Putting the nation-state back in: public economics and the global economy

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Abstract
The project of creating a new public economics requires rejecting the custom of treating the international economy as an afterthought. What is needed is a return to what is arguably the great tradition in political economy, which has included Renaissance and early modern mercantilism, Enlightenment-era cameralism, the German Historical School, institutional economics and Schumpeterian or evolutionary economics. In this tradition, states as well as individuals and firms are actors in the international economy and zero-sum rivalries among states over relative power and global market share are central to public policy.

In this essay I draw on the enduring insights of this tradition of economic realism to analyze the central global economic phenomenon of our time--not the supposed creation of a free global market, something that hardly exists, but rather the rapid emergence in the last generation of global oligopolies and monopolies in industries with increasing returns to scale. Imperfect and oligopolistic global markets present challenges for national and transnational policymakers, but also opportunities which are not considered by conventional neoliberal thought and practice. These include opportunities for nation-states to negotiate directly with transnational firms, as well as the collaborative creation of transnational agencies to achieve collective goals.

What June A. Sekera calls “a new public economics” defending the legitimacy of “the public economy” or “the public non-market economy” is both necessary and overdue, as a reaction to the kind of neoclassical economics and neoliberal public policy that has sought to limit the legitimacy of government to corrections of market failures.[117]

The new public economics is particularly relevant to the subjects of national defense and technological innovation. All but the most extreme libertarians acknowledge the need for public provision of national defense, even if contractors are used for some functions. In the case of technological innovation, the defense sector has long acted as a venture capitalist or “entrepreneurial state” in Mariana Mazzucato’s phrase.

The problem is that conventional neoliberal economists and policymakers already recognize an exception to the rule of anti-statism in the case of defense and public funding for basic R&D. To succeed in its challenge to conventional market-supremacist economic thinking, a new public economics must go beyond arguing for a role for the public sector in areas like these. A new public economics needs to be rooted in the rival historical and institutional traditions of economic thought – what the economist Erik Reinert calls “the other canon”. These come in various forms, with national and regional differences – Renaissance and early modern mercantilism, Enlightenment continental cameralism, the German Historical School, the Old Institutional Economics, the neo-Schumpeterian or evolutionary economics tradition, and others. Arguably this rich braid of ideas is the mainstream tradition in Western and later global political economy, from which both classical economics and its offshoots, neoclassical economics and Marxism, are minor offshoots, however large they may loom today, especially in the English-speaking countries.

[117] June A. Sekera, *The Public Economy in Crisis: A Call for a New Public Economics* (Springer, 2016).

To the extent that it forms a coherent body of thought, this Great Tradition differs from today's mainstream economics in three major ways:

Historicism. The economy is not a timeless, abstract realm governed by laws like those of physics but one of a number of social institutions embedded in particular states and interstate systems, which change radically over time.

Increasing returns. Rather than positing competitive markets with constant or diminishing returns and many competitors as the norm, the Great Tradition recognizes that, particularly in industrial economies, important sectors like manufacturing are characterized by increasing returns to scale and scope and network effects and imperfect markets in which monopolies and oligopolies can be efficient and innovative.

Power politics. Trade theory is an afterthought in conventional neoclassical economics, which assigns the state the role in trade of a mere umpire in a rule-based, preferably global market in which the only actors are individuals and firms. But in the Great Tradition of economic thought, competition among territorial polities (whether city-states, kingdoms, empires or modern nation-states and blocs) – not merely competition among individuals and private firms – has been a major driver of both technological innovation and technological diffusion over time.

From this it follows that it would be a mistake for the new public economics, in challenging today's academic orthodoxy, to share the tendency of much contemporary economics to treat the domestic economy in isolation from the international economy. Instead, it makes sense to treat domestic economics as a subset of global economics, and global economics as a subset of global power politics and diplomacy.

This suggestion sounds radical but it is obvious, on reflection. Conventional economic theory assumes the existence of modern national economies like those of North America, Europe and East Asia which interact in an international economy. But today's sovereign state system like today's global economy is a contingent result of titanic and bloody power struggles, which might have turned out differently and produced a radically different world order.

