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To cite this version:

Eric Brunat, Jacques Fontanel. When Mercantilism Upsets Neo-Classical Liberal Thinking, the Pandemic Covid-19 as a Revelation. 17th Binghamton Symposium On HealthCare Management and Policy : International Conference: Disaster Management: Global Pandemic and Its Impact, University of Binghamton, Jan 2023, Binghamton, New York, United States. hal-03999929

HAL Id: hal-03999929

https://hal.univ-grenoble-alpes.fr/hal-03999929v1

Submitted on 22 Feb 2023

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When Mercantilism Upsets Neo-Classical Liberal Thinking, the Pandemic Covid-19 as a Revelation

Binghamtom University, NY
first version presented on 27 January, 2023

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Abstract:

The pandemic shock of Covid-19 had the indirect but powerful consequence of highlighting the limits of economic globalization, in a new world where contestation of the West is growing and where dependence on imported products or intermediate consumption are points of weakness in case of embargo, war or other points of dissonance. National security is not only a military matter, it also includes, more than ever, the sectors of health, education, industrial risks or the protection and availability of natural resources. States can no longer forget that products and services essential to human survival (food, medicines, civil protection) must always be available within the country, either in stock or in immediate production capacity. The same applies to the control of vital technologies (especially digital). Mercantilist thinking is regaining strength in the face of the excesses of economic globalization. The power relations that were openly expressed in the military order are being extended to the economic sector, as evidenced by the resurgence of economic sanctions. In the context of nuclear dissuasion, for the superpowers, it is no longer a question of obtaining mutual benefits through international exchanges, the will to weaken the power of the other becomes prevalent.

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After the collapse of the Soviet Union, the process of economic globalization seemed inevitable (Brunat, 2010). Ideological conflicts having "disappeared" with the end of the Cold War, the American market economy and democracy having prevailed, the world was to enter a period expurgated of all conflicts. An "end of history" (Fukuyama, 1992), a unipolar world, harmonious and without military conflicts or economic and political rivalries of any kind were programmed. The 'peaceful' free trade advocated in the 18th century by Montesquieu became the basis of global social life. Neoclassical economists proposed deregulation, a decompartmentalization of national economies and international finance. According to this conception, strongly influenced by the Washington Consensus adopted by the main international organizations - including the IMF and the World Bank - and by many countries, the state could only exercise the regalian functions of external security, maintenance of public order, definition of law and justice, and a certain economic and financial sovereignty, particularly in matters of currency. The main principle was 'less state for a better state', as a public power protecting the freedom of trade and industry. The processes of privatization, deregulation of the economy (finance, transport, education, health, etc.), and stabilization of the major macroeconomic aggregates became the 'scientific' doxa.

Multinationals, freed from the demands of individual States, could then impose their positive trade laws and increase global GDP for the benefit of the ecumene. In this context, wars would become increasingly unlikely, as economic interdependencies would reduce the possibility of armed conflict. The fear of nuclear war would fade, American power and capitalism could organize, or even impose, world peace. The result would be optimal economic growth, which would benefit all countries through the trickle-down effect of the income of the rich as a factor in the fight against poverty, thus reducing the spread of famine and hunger, at least in the long term. But, for Keynes, “in the long run we will all be dead”. The story was beautiful, a fairy tale. However, wars, terrorism and economic warfare have never ceased to exist. Economics is an interesting compass, but it makes serious mistakes by always omitting specifically political or sociological factors (Barre, Fontanel, 1991).

Today, as in the case of the Covid-19 pandemic and the war in Ukraine, people's well-being seems to be shrinking over time. The

economic system based on maximum and immediate profit for firms, neglects the issues of global public health, the depletion of the planet's resources and global warming, three new scourges which, already today and even more tomorrow, affect the whole ecumene (Guilhaudis, Fontanel, 2019). For the liberal school standard, the government has no possibility to develop a public program, while each citizen becomes both culprit and victim of disease transmission.

The pandemic shock has highlighted the flaws of an economic system that is both enlightened and blinded by a globalized but highly unstable market economy. It highlights the dangers of interdependence in a world of States with competing ambitions and potential conflicts, the inability to regulate international markets in the face of these more or less unexpected events, the degradation of public services essential to collective life, but also the rise in societal inequalities of income, wealth and power of citizens. Behind constitutional democracy, a "de facto" plutocracy is taking hold and triumphing (Brunat, Fontanel, 2021). In fact, these transformations already existed, but the Covid-19 brought them to light.

