward-looking, intransigent local interests? Or will we find ourselves in struggles where political experiments on a national scale need to be defended from external pressures, so they can develop on their own terms and work out their own salvation? On some level, the answer can only be: both. But insofar as the conjuncture throws up more cases of the latter, our political imagination may be better served by envisioning a new era of national self-sufficiency, than a new Bretton Woods.

J.W. Mason is assistant professor of economics at John Jay College-CUNY and a fellow at the Roosevelt Institute.