Lecture 5

National Economies, Modern States & Trade
Keys

• Economic territory
  ✤ The modern state as key economic space

• State makes economies & v.v.
  ✤ Political economy

• Trade as relation between states

• Neoliberalism
  ✤ Latest form of liberalism
  ✤ Political economy
National Economies, Modern States & Trade

I. National Economies
II. The Modern State
III. International Trade
IV. Neoliberalism
I. National Economies

A. Economic Territory

B. States & Economies

C. States & Politics
Economic Territories

- Where economies take place
  - Territorial scales
    - City, region, nation, continent, globe, etc.

- Bounded spaces
  - Delineation & closure
    - Open & closed territories (e.g. cities vs. nations)

- Unified spaces
  - High interaction & homogeneity
    - Differentiation of economic territories

See also lectures 7 & 8 & 9
I. National Economies

A. Economy & Territory

B. States & Economies

C. States & Politics
Why Economies Need States

- Laws of the market (rules of the game)
  - Property
    - Ownership & incorp’n
  - Exchange
    - contracts, torts, nuisance, etc.

- Protection
  - By courts, police, prison
  - Of property & wealth
  - Vs. rule-breakers

- Money
  - National money
  - Banking charters & rules
  - Central bank
  - National debt

- Government
  - Administer laws, money, police, etc.
  - Pay for infrastructure
  - Common policy & planning
States & Territorial Economies

- Strong(est) form of placement, bounding & unification
- Internal sovereignty & unity
  - Common & clear rules
  - Low market barriers
  - Single money & banking system
  - Unified transport & communication
- Inter-state relations
  - Boundaries & protection
  - Trade & external rules of game
  - Military force & war
In short...

- No economies without states

- Nation-states are the basic geographic unit of modern economics
  - Most economics makes ‘national’ natural

- Modern State arises with capitalism & industrialization
I. National Economies

A. Economic Territory

B. States & Economies

C. •States & Politics
Political economy

- States & governments = politics
  - Necessary political element in economics

- No states without power
  - State power is a key to economic success

- Economics as pure market theory is a fantasy
  - Classical political economists knew this
States & economic base

- State power rests on economy
  - Revenues & expenditures
  - Industry and modern warfare
  - Weight in world affairs

- Therefore, states promote the formation & growth of the economy

- The capitalist state
  - Modern state & capitalist economy
Politics & state power

- State leaders
  - Politicians
  - Civil Servants
  - Military

- Civil classes
  - Capitalists
  - Landlords
  - Workers
  - Peasants

- Who controls whom?
  - Internal balance of power

- Power & economic policy
  - Balance helps

Peter Evans, *Embedded Autonomy*
The Modern State System

- Modern states as a whole
- Inter-state politics & war
- International law & institutions
- Hegemony
National Economies, Modern States & Trade

I. National Economies
II. The Modern State
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II. The Modern State

A. Origins
B. Birth Pains
C. Consolidation
D. Consequences
Pioneer States

- Europe (1650–1870)
  - Britain (1640–60, 1688)
  - France (1789), Greece (1822)

- America (1776–1820)
  - U.S., Haiti (1776, 1803)
  - Spanish South America, Mexico (1810–30)

*Echoes of center and periphery*
19th Century States

- Europe
  - Germany (1870), Italy (1860–70)
- Americas
  - Canada (1867), Brazil (1889),
- Asia
  - Japan (1863), Thailand (1909), China (1911)
20th Century States

- Post–WW1 – end of empire in Europe
  - Europe (Russia, Austria–Hungary)
    - Russia, Poland, Hungary, Czechoslovakia, Yugoslavia, etc.
  - Middle East (Ottoman)
    - Egypt, Turkey, Morocco, etc.

