

THE NEW ECONOMIC NATIONALISM

— Edited by —

Otto Hieronymi

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with contributions by

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The papers included in this book were originally presented at a three-day conference on *The New Economic Nationalism*, organised by the Battelle Research Centre in Geneva in June 1978.

The idea for the conference originated at Battelle–Geneva in late 1976, as a result of our ongoing work in the field of international economics as well as our close involvement with economic developments in Europe and around the world. It also reflected the belief that the signs of the rising new economic nationalism, which can be observed in Europe and in America, as well as in other countries, represent a serious threat not only to our future prosperity, but also to political and social stability and cooperation in both the OECD area and the rest of the world.

The plans for holding such a conference, with a concerned group of economists, officials and businessmen participating, met with an immediately favourable response both inside and outside Battelle. As it so happened, developments in 1977 and 1978 made the subject matter of such a conference even more topical than at the time when the idea was first raised.

The conference was attended by about 100 specialists from 12 OECD countries, including representatives from not only the major central banks, ministries of finance and international organisations, but also banks, industry, research establishments and universities. The formal presentations were followed by an extensive and lively discussion, which confirmed the profound concern about economic nationalism felt by a very broad spectrum of economists, bankers, businessmen and government officials.

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As a final word, the opinions expressed in this book do not necessarily reflect the views of Battelle or of other organisations with which the authors may be connected.

Geneva, December 1978

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Introduction

One of the consequences of the profound changes that have occurred in the international economy since the late 1960s has been a gradual revival of economic nationalism throughout the world. The ultimate disintegration of the post-war international monetary system has led almost inexorably to a widening rift between strong and weak currency countries, between inflationary and non-inflationary economies and between the rich and the poor both in the developed and in the less developed world. The slowdown in economic activity and the persistent high level of unemployment throughout the OECD countries have added to protectionist pressures for the sake of individual industries and sectors as well as for balance of payments reasons.

While the revival of economic nationalism has been a *cause* and a *consequence* of the crisis of the 1970s, it is also the single most important issue influencing the outlook for the 1980s in both the developed and developing countries.

Economic nationalism is a complex phenomenon. It goes beyond traditional efforts to protect domestic production through tariffs or other restrictions; it includes dumping, export subsidies and various forms of 'beggar-my-neighbour' policies. Certain types of industrial policy, as well as so-called voluntary export or import agreements, are among its contemporary manifestations in the developed market economies. In the 1970s, as in the 1930s, *monetary nationalism* has been its most pervasive and, so far, its most disruptive manifestation. The concern with the revival of economic nationalism and with its potential consequences for the world economy was shared by all the speakers at the conference in June 1978; it is this concern for the future of the liberal economic order which is the common theme of this book.

The speakers and the participants at the conference came from a wide variety of professional, national and geographic backgrounds. In planning the conference's programme, however, a systematic effort was made to show the complexity of the phenomenon and

the interdependence of the different manifestations of modern economic nationalism. The realisation of this objective has provided the main interest of the conference both for the organisers and for the participants, and is the basis, we hope, for the unity of the present volume.

Speakers and participants at the conference were seeking answers to three fundamental questions:

- What is the relationship between the shocks and changes that have occurred in the 1970s in the world economy and the revival of economic nationalism, and, in particular, what is the link between monetary disorders, floating exchange rates and protectionism?
- What will be the objectives and instruments of trade policy in the future, and will there be in the area of trade a similar metamorphosis or breakdown of the post-war order as had occurred in the international monetary system?
- Is the rise of economic nationalism a temporary phenomenon only, to be followed sooner or later by a restoration of a more stable and liberal international economic order, or if not, will economic nationalism, some time in the 1980s, lead to the kind of conflicts and social and political disasters as had been experienced in the past?

There are no uniform answers to these three questions in the present book, and none was provided by the participants in Geneva. This may be partly due to the fact that there is as much disagreement among experts about the very characteristics of *today's* international economic order as there is about the system or order of the future. One of the reasons why it is so difficult to forecast the future is because it is so hard to know and find a consensus about our present position. The lack of common answers to these basic questions, however, has also more fundamental causes. The papers in the present volume show that a central aspect of today's economic nationalism is the loss of common objectives, of a common vision of the future; it is the breakdown of the consensus on the basic features of economic order.

In the last ten years there has been a new emphasis on 'strength' (and the reintroduction of military terminology) in international economic relations, as well as profound changes in the perception of *national* or *particular* interests as distinguished from *international* or *common* interests. This trend has been noticeable in relations not only between the industrialised and developing countries, but

increasingly also among the members of the OECD. The reference to strong and weak countries has become common not only in Europe, but also in the context of Europe, Japan and the United States. Depending on the issue (income, inflation, trade or balance of payments) and on one's point of view, each of these countries and areas is alternatively seen as the victim or the villain of the international economic system.

