

# Economic nationalism and the global financial crisis assignment



**ASSIGN  
BUSTER**

The process of economic development entails the creation of wealth through the mobilization of human, financial, capital, physical and natural resources to generate marketable goods and services and fundamentally centres around the enhancement of a country's factors of productive capacity, namely land, labour, capital and technology. Subsequent to World War II, many Western industrial countries and former colonies were allowed the opportunity to move forward at a national level.

Economic development could not be attained either through capitalist market oriented behaviour or by means of the route of state control and economic planning that de-emphasized or rather denigrated the initiative of the individual. Prior to the crash of the U. S. financial system and the overall meltdown of the global economy, countries utilized the heavily capitalist or individualist driven approach to economic development.

This approach of economic internationalism advocated by David Hume's "Contractarian Political Theory", Sir Edward Coke's "Concept of Law Sanctioned by private arrangements" and Adam Smith's laissez-faire in the 1770's all contended that the only way to effectively create prosperity is by liberating the economy from political restriction, that is essentially eliminating all barriers to trade; subsidies, sanctions and any other fiscal tools that might be employed locally by the state to prevent the free movement of trade in attempts to protect their economy.

Advocates of economic internationalism utilize the actions of intergovernmental organisations and national programs only to promote their capitalist ideals. The ongoing global financial crisis nicknamed the '

Great Recession' signalled the shortfalls of economic internationalism. It was deemed the worst financial downturn since the Great Depression of the late 1920's into the early 1930's. This crisis was characterized by U. S. trillions of dollars decline in consumer welfare, failure of key business like General Motors, the collapse of the global housing industry and an overall deceleration in economic activity.

This credit crisis has been at the top of economic policy agenda for over a year since it poses severe consequences not only to the financial system but to overall global development. Due to growing globalization and the complexity of the financial system under the current economic internationalism regime the contagion effect of the crisis throughout the markets is unprecedented and clearly reveals the vulnerabilities of the current financial system and gave advocates of opposing views a forum to heavily critique this current system and promote theirs.

Economic Nationalism or the statist regime is a classical paradigm that entails how the state has the ability to create the ideal conditions for material progress or economic development through the avenues of intervention and regulations. Originally, state centric behaviour was articulated systematically by the mercantilists but in modern times, economic nationalism has been endorsed substantially by Karl Marx " Das Kapital" 1867 and Myrdal's 1957 and 1968 elaboration on the " vicious circle of poverty" thesis.

Advocates of this classical school believe that contrary to their individualist counterparts' beliefs, rights are a precondition for human progress and are

not additively separable attributes meaning that the diminution of one diminishes all. According to Scully “ certain prospects have more value than uncertain ones. Security of rights leads to greater (national) wealth” (Scully, 1987).

At the opening of the twentieth century after the reconstruction of the war ravaged economies and continuing into the twenty first century the main concern on the international economic agenda has been the improvement of the standard of living of those residing in underdeveloped territories. It is the view of the economic nationalists that state control and economic planning was the only effective remedy for breaking the circle of poverty that maintained the gap between the rich and the poor nations.

Appropriate commercial policy like import restrictions, foreign exchange controls and export subsidization were believed to protect budding economies from suffering from unfair disadvantages when partaking in commercial relations with the world due to the prevalence of the current open market structures under economic internationalism. Western banks felt confident enough to dramatically increase its lending capacity and so risk transfer, securitization and credit protection became regular practices attributing to the collapse of the U.

S. credit markets and the global downturn to lack of risk awareness and overconfidence leading market participants to believe that advances in credit risk modelling would prevent severe loses on highly rated tranches. The financial turmoil being experienced at the American International Group (AIG) clearly revealed the vulnerabilities in the existing market structures

fostered by economic internationalism. For instance, in the market for credit protection, participants hedge their exposures via an offsetting transaction assuming that there is no risk by the counterparty, an individualist assumption. In reality however, this was not the case therefore attributing to the credit crisis continuing currently. Given the current state of the global economy there is no doubt that immediate action has to be taken in order to stabilize its magnitude and growth. After prolonged utilization of the theory of economic internationalism it has been agreed upon by many writers that given the dimension of the subprime crisis a government led stabilization initiative seems to be the only agent that will yield a significant outcome.

For instance, government instituted rescue packages that include “ Government guaranteed debt insurance programs, direct equity injections, purchase of distressed assets by the government... ” (Breitenfellner, Wagner: 2009: 13) meaning that packages that use the assistance of capital injections rather than taxpayer borne packages in order to avoid conflict of principal agents and can suspend the occurrence of such market mechanisms like bankruptcy.

A new state centred approach will call for the government to act as a control body whose main function is to monitor risk management, the role of securitization and the agenda of long term profitability versus short term cash generation. In addition to the various economic causes like bad internal risk management and not enough vigilant credit assurance, I believe that the current global crisis can be attributed to one major factor, that is, market failure driven by the ideals of those ‘ anti-government’ actors.

It was Regan who said that “ government is always the problem, never the solution” and those who hold that mental framework are the same who opposed economic planning and state monitoring prior to the financial meltdown and who doubt that government intervention and nationalism can be a suitable response to the failure of the existing market driven structures. Advocates of such theories like “ radical expectations” and the “ Ricardian equivalence” hold the view that governments’ use of their budgets to stimulate economic activity during recession is futile at best.

Proof of the success of economic nationalism lies in Australia, while other banks were left free under full market allowances, Australian banks were under a tight rein and protected against its own slip ups and subsequently when the crisis occurred, sensible regulations prevailed and Australian banks were left un-ruffled. Economic Nationalism if used properly can be effective in rectifying the damage done to the global economy given the financial crisis.

Like any other theory once it is not abused and policy action driven too far in the opposite direction, governments should manage their macro economies while exercising discretion and in doing so achieve more good than do harm with their regulative activities. There is little doubt that the global economies are now entering an era of regulation and government activism and it is clear that in spite of neoliberal policy relations, the state still resides as the central body in solving crises caused by failure of market structures and is not the sole cause of economic and social problems worldwide.

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