While it was a global pandemic, each country sought its own solutions, sometimes in fierce competition within the same regional organization. While vaccination should probably have been universal, only countries with the financial means to purchase the necessary products were able to do so, with questionable effectiveness given that the pandemic knows no borders. But globalization, from finance to human rights, is plural, with different rhythms and speeds, and is highly asymmetric in its impacts, depending on the nature of institutional development and natural conditions.

Today, a hybrid emergency system is taking place, and a new neo-mercantilism made of bricks and mortar is taking hold. The liberal ideology of short-term profit maximization and the "trickledown theory" remain fundamentally unchallenged, but government interventions are often short-term, crisis-driven band-aids, insufficient to counter the steady and lasting decline in well-being. In times of social violence, the state is therefore, as always, called upon to help. The notion of public authorities and the State in economics is vague, including the relations between federal States as well as international, regional or local public organizations. The sovereign State cedes part of its functions and privileges to international economic organizations whose objective is to set the rules of free trade in order to protect multinational companies from excessive intervention by the national State.

However, in the context of power relations between the great powers, multinational firms are above all concerned with their own interests and they use all the levers of public power to this end. They present themselves as essential international players in the race for leadership by the states that created them. Conceived and formatted after the Second World War, international organizations have neither supranational democratic legitimacy nor the means to exercise regulation in times of crisis in interconnected markets. They remain bogged down in the promotion of a breathless liberalism concerned mainly by production and profits that justifies the excessively unequal distribution of wealth and pays little attention to environmental balances (Brunat, 2019; Saez & Zucman, 2020). The political will and the tools for a true supranational socio-economic regulation are lacking, and particularly in a crisis situation where the lack of coordination between states, mainly between military and economic superpowers, is lacking. States delegate to multinational companies and trusts the promotion of a dominant ideology at the origin of the dysfunctions and excesses of globalization.

The main failure is in the war and the economic war (Coulomb, Fontanel, 2013). In the usual dictionaries, peace is defined as "the absence of war", which is presented as "the use of armed force" to resolve a conflict situation. This definition highlights the endemic permanence of wars, but also the historical force of recourse to armed conflict (Fontanel, 2019). War has always been an instrument of predation and power. It would become increasingly unlikely as economic interdependence would reduce the opportunities for armed conflict. The fear of nuclear war would fade, and American power and capitalism could organize, if not impose, world peace. Globalization has never removed international economic sanctions against rogue states, but it is strongly challenged in practice with regard to countries that use their armed force against another country, as is the case with Russia since the invasion of Crimea (Brunat, Fontanel, 2018). It has therefore not produced the expected peaceful effects in the face of armed conflicts that respond to a classic geopolitical logic of power and domination over border territories.

The State system remains the basis of international relations, and the political system can be democratic, autocratic, oligarchic or plutocratic, which in an economic system advocating free trade and industry modifies the practical experiences of unbridled or more regulated capitalism. As a general rule, "private economic warfare" can be the result of the strategy of multinational firms (economic intelligence, lobbying and political, financial and technological pressure, or even industrial

espionage "even among friends", with the help of interested or controlled states. Sanctions can be either unilateral when a single country applies them, or multilateral when two or more countries are involved. There are a lot of actions such as economic embargoes, boycotts, asset and foreign investment freezes, visa bans on political and business leaders, the use of cyberattacks in the digital economy and the enforcement of "secondary sanctions" (Bonnecarrère, 2018; Laïdi, 2019; Suscheva, Fontanel, 2020).

Mercantilism is not becoming the rule of international relations, but many public actions would not have been, repudiated by many mercantilists or nationalists, such as List (1857) who promoted the protection of the national economy in order to prepare it for international competition. Neo-mercantilists denounce the imperfect and unequal competition, which in turn causes serious international imbalances and tensions. States have been increasingly challenged as to their role, particularly in the world economic order. Mercantilists have always emphasized the importance of international State power at the expense of the standard of living of citizens. Governments value their GDP as the ultimate economic goal while multinational firms struggle to maximize their profits. Their actions on ecology, climate or air pollution have been strongly inspired by the decisions of specialized international organizations, too often advised by dominant business and financial interests.