- Post–WW2 – end of European empires
  - Asia (India, Indonesia, etc)
  - Africa & Caribbean

- Late 20th century – end of USSR, last colonies
  - From 100 to 200+
II. The Modern State

A. Origins
B. Birth Pains
C. Consolidation
D. Consequences
Internal Revolution
Territorial unification
Territorial expansion

- Westward expansion > 1800
  - Old Northwest
  - Erie Canal
  - Farmer’s Empire

- Continental conquest > 1850
  - California & the Far West
    - Mining & timber
  - Centrality of Midwest
    - Agro-industrialization & Fordism
Disintegration & decolonization
Partition

In 1971, East Pakistan declared its independence as the new nation of Bangladesh.
Breakaways

- Split-offs
  - Slovenia, Croatia, Slovakia, Bangladesh, Eritrea, Ireland
II. The Modern State

A. Origins
B. Birth Pains
C. Consolidation
D. Consequences
Territorial consolidation

- Stabilizing the territorial state
  - Imposing central authority
  - Repressing regional revolts
    - Britain/Ireland 1650s, USA 1860s, Turkey 1910s, Nigeria 1960s, Russia 2000s, Sudan 2000s, China & Tibet
  - Holding off other states
    - Columbia 1910, Chile–Bolivia–Peru 1879–84, Gran Colombia 1821–41 (Ecuador, Venezuela, Panama), Mexico–US 1846–48
Political consolidation

- **Stable government**
  - Long periods of struggle
    - France, Mexico, China, etc.

- **Republics & Parties**
  - Beyond kings & dictators
    - France, China, Japan, Germany, Italy, Indonesia, Brazil, etc.
  - Single-party stability
    - PRI in Mexico, LDP in Japan, Russia today
  - Multi-party systems
    - US, Britain etc etc.
Social consolidation

- Unifying language, religion
  - Prohibitions, schooling, legal requirements

- Nationalism
  - The modern state religion

- Economy
  - The market works its magic
Class consolidation

- Bourgeois revolutions & modern state
  - British merchants & farmers
  - US merchants, planters & farmers
  - Latin American *criollos*

- Non-bourgeois state
  - Communist States
    - Russia, China, Vietnam, Cuba.
  - National Liberation states
    - Algeria, Libya, Tunisia, Egypt, etc.
II. The Modern State

A. Origins
B. Birth Pains
C. Consolidation
D. •Consequences
Fruits of State Success

- Growing Economy
  - Markets & demand
  - Industry & agriculture
  - Finance
  - Innovation

- Effective Government
  - Stability
  - Good management
  - Sound rules & regulations
  - Lower taxes & tariffs
  - Industrial guidance

- Territorial Development
  - National space
  - External expansion
    - (see lecture 7)
States in Command

- State may create modern economy
  - And capitalist class

- More than "economic policy"
  - 2d Empire France (Napoleon III)
  - Meiji Revolution Japan
  - Korean miracle (Park Chung-hee)
Still-Born States

Palestine
Kurdistan
Chechnya
Wales
Euskadi
Fractured States

- Rent by civil war
  - Congo
  - Sudan
  - Colombia

- Riven by conflict
  - Iraq
  - Ireland
  - Bosnia
  - Burma
  - Kenya
  - Bolivia
Failed states?

Somalia
Afghanistan

- Case of Pakistan
  - Artificial borders
    - Loss of Bengal
  - Weak central control
    - Failed integration
  - Landed elite
    - Weak capital & labor
    - Stagnation
  - Military dictatorships
    - Repression & violence
Causes of failure

- Weak borders
  - Colonial boundaries
- Warring peoples
  - Deep differences & grievances
- Imperial meddling
- Lack of bourgeoisie
  - Strong landed elite
  - Backward & repressive outlook
- [Lack of working class]
  - Abuses of power
  - Lack of democracy
  - Narrow enrichment
Consequences of failure

- Political rupture
  - Civil War
  - Rebellion & ‘terrorism’

- Instability
  - Weak & shifting leaders

- Dictatorship
  - & Military bloat

- Weak economies
  - Internal markets, law, infrastructure all suffer

- Lack of policy
  - No positive steps

- Plunder by rulers
National Economies, Modern States & Trade

I. National Economies
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III. International Trade
IV. Neoliberalism
III. International Trade

