The New Economic Nationalism

Chapter

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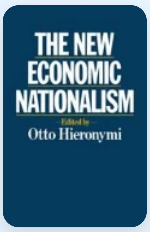

The New Economic Nationalism

Otto Hieronymi

Abstract

The 1970s have witnessed an open revival of economic nationalism. This development has been in apparent contrast with the progress and the unexpected success of world-wide economic and financial integration of the last 30 years.[1]

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Notes

2. There is a rapidly growing literature dealing with the various aspects of the threat of protectionism. Cf. for example, Richard Blackhurst, Nicolas Marian and Jan Tumlir: *Trade Liberalization, Protectionism and Interdependence*, (Geneva: GATT Studies in International Trade, November 1977)

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International Monetary Fund, Trade and Payments Division, *The Rise in Protectionism* (Washington, DC: July 1978). A recent study carried out at Battelle-Geneva dealt with this problem in the European-Japanese context.

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Cf. André Gabus, Otto Hieronymi, Pàl Kukorelly, *Japanese-European Trade Relations — Restrictions or Cooperation? The Case of the Automobile Industry* for The Top '70 Study Group (Geneva 1978).

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3. Cf. Harry G. Johnson (ed.), *Economic Nationalism in Old and New States* (Chicago: The University of Chicago Press, 1967).

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5. The most systematic discussion of monetary nationalism and of the link between monetary nationalism and protectionism is still provided by Professor Hayek's 1937 Geneva lectures: Friedrich A. Hayek, *Monetary Nationalism and International Stability* (New York: Reprints of Economic Classics, A.M. Kelley, 1964, first published 1937). The close relationship between monetary and so-called real phenomena is an important feature of general economic theory, and of balance of payments theory in particular. Time and again this relationship has been denied or misrepresented, as in the IMF report quoted above, according to which 'available evidence suggests that payments imbalances or fluctuations in exchange rates have not been a major factor in the increasing resort to trade restrictions'. *[The Rise in Protectionism*, op. cit., p. 52).

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6. Otto Hieronymi, 'Growth and Economic Order: The Long-Term Outlook' *Annals of International Studies*, Vol. 8, Geneva, 1978, pp. 51–9.

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7. The expression 'economic nationalism', first coined in the 1930s, refers to the attempts to control as far as possible a country's external economic relations; it implies the pursuit of policies aimed at a reduction or a break in a country's economic interdependence with the rest of the world. The 1930s witnessed the most extreme forms of economic nationalism in Communist and National-Socialist totalitarianism. Harry Johnson argued that 'the infiltration of ideas from central Europe into the Anglo-Saxon tradition did a great deal to implant the habit of thinking in nationalistic rather than cosmopolitan terms in the Western economic tradition …' (Johnson, op. cit., p. 131). Since the 1930s, however, Anglo-Saxon economics has been a major source of nationalistic theories and policies. On the role of Keynesian economics in the spreading of economic nationalism (a factor that is also recognised by Johnson) cf. Michael A. Heilperin, *Studies in Economic Nationalism* (Geneva: Librairie Droz, 1962)

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Wilhelm Röpke, *International Economic Disintegration* (London: William Hodge, 1942). In the 1960s and the 1970s Anglo-American monetarism became part of a similar phenomenon.

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8. Cf. Simon Kuznets, *Economic Growth of Nations. Total Output and Production Structure* (Cambridge, Mass.: The Belknap Press of Harvard University, 1971).

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9. There was considerable scepticism about the chances of success of a liberal economic order, especially in the United Kingdom and in the Scandinavian countries, largely, although not exclusively, under the impact of Keynesian economics. Cf. Seymour E. Harris, *The New Economics* (New York: Reprints in Economic Classics, A. Kelley, 1965, first published in 1947)

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Thomas Balogh, *Unequal Partners*, Vols. I and II (Oxford: Blackwell, 1963). In the 1940s there were many who believed that the future of the world economy lay in the rational organisation of international *barter.* According to Ragnar Frisch, ‘it is chimerical to believe that the strangulation produced by the payments effects will be eliminated by lowering tariff barriers and restoring a freer organisation of world trade’. (Ragnar Frisch, ‘On the Need for Forecasting a Multilateral Balance of Payments’, *American Economic Review*, September 1947, p. 539).

