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Economic globalization vs mercantilism

Jacques Fontanel

Conference Economists Against Arms Race

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New Orleans, USA, 7 January 2001.

For mercantilism, the main objective of economic action is to increase the power of the Prince (Machiavelli). With the rise of capitalism and the market economy, liberal economists strongly criticized state management of the national economy. The centralization of political power was often seen as a major brake on the market economy and thus on economic development. Since 1990, the history of capitalism seems to have stopped being written within national borders. We are moving from the wealth of nations to the wealth of the world. However, despite the existence of the World Trade Organization, there is in fact no supranational authority capable of imposing rules on multinational markets, which are often speculative and interested mainly in short-term profit, thus threatening the sovereignty of nations. Yet market system generalization is often perceived as a factor of democracy. This statement is debatable. As states have lost most of their economic power, the electorate is the victim of a democratic illusion comparable to Keynes' monetary illusion. The risk is the progressive establishment of international plutocratic systems which, within each state, will defend private interests, sometimes in competition from state to state. War and economic war are not over.

Pour le mercantilisme, l'objectif principal de l'action économique est d'accroître le pouvoir du Prince (Machiavel). Avec l'essor du capitalisme et de l'économie de marché, les économistes libéraux ont fortement critiqué la gestion étatique de l'économie nationale. La centralisation du pouvoir politique était souvent considérée comme un frein majeur à l'économie de marché et donc au développement économique. Depuis 1990, l'histoire du capitalisme semble avoir cessé de s'écrire à l'intérieur des frontières nationales. On passe de la richesse des nations à la richesse du monde. Cependant, malgré l'existence de l'Organisation mondiale du commerce, il n'existe en fait aucune autorité

supranationale capable d'imposer des règles aux marchés multinationaux, souvent spéculatifs et intéressés principalement par le profit à court terme, menaçant ainsi la souveraineté des nations. Pourtant, la "marchandisation" est souvent perçue comme un facteur de démocratie. Cette affirmation est discutable. Les Etats ayant perdu l'essentiel de leur pouvoir économique, l'électorat est victime d'une illusion démocratique comparable à l'illusion monétaire de Keynes. Le risque est la mise en place progressive de systèmes ploutocratiques internationaux qui, au sein de chaque Etat, défendront des intérêts privés, parfois en concurrence d'Etat à Etat. La guerre et la guerre économique ne sont pas terminées.

Etat, mercantilisme, économie de marché, economic war, Organisation Mondiale du Commerce

State, mercantilism, market economy, economic war, World Trade Organization

For mercantilism, the main objective of economic action is to increase the power of the Prince (Machiavelli). The economy develops thanks to a strong state and in return the economic policy of the Prince favors the national economic development. This theory did not always work well. Colbert, a good mercantilist, banned grain exports from the kingdom, so as not to strengthen the economy of his potential enemies, which caused a depression in national production (obviously contrary to his objective). This policy would be followed, much later, by the United States against its systemic opponent, the USSR. With the criticism of state management and the return of hard-line liberalism, the state gradually gained a "bad reputation" as an economic agent. The centralization of political power was often judged to be fatal to the market economy and thus to economic development (Baechler 1971). However, it is not so much the strength of this power that has condemned it as its rentier nature, its permanent abuse. The state does not encourage the production of wealth. It even creates increasing obstacles to it. A strong central power is not in contradiction with the development of the economy.