The balance of power is re-emerging and imperialist struggles remain alive today, either through immediate war or through the threat of war. War continues, globalization has not produced the peaceful effects expected. It is the expression of the law of the strongest, which has always existed everywhere. Economic warfare has thus gone beyond the Cold War to become permanent, with "rogue states" designated as such by the United States. The problem is more general, even with political allies. In the event of a threat of cyberattacks, how can the European Union protect itself from the power of GAFAM or malware from Russia or China?

In this context, governments intervene to alter economic relations to their advantage, resembling mercantilism' aspirations. Of course, this is not to say that mercantilism is becoming the rule of international relations, but many public actions would have been validated by many mercantilists. It is State policies that go beyond neo-mercantilism, which aims to maximize country's exports and curb imports, in order to receive large fiscal and trade surpluses, thereby providing a strategic economic incentive to the State. When there is a "market effect", the new keynesianism and mercantilism aims to achieve reindustrialization objectives by increasing inward direct investment. The process following

the observations of Robert Mundell can be understood here as an investment accelerator bypassing the barriers to imports of goods mainly (Mundell, 1957).

The new mercantilism aims to achieve reindustrialization objectives through increased inward direct investment. But clearly, States have been increasingly challenged as to their role, particularly in the economic order. Their actions on ecology, climate or air pollution have been strongly inspired by the decisions of specialized international organizations, too often advised by dominant business and financial interests. In this context, States have been unable to assume the full responsibility for the components of national security. Indeed, States develop their strategies in response to the interests of the ruling elites, who seek to advance their own interests by collectively managing the downsides of such a policy.

The State can act by increasing spending on public research and development to give the national firms a competitive edge. It is worth recalling that there are exceptions to the World Trade Organization's "Most favored-nations provisions on agriculture, regional and customs unions, the Generalized System of Preference for developing countries and national security. USA military spending has often been used as a hedge for the US government's industrial policy, forbidden by the WTO. The famous dispute between Boeing and Airbus is based on subsidies awarded in the form of orders by the US government and European States. The rise of the so-called GAFAMs owes much to the US government support for research and development, the market, legislation and diplomatic influence. The fight against Huewei and other Chinese products in this lucrative digital economy markets is being waged with the support of the White House. NATO countries are also bound by US rules.

These provisions recall, in a way, the Navigation Acts instituted by mercantilist England in the seventeenth century. Governments have often established competitive clusters that enable the production of new products, infrastructures and development of goods and services, as in Japan, China or Singapore and even Germany. In the Unites States, public support for R&D and military procurement play a significant, if not essential, role to the development of high-tech activities: this is true industrial policy which has been able to fertilize a competitive sector, because it involves public programs actors and no crowding-out effect for R&D, due to the importance of the American scientific and technological system.

The Cold War was an extraordinary impetus for the territorial densification of California's industrial fabric, for example. Considerable sums of money from the federal budget passed through UCLA's research laboratories and led to the creation of major industrial activities. The creative genius of Bill Gates (Microsoft) or Steve Job (Apple) is certainly not disputed, but nothing could have been done without dense relations between political authorities - universities - companies (Chastenet, Reverdy, Brunat, 1990). The industrial policy of the United States and its policy of innovation are closely correlated to military spending, which has ultimately irrigated the private sector and the genesis of very large groups that are now multinationals (Fontanel, Sushcheva, 2019).

As Adam Smith feared in his day, in free-market system the state must prevent the creation of “de facto” monopolies. Today the large production and financial firms exert considerable influence on the decisions of a state and of intergovernmental multilateralism. Behind the market economies, there are today multinational firms that are always ready to engage in procedures that allow them to enhance their own profit and dividends. Having dominant information organs, they value the efficiency of liberalism, they propose technological or legal norms that are favorable to them, they take advantage of the oppositions between national and international public actors to maintain or even increase their advantages and they apply a policy of all-out lobbying, under cover of scientific analyses.