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10. On the debate on the conflict between domestic and external objectives cf. Otto Hieronymi, *Economic Discrimination Against the United States in Western Europe 1945–1958 Dollar Shortage and the Rise of Regionalism* (Geneva: Librairie Droz, 1973) pp. 37–61, and the literature quoted there.

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11. Donald MacDougall’s famous *World Dollar Problem* was published in 1957 (London: Macmillan); as late as 1960 MacDougall continued to warn of the threat of a dollar shortage. Donald MacDougall, *The Dollar Problem; A Reappraisal*, Essays in International Finance, No. 35 (Princeton: 1960). Cf. also Hieronymi, *Economic Discrimination*, op. cit.

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12. Cf. Robert Triffin, *Gold and the Dollar Crisis* (New Haven: Yale University Press, 1960).

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17. The United States was the principal mover behind the return to monetary nationalism and the drive towards a system of national currencies without any stable link to each other or to gold. As noted by the IMF’s Legal Counsel, ‘the United States sought to eradicate from the Second Amendment [of the

IMF Articles] any obligation to convert foreign official holdings of a currency and to avoid any impression that the United States would be willing ever again to undertake such a commitment in relation to the dollar.' (Joseph Gold, *The Second Amendment of the Funds Articles of Agreement*, Washington, DC: International Monetary Fund, 1978, p. 13).

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20. Some of these limitations were noted in Robert Mundell's article 'Capital Mobility and Stabilization under Fixed and Flexible Exchange Rates' (1963), reprinted in Richard E. Caves and Harry G. Johnson (ed.), *Readings in International Economics* (London: George Allen and Unwin, 1968) pp. 487–99. On the cost of adjustment and the greater burden of the weak currency countries, cf. also Otto Hieronymi, 'The New Economic Order: The Need for Increased Growth in the Developed Countries', *Annals of International Studies*, Vol. 7, Geneva 1976. Otmar Emminger, while an ardent advocate of floating, also recognises the lack of symmetry in the burden of adjustment under the present system.

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Cf. Otmar Emminger in Robert Mundell and Jacques J. Polak (eds.), *The New International Monetary System* (Columbia University Press, 1977) pp. 4–7.

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21. Cf. Milton Friedman, 'The Case for Flexible Exchange Rates' in *Essays in Positive Economics* (Chicago: University of Chicago Press, 1953) and James Meade, 'The Case for Variable Exchange Rates', *Three Banks Review*, 1955. As recently as 1976 'Professor Corden remarked that floating exchange rates had spared the world a multitude of trade restrictions which, in a fixed-exchange-rate world, would have been imposed by governments trying to cope with the emergency balance-of-payments situation arising from the oil price increase. Instead of trade restrictions governments had resorted to a superior method of adjusting to a payments imbalance.'

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In Harry G.Johnson, *Trade Negotiations and the New International Monetary System*, Gerard and Victoria Curzon (eds.), (Geneva: Graduate Institute of International Studies, 1976) p. 34. This argument confuses the ability of strong currency countries to correct the terms of trade by revaluing their currencies, and the increased burden that fell on the weak currency countries as a result of the combined impact of the oil price increase *and* devaluation. For the same fallacy cf. the IMF report quoted above.

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24. Jean-Marcel Jeanneney, *Pour un nouveau protectionisme* (Paris: Seuil, 1978) and Francis Cripps and Wynne Godley, 'Control of Imports as a Means to Full Employment and the Expansion of World Trade: the UK's Case', *Cambridge Journal of Economics*, September 1978, pp. 327–34.

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27. M. A. Heilperin, *The Trade of Nations* (London: Longmanns, Green and Co., 1946) p.50.

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29. Harry Johnson's dictum that 'fixed rates produce the times of crisis, and floating rates resolve them', (Harry Johnson, 'The Future of Floating Rates' in E. Claasen and P. Salin, (eds.), *Recent Issues in International Monetary Economics*, (Amsterdam: North-Holland, 1976, p. 417) became the conventional wisdom of the 1970s. It is as firmly believed in by the Italian Communist Party (cf. *Unita*, 3 December 1978, quoted in *Le Monde*, 10 December 1978) as by the ORDO liberals in Germany (cf. Alfred Bosch, Walter Eucken Institut, 'Nationale und internationale Aspekte der deutschen Stabilisierungspolitik', *Neue Zürcher Zeitung*, 2/3 December 1978).

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