After the "revival" of state action during the Keynesian revolution, the end of the Trente Glorieuses led to the development of more liberal slogans, such as "less state" for "better state", or "modern state, modest state" (Crozier, 1979). Now, with the criticisms levelled at its leaders, the state is no more than a pressure group, certainly still dominant in the constituted nations, but often dominated by other "entryist" groups. The question is whether the nation-state has become a prisoner of forces beyond its control. Spectacular changes have taken place: international trade has grown faster than national production; markets are globalizing quantitatively and qualitatively; firms are proposing to regulate sectors through agreements, to avoid conflicts. The MNCs are seeking to establish private law rules for international competition, without calling on international economic organizations. The states have always had, whether they like it or not, a particular responsibility in the development of the national economy. This is the great problem of the end of the 20th century, which has lost its humanist values and which accepts a state whose main economic action is to listen to managers who defend the interests of liberalism. When economic relations systematically go beyond the borders of the nation-state, the potential for macro-economic regulation is reduced, as internationalization limits society's capacity to civilize its economy. There is no supranational sovereignty to control the international economy integrated into fragmented sovereignties, which reduces the weight of politics in relation to economics. But supranationality reduces democracy and places the participation of citizens in bureaucratic rules. Economic policy, especially industrial and technological policy, is greatly

compromised by globalization. From now on, it has no other ambition than to encourage or prevent relocation, which is likely to call into question the theory of comparative advantage. The notion of competitive advantage developed by Michael Porter is interesting, but it does not indicate to which competitiveness one should refer, that of economic agents in national areas or that of multinational or global firms.

Keynesian states had accepted responsibility for managing employment and maintaining high levels of consumption. In crisis situations, they took control of the national economy by innovating economic policies through the threefold channel of public expenditure and revenue, market legislation and social support for citizens. They had learned to solve major macroeconomic problems, but the social policy that was accepted everywhere and by everyone is now sacrificed on the altar of the necessary competitiveness in a globalized economic world. It is true that political power must establish order and that this activity is not, a priori, guided by the objective of maximizing profit in a market. However, for neo-liberals, the state is first and foremost the defender of private property and the order it implies. The development of free-trade zones places companies in good conditions, first by escaping the regulatory control of a single state and by facilitating the mobility of capital. The importance of the international market is favored by the fact that there are no supranational authorities that can enforce the discipline of multinational markets, which threaten the sovereignty of nations. The European Union is struggling to organize the economic, political and social integration of Europe and the vacuum created is filled by market forces. Multinational firms are then able to move into the interstices. With the system of zones, there is no state to impose any discipline other than that of respect for private property, and international organizations are not always equipped with sufficient instruments to ensure democratic regulation of the economy. There is even a "ratchet effect", which leads to going in the sole direction of privatization, without conceiving the opposite path. But privatization is not only a change of ownership, it is also a complete transformation of the activity itself, in favor of profit and solvent consumers.

The end of Keynesian policy has not completely dissuaded states from intervening in economic life. They still have a significant role to play. Generally speaking, they seek to :

- transform national markets into international markets; industrial policies then only make sense in the European context, and not at the national level, where such action appears to be an intolerable restriction on market competition;

- to coordinate national economic policy within the framework of integrated markets, which also implies privatization and deregulation; it is

noteworthy that in the convergence and criteria defined by the European Union, nothing has been decided concerning the maximum level of unemployment or the minimum level of social protection, which is very significant of the will not to hinder the markets;

- Restoring and defending national competitiveness in an international economy, in the face of relocation and the search for international investments, through the implementation of aid plans, special administrative procedures, actions concerning risk perception, and the definition of rules of good competition at the international level.

According to the United Nations World Investment Report, there were more than 35,000 transnational companies and 200,000 subsidiaries in 1992. This type of management of the economy reduces the importance of democracy and hardly promotes growth with stability. While state intervention is often rejected, it is nonetheless necessary and international cooperation of governments is inescapable. The role of the state is not only that of power, but also that of permissiveness. With its growing indebtedness, especially in the social democratic countries, the state has been judged to be a bad manager of the economy. But the lessons of Keynes should be reviewed in the light of the new economic situation. A distinction must be made between capital and ordinary public spending, because the former creates opportunities for the future. Robert Eisner shows that the U.S. deficit would have been eliminated simply by accepting the simple idea that public capital spending is spending that produces long-term benefits. The intergenerational transfer creates a dilemma. Later generations will receive what others have built, even with their debt.