A. Trade Basics

B. Trade Institutions

C. Globalization
Why Trade?

- International Division of Labor
  - Economies of specialization
    - Different products
    - Different processes

- Larger markets
  - Economies of scale (mass production)
  - Market leader profits (strong competition)

- Comparative advantage vs. competitive advantage
Trade balance

- Balance of trade = Exports - Imports
  - National account
  - Countries want positive balance
    - (Money flows in)
- Can everyone be a net exporter?
  - NO – but they all want to be!
- Is global trade zero-sum?
  - NO, because all can gain
  - NO, because all can grow
Balance of payments

- Current account
  - Trade
  - Capital income
    - (profits, interest, rents)
  - Personal income
    - (remittances etc)

- Capital account
  - Balance of investment
    - FDI + Portfolio
    - (see Part V)
Exchange rates

- Relative currency values
  - Dollar/Yen, Dollar/Euro, etc.

- Exchange rate affects trade balance
  - If currency falls: exports up, imports down
  - If currency rises: exports down, imports up

- Trade balance affects exchange rates
  - Deficit » falling value
  - Surplus » rising value

- Exchange rate policy
  - Fixed vs. floating rates
  - Managed rise or fall
III. International Trade

A. Trade Basics

B. Trade Institutions

C. Globalization
Postwar global institutions

- **Economic**
  - International Monetary Fund (IMF)
  - World Bank
  - General Agreement on Tariffs & Trade (GATT)

  Richard Peet, *The Unholy Trinity*

- **Political**
  - United Nations
From GATT to WTO

- GATT Trade negotiations (‘rounds’)
- WTO, 1995
From Fixed to Floating Exchange Rates

- Bretton Woods fixed all rates to the dollar
- US floats the dollar in 1971
- Currency trading & exchange rates (FOREX)
  - Massive sums
  - Stability or instability?

![Chart 3. 120-Day Moving Correlations of Volatilities and Movements in the Dollar-Yen Exchange Rate](chart.png)
III. International Trade

A. Trade Basics

B. Trade Institutions

C. Globalization
Growth in World Trade

Global real GDP and export growth

Indices rebased 1950=100 (semi-log scale)

- Trade rounds
- Kennedy
- Uruguay
- Tokyo
- Dillon
- Geneva
- Torquay
- Geneva
- Annecy

Exports
- Manufactured goods
- Total exports
- Fuels and mining products
- Agricultural products

Growth of Real Exports of Goods and Services, 1950-1999

Average Annual Rate of Change

Source: WTO
Growth of US Trade

- US more open to the world than ever
Trade Gap Widens
Balance on current account as a percentage of GDP, seasonally adjusted

Source: Bureau of Economic Analysis via Haver Analytics.
US Trade Deficit is largest in the world
Beyond Trade

- Spread of production
  - Part 3
- Labor migration
  - Part 4
- Financial flows
  - Part 5

- Politics & class
  - D. Harvey, Short History of Neoliberalism
National Economies, Modern States & Trade

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IV. Neoliberalism

A. Liberalism
B. Rise of Neoliberalism
C. New World Order
D. Anti–Neoliberalism
Forms of Liberalism

- Classical Liberalism (Locke, Smith)
- Free Trade (Ricardo, Samuelson)
- Export-led Growth (D. North)
- Neoliberalism (Hayek, M. Friedman)
Myths of liberalism

Liberal axioms

- Markets rule, states minimal
- Basic equality
- The state is neutral
- Capital creates wealth
- Globalization = spread of the market
- Balance of power

Reality Check

- States create markets & manage economies
- Vast inequality
- States reflect class power
- Labor creates capital
- Globalization = expanding state system
- Conflict, war & empire
"The hidden hand of the market will never work without a hidden fist. McDonald's cannot flourish without McDonnell Douglas, the designer of the US Air Force F-15. And the hidden fist that keeps the world safe for Silicon Valley's technologies to flourish is called the US Army, Air Force, Navy and Marine Corps."