The revival of economic nationalism is not limited to the 'weak' countries; nor can a sharp separation be drawn according to size. Small *and* liberal countries can also be nationalistic: the fact that Switzerland managed to achieve a significant reduction in its labour force without a rise in unemployment is a case in point. The German government and central bank have been consistently the strongest supporters within the European Community of liberalism and free trade. Yet, by focusing their policies and reform proposals on a system that would permit isolating the German economy from outside influences, they have also contributed to the breakdown of the gold exchange standard and to the spreading of monetary nationalism.

In the debate on economic nationalism it is often difficult to distinguish expectations and the perception of events from actual developments and interests. Britain and Italy have probably suffered the greatest losses from the international crisis and the reversal of European integration in terms of output, the transfer of resources and instability; yet, in both countries inward-looking policies still tend to predominate; there is even growing pressure for outright protectionism in Britain. There was not much favourable echo at the conference to the concept of organised free trade launched by France. This approach, which also finds many supporters outside Europe would accelerate rather than decelerate the trend towards the fragmentation and the growing cartellisation of the world economy. The ambiguous position of Japan was also noted at the meeting: while a latecomer to trade liberalisation, Japan is among the countries that have reaped the greatest benefits from free trade and the opening of new markets. Yet, beyond price competitiveness, the difficulty of penetrating the Japanese market is known to all, and Japan continues to follow a defensive policy in both trade and monetary matters.

The role of the United States and the nature of American policies is a major theme of this book as it dominated much of the discussion at the conference. By abandoning its post-war position in favour of

international stability, the United States was considered by most of the participants as the major factor in the revival of economic nationalism. This view had little to do with traditional anti-Americanism: it rested on the conviction, expressed by the majority of the European speakers and participants, that there is a direct link between floating exchange rates, monetary nationalism and the rise of protectionist pressures. Flexible exchange rates are no substitute for protection: the growing gap between inflationary and non-inflationary countries and the instability and uncertainty engendered by floating are sources of unemployment and of the increasingly defensive (and protectionist) attitude in both surplus and deficit countries. In the face of this criticism some of the American speakers continued to argue in favour of 'perfect' floating. The thesis that central banks should make no attempt to maintain exchange rate stability was strongly defended by some, although not all, American participants. They argued that fixed exchange rates are a chimera: the refusal to seek a new common and stable international monetary order is realism and not economic nationalism. The search for stability ('interference' with alleged 'fundamental market forces') is the expression of the nationalistic policies of non-US central banks.

A similar argument developed (although not along national lines) about the direction and the content of the new trading system among the Western industrialised countries and between the OECD and the advanced developing nations. It was recognised that no final break has occurred so far with the principles of a liberal world trading system. Yet, it was the conclusion of the conference that the threat of a relapse into protectionism is real, and it is by no means certain how long and to what extent the proliferation of restrictive new commercial practices can be reconciled with the present degree of interdependence in the world economy. In fact, strong fears were expressed at the conference that the process of integration may have been reversed and that we are moving towards a fragmented pattern of trade relations both among the developed and the developing countries.

None of the speakers and participants questioned the initial assumption of the organisers that *there has been a dangerous rise in economic nationalism since the late 1960s*. It was also the conclusion of the meeting that without a serious concerted effort the present trend will continue with disastrous consequences both for *national* and *international* prosperity.

The conference took place shortly before the Bremen Summit of the European Community and the Bonn Economic Summit of the leading OECD nations. Bremen saw an initial agreement to reverse the process of monetary disintegration in Europe; at Bonn protectionism was firmly condemned.

Developments since the summer of 1978 have borne out the conclusions of the conference: the legitimate concern about the rise of nationalism, but also the realisation of the difficulty of reversing the current trend of events. The concepts of *solidarity* and *stability* are still far from being fully accepted in Europe as the discussions and progress on the European Monetary System seem to have stopped at the level of foreign exchange market interventions. Similarly, the implementation of the Tokyo Round agreements despite the summit commitments is still far from certain.

* * * * *

Part I of the present book explores the origins of the new economic nationalism, the relationship between monetary nationalism, floating and protectionism, and the problem of nationalism in the context of domestic and international financial markets.

Recent trends in trade policies and their impact and the trade policy outlook are dealt with in Part II. It also contains a detailed discussion of the problems of adjustment faced by producers as a result of the growth of international trade.

Part III starts with an analysis of past trends in world trade and a forecast for the 1980s, with particular attention being paid to the relationship between the OECD countries and the so-called advanced developing countries. Part III also deals with the role of multinational companies, of industrial and technology policies in shaping trade relations in the future. The book closes with an appropriate reminder that *economic* nationalism is part of the broader phenomenon of *nationalism*.

Chapter 1 describes the gradual metamorphosis of the post-war domestic and international economic order. The collapse of the gold standard was as much due to *apparent* as to *real* conflicts between domestic and external interests. The open conversion to monetary nationalism has been at the root of the crisis of the 1970s. It is argued that floating and protectionism are expressions of the same futile attempt to isolate the national economy from outside