For Barro and Ricardian equivalence, today's debts are tomorrow's taxes, which implies that today's debts do not produce any wealth. This is obviously not correct, unless one imagines that public infrastructure or education have no positive effect on long-term economic growth. Cutting public spending is not always the answer. Tax cuts often benefit shareholders when they should be benefiting businesses. More precise measurement tools are needed.

Globalization creates a fundamental short circuit between national political institutions and the control of the economy. Globalization implies that international geo-economic forces dictate national economic policies. Governments lose their levers of control. The US effort to control the dollar led to the Eurodollar market. Every effort at national regulation provokes a powerful reaction from transnational groups. The Japanese government tried to prevent trading in complex financial derivatives that moved the Nikkei index in Tokyo. The trade was exported to Singapore. The era of national regulation is over. Business goes where there is no regulation. The weak control of financial

movements can be dangerous. National laws are then put in competition (tax law, labor law, commercial law, banking law, etc.). Globalization creates pressures that are always downward, never upward. With satellites and electronics, the world has probably passed the point of no return for the maintenance of cultural exception. Multinational firms could gradually replace public funding.

Financial shocks are increasingly powerful, even though economic theory assumes that they are impossible, given the rationality of agents and the application of flexible exchange rates. Governments have fewer and fewer instruments to control international monetary and financial flows. On a normal day, more than 1.3 trillion dollars are exchanged on the international markets, while world exports do not exceed 10 billion dollars per day. The crisis in Mexico could just as easily have occurred in the Philippines, Indonesia or Brazil. But a chain of circumstances created the conditions for the crisis in Mexico, which had to follow the rules and policies dictated by the IMF and the World Bank, leading immediately to economic recession. After the crisis, inflation was 60%, 13 years of growth in living standards were sacrificed to introduce market reforms, more than 4 million people had to reduce their hours by 15 hours a week and 500,000 additional unemployed were created. The loss of purchasing power was 33%, and even 50% for the middle classes. The crisis has been terrible. The United States now controls the Mexican oil revenues in a FED account and guarantees the assets of Mexican "non-citizens". Mexico's economic defaults were not large, and were mainly due to the private sector, as the public sector was not a net borrower. The price of restoring the confidence of international investors was very high.

Structural adjustment has often been tried in indebted countries in Asia and Latin America. It proposes a contraction of the budget deficit, devaluation of the currency (to modify the terms of internal and external trade between tradable and non-tradable goods), monetary rigor (selectivity of private sector loans, increase in interest rates), modification of the production incentive system (increase in agricultural prices, rationalization of state interventions in the markets, privatization), reduction of industrial protection by forcing the application of comparative advantages and a reduction in costs. Applied early enough, this policy allowed the re-establishment of the great balances and the restoration of the confidence of foreign operators, at the cost of a high social cost (lost decade of development in Latin America for 1980-1990).

Internationalization calls for a renewed democratic national policy. The question is whether we are witnessing the end of economic ideologies (socialist, with the USSR, and socio-democratic with Sweden). Economic activity is then presented as obeying eternal and universal laws, and any action by the

state is then to the detriment of the economy. An international financial community can exercise more and more political control over the states, which have the exclusive responsibility for democratic institutions. But globalization also implies NAFTA or the European Union, which depend on political decisions that establish the rules of free competition, capital mobility and minimal state intervention. Deregulation is also an economic policy. There is a fragmentation of public power in a unified economy. The Treaties set severe constraints on the action of national public authorities, and Europe does not replace the interventionist state at the higher level. The main state tools have become the establishment of rights and incentives rather than obligations and constraints, thus reproducing the anarchic voluntarism of the international system at the national level. Nevertheless, the state still monopolizes sovereignty and public power. Markets, like societies, need direction and guidance. Most firms sell locally. Markets should be controlled by democratic procedures, not by the managers of highly volatile markets.