Thomas Friedman - *The Lexus and the Olive Tree*
IV. Neoliberalism

A. Liberalism & the State
B. •Rise of Neoliberalism
C. New World Order
D. Anti–Neoliberalism
Neoliberalism in Theory

- Rejection of state management & Keynes
  - Both domestic & international

- Principles of Neoliberalism
  - Markets über alles
  - Reduce government
  - No more taxes
  - Hold down wages & pensions
  - Privatize state programs
  - Liberate wealth & capital
Age of Neoliberalism

- Global policy shift > 1975
  - End of postwar era
  - Profit fall & 1960s revolt

- Slaying the beasts...
  - Anti–New Deal in US
  - Anti–Social Demo in EU
  - Anti–ISI in Global South

Harvey, *A Short History of Neoliberalism*
Political Triumph

- **Chile, 1973**
  - Overthrow of Allende (other 9/11)
  - Pinochet dictator & repression
  - Privatization & wage cuts
- **New York City, 1973**
  - First city bankruptcy since 1930s
  - 2d largest budget in US
  - Takeover by bankers
  - Fiscal disciplining
- **US & UK**
  - Reagan & Thatcher
  - Defeat of labor, deregulation, privatization
Return of the Repressed

- California *coup d’État*
  - Recall & Schwarzenegger, 2003
  - GOP refusniks
- Tax cuts & deficits
  - Prop 13, 1978
  - Bankrupt state & local government
- Decline in social services
  - Schools, colleges, UC
  - Growth of prisons
  - Pay to play (tuition!)

Arnold was a huge fan of Milton Friedman. See 1990 video on www.alexartworks.com/blog/
Contradictions of Neoliberalism

"I don't want to abolish government. I simply want to reduce it to the size where I can drag it into the bathroom and drown it in the bathtub."

-- Grover Norquist
IV. Neoliberalism

A. Liberalism & the State
B. Rise of Neoliberalism
C. •New World Order
D. Anti–Neoliberalism
Structural Adjustment

- Global North imposes new order on Global South

- IMF & debt
  - Manages crises (which keep popping up)
  - Forces states to adopt neoliberal policies
    - Free trade
    - Free capital flow
    - End to government subsidies
    - Lower taxes on business
    - Privatization of state firms
World Trade Organization

- Free trader triumph (1998)
  - China joins 2001

- WTO settles trade disputes
  - Overturns national laws that interfere with trade
    - E.g., dolphin-safe tuna, MME, toxic burning
Freeing Property

- ‘Intellectual property rights’
  - Copyrights, patents & trademarks

- Freeing capital
  - ‘Free investment’ rule
  - NAFTA & EU have it
  - Not included in WTO
IV. Neoliberalism

A. Liberalism & the State
B. Rise of Neoliberalism
C. New World Order
D. ●Anti–Neoliberalism
Blowback from East Asia

- IMF resisted
  - Malaysia, China

- Asian model defended
  - (see next lecture)

- Economists in revolt
  - Stiglitz, Sachs, Krugman

- Popular revolt
  - Korea
Latin America in Revolt

- Mexico – Zapatistas
- Venezuela – Chavez
- Brazil – Lula
- Bolivia – Morales

- New Latin American trade agreements
- Cancun – WTO
Cancun

- 2003 WTO meetings
  - WTO blocked

- Unity of Global South
  - Led by Brazil, India & China

- Northern subsidies attacked
  - Europe & US farm policy
Protesting Neoliberalism

- Battle of Seattle, 1999
- G8 meetings
  - Davos, Genoa, etc.
- FTAA Miami, 2003
Radical Islam

- Against the new world order
  - Anti-liberal (both left & right)

Retort, Afflicted Powers

- US launches War on Iraq & War on Terror
  - See lecture 7