The private sector of oligopolistic production is able to influence national governments and parliaments. It apparently defends the belief in a "trickle-down theory", according to which the enrichment of the "first in line" (the richest) would eventually benefit everyone. This is obviously not borne out by modern history. The groups and shareholders of large multinational companies and banks have appropriated most of the growth, even in crisis situation, thanks to their financial power and their political and ideological connections. The new digital technologies create daily dependency and are able to actively participate in the decision and election processes all over the world, according to the interests of their producers and the Nation that hosts them.

The “beggar-thy-neighbor strategy” leads a country to solve its own economic problems by means which worsen the economic situation of other countries. It characterizes the situation of competitive devaluation in order to improve its competitive national economy. The example of the People's Republic of China in this respect in the recent period is interesting to study. China, which always defends the market economy, carries out at

its level a real mercantilist policy for all the essential sectors of its economy and the United States of Donald Trump did not hesitate either to take measures which were so many infringements to the market economy.

For neo-mercantilists, GDP economic growth is the main objective. However, natural or organized scarcity are the main factors for the future conflicts. For example, rare earths have exceptional natural qualities for making clean electricity and for producing new information and communication technologies. However, they have three disadvantages: firstly, they are available or listed in limited quantities compared to the potential demand; secondly, their extraction is both costly and highly polluting. Finally, most of these metals are poorly distributed in the world, to the great advantage of China, which is taking advantage of this monopoly to attract many high value-added activities dependent on rare metals. Economic, political and military conflicts can arise from this scarcity and from the balance of power between States.

The power relations among all of these collective organizations interfere with the international system as it must be, “in theory”. The global competition is not fair and the States divergence are not specifically economic. The international power is a goal for some countries or States associations. For Bill Clinton (2000) "to realize the full opportunities of our economy, we must reach beyond our borders and shape the revolution that breaks down barriers and builds new networks... We must be at the center of any global network". In this context, actions are needed to define and to impose, at the international level, the US codes and standards for health, environment and digital technologies.

In this context, States plays a major role in the race for wealth or in the fight against an economic crisis. In order to fight against the pandemic-induces economic crisis; President Joe Biden develops a Keynesian program and mercantilist policy. Thus, it is the government’s duty to stimulate the national economic activity and employment. During the period of increasing protest against the way in which modern production is developed and the dangers involved, White House intend to help domestic firms, thereby both improving the export potential and reducing imports. A Keynesian policy that lacks border protection is doomed to failure. Emerging China, for example, also has a very large "market effect" linked to its demographics, the genesis of its middle class, and its announced growth and development objectives. Beijing's ambition is to become the world's largest economy by 2049. For this autocracy, all policies are adopted with reference mainly to national security; to the power of the state and to the struggle for economic development, which is supposed to indirectly improve the well-being of its citizens.

For some radical economists, the operation of the market economy is mainly managed by international relations imposed by the dominant economic powers, which are not limited to superpowers but extended more widely to multinational companies and private financial powers. Following P. Krugman (1996), these institutions develop a kind of "enlightened mercantilism", which no longer offers a pure market trade as a basic rule, but instead pursues a kind of mutually beneficial trade concessions. However, the balance of power is obviously different between States, depending on their economic and military strengths, and multinational companies depending on the specific character of the goods and services on offer. The pharmaceutical companies that have sold pandemic vaccines to market have simultaneously established their own rules of operation based on the expectations and financing capacity of public clients. In this context, the States have not decided on common policies aimed at reducing the profits of these companies, The governments were in competition themselves in order to obtain the vaccines as quickly as possible.

The capitalism of liberal thinking is in crisis (Galbraith, 2014; Aglietta and al., 2019; Picketty, 2019; Case & Deaton, 2020). At a time when the acceleration of major or more minor innovations is transforming the relevant spaces of socio-economic regulation, particularly the Nation-State, when the masses and financial flows are becoming uncontrollable, when the effects of climate change and the finiteness of natural resources should force us to reflect on the real sustainability of the dominant system of accumulation, logically implying determined cooperation, institutional innovations and more widely shared collective political visions, States that lack theoretical and practical tools, are tempted to turn in on themselves (Brunat, 2019), providing a breeding ground for new populisms or other forms of nationalism and radicalism. International economic relations can mainly become a friendly countries affair, opening the way to possible disturbing conflicts between Western democracies and united or multiform economic and military alliances between today's autocracies, such as China, Russia or India.

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