The state must respond to two policy challenges:

- The first challenge comes from market enlargement. States must carefully define their trade policy, because the free market can lead in the short term to dramatic solutions (such as the "beggar-thy-neighbor" policy) when things go wrong, especially in terms of employment. At present, while a return to protectionism is not on the agenda, it remains an effective instrument for protecting the losers or for setting up a new industry. States can react to globalization through regionalization, by strengthening their own economic policy instruments, but also by fully exercising the negotiating powers they have in international bodies. The state should be able to promote the dissemination of human rights, democracy and the improvement of working conditions, national economic development through sustainable overall economic growth and the improvement of the social welfare of all workers. This is why in a context of globalization, international economic organizations are in principle so useful. However, they are often rendered ineffective by too much bureaucracy. Introducing a social clause in these bodies is always a lost cause. Developed countries even use the threat of competition from workers in developing countries to undermine the gains made by workers. International coordination is a long apprenticeship, which cannot work effectively without political will.

- The second challenge raises the question of the active role of the global liberalization order on the economic future of the nation. Distinct national systems are capable of redefining the rules of the game by responding to different incentive environments. States can then ask themselves what actions to take to turn a potential comparative advantage into an economic production advantage. National answers are increasingly difficult to find. Human capital

becomes one of the only resources of competitive advantage in a global economy, given the mobility of other factors of production and the constraints of trade treaties. The aim of policies is therefore first to create an infrastructure and a climate that strengthen the country's competitiveness, then to provide the instruments to support workers in the adjustments required as a result of globalization, and finally to protect the quality of working life, health, education and training of citizens.

New functions of the state have been proposed. Community economic development is one example. There are two alternative scenarios.

- In the first, the state integrates post-Fordist changes into state administrative processes without making a political transition to more democracy, developing decentralization, improving public services and listening to consumers and citizens. The political goal is then to preserve public services through a combination of innovation and centralized supervision. National politics implies fragmented sovereignty. The return to the market presupposes, at least during the transition period, a high level of state activism, especially in terms of regulation.

- In the second, the state not only wants to transform the idea and implementation of public service, it also proposes to make democratic representation stronger. Power is shifting. The State subcontracts, while keeping the possibility of resuming its delegation, certain collective responsibilities to associations or organized groups. The initiative of collective actions emerge, unequally, from a great diversity of groups, with different interests and capacities.

Economic globalization favors the private sphere over public service. All activities are in competition with each other and the World Trade Organization will have great difficulty in enforcing in the long term, through the DSB (Dispute Settlement Body), the maintenance of rules that could reduce the role of competition. Public enterprises formed as monopolies to provide a national public service have an uncertain future, which will depend largely not on citizens directly, but on the application of competitive rules supported by the private sector in other countries. The Washington Consensus approved by the International Monetary Fund gives an example of this by always privileging the private sector over the citizens' idea of a public service less open to the notion of profit and the satisfaction of the less well-off users.

Nations have played a determining role in the development of capitalism, and national capitalism has not disappeared, even if it is no longer the only coherent form of capital organization. MNFs have not yet taken over the whole of national economies and national defense still has a meaning. The nation-state, which alone defines a sufficient democratic space, is not

necessarily always too small to respond to today's challenges, even if the Chernobyl accident underlines the growing distortion between the model of the sovereign state and technological and environmental realities. The national level remains significant, but it is no longer always the main strategic interlocutor for the key actors of scientific development, technological innovation and socio-economic growth. The current economic globalization does not imply its equivalent in the political domain. The history of capitalism has ceased to be written within borders. It moves from the wealth of nations to the wealth of the world. Marketization" is often perceived as a factor of democracy. This statement is debatable. The values of individual interest and profit are valued, and the great private money powers can free themselves from all the tutelage of the States by putting them in competition, notably for personnel costs, the location of head offices, and corporate taxation. Under these conditions, the state itself can only become the custodian of the interests of the large multinational firms. Since the states have lost most of their economic power, the electorate is the victim of a democratic illusion comparable to Keynes' monetary illusion. The risk is the progressive establishment of international plutocratic systems, which, within each state, will defend private interests, sometimes in competition from state to state. War and economic war are not over.

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