Why are there are nearly two hundred sovereign states in the world today, instead of a few empires or one global state? In 1900, most independent polities were the independent countries of the Americas, including the United States; the rest of the world was ruled directly or indirectly by a handful of European empires. Four dynasties – the Hohenzollerns, Hapsburgs, Romanovs and Ottomans – ruled parts of Europe and the Middle East and Eurasia which are now divided among many nation-states. The dissolution of Europe's dynastic and colonial empires was the result of the world wars and the Cold War. Today's world order reflects the fact that the two most powerful states in the second half of the twentieth century, the United States and the Soviet Union, favored decolonization. The proliferation of small, nominally sovereign states after 1945 might not have occurred had the Axis powers achieved their goal of a world divided among a few autarkic, hierarchical, racist empires – or even if Britain, France and other European colonial powers had emerged less weakened from the two world wars.

Today's highly integrated global economy is an even more recent creation than the post-colonial global states system. Until the 1990s, the world economy was divided among the U.S. and its military protectorates in the Triad of North America, Europe and Northeast Asia, which formed a relatively liberal, integrated trade and investment bloc; the communist bloc; and post-colonial nonaligned nations, many of which practiced import-substitution industrialization (ISI) and managed trade. The simultaneous if far from complete liberalization of economies in the former communist bloc and the developing world transformed trade, investment and economic structure everywhere, including in the advanced industrial core. The rapid enlargement of both global consumer markets and workforces allowed the emergence of global oligopolies, through growth, merger or alliance. This was accompanied in the generation after 1989 by a restructuring of industry by means of offshore outsourcing, which took forms influenced by global labor arbitrage on the part of Triad-based firms and various kinds of state-sponsored development in nations like China and India and Brazil.

As this suggests, it is naive to debate the proper roles of "the government" or "the market" in the abstract, given the unstable and contingent nature of these institutions and the frequent changes in their nature driven by global events like hots wars, cold wars and revolutions. If a new public economics is to escape completely from the assumptions of the dominant neoclassical economic tradition, then the tradition in international relations theory of the primacy of foreign policy needs to be complemented by a view of the economy based on the primacy of international economics.

The geoeconomics of the bimodal economy

John Kenneth Galbraith's idea of "the bimodal economy" deserves to be revived as a central concept in political economy. Galbraith contrasted the "market sector" characterized by constant or diminishing returns and a high degree of competition among small producers with the "planning sector," characterized by imperfect markets with natural monopolies or oligopolies which replace many arm's-length transactions with internal bureaucratic planning, which can either public or private forms.[118] These efficient monopolies and oligopolies, based in increasing-returns sectors like manufacturing or sectors with network effects like infrastructure or telecommunications, are characteristic of what Joseph Schumpeter called "trustified" capitalism in advanced industrial economies. According to Schumpeter, technology-based, oligopolistic firms engage in "creative destruction," defined not as mere price competition but as "industrial mutation," the incessant creation of new products and services. Following Schumpeter and Galbraith, William Baumol argued that competition among oligopolies able to recycle innovation rents into unpredictable bursts of further innovation is the secret of success among contemporary capitalist economies – not the constant, incremental competition among many small firms described by neoclassical Econ 101.

While the modern theory of imperfect markets was developed in the first half of the twentieth century by Joan Robinson and Edward Chamberlin, the concept is far from new, as economic historians like Erik Reinert, Ha-Joon Chang and Michael Hudson have demonstrated. Reinert in particular has shown that the *bete noire* of the classical and neoclassical economics tradition, mercantilism, was often inspired by a sophisticated understanding of the importance of localizing high-value added production in increasing-returns industries. As Reinert has written:

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118 John Kenneth Galbraith, *Economics and the Public Purpose*, p. 43; John Kenneth Galbraith, *The New Industrial State*, with a new foreword by James K. Galbraith (Princeton: Princeton University Press), xxxvii.

> "It has previously been argued (Reinert & Daastoel 2004) that dynamic rents spread in the economy at three levels: 1) to the entrepreneur in the form of profit, 2) to the employee in terms of employment, and 3) through the government in terms of increased taxes. Under conditions of rapid technological change – as with the 'productivity explosions' of new technologies (Perez 2004) – this 'triple level rent-seeking' represents a hugely positive-sum game in the producing country. We argue that a core objective of mercantilism was achieving this 'triple-level rent-seeking'. Institutions like patents, protection and apprenticeship, created 300 years before Adam Smith, and scientific academies, created almost a century before his writings, would help increase the size of the economic pie, increasing profits, the wage bill and the governments' ability to tax." [119]

Here Galbraith's concept of the bimodal economy is helpful. Economic development, whether on the part of a city-state, a nation-state or a bloc, consists of creating and expanding the high-valued added/increasing returns sector – Galbraith's planning sector – within what was formerly an agrarian, low-value-added economy.

The increasing-returns planning sector does not completely replace the market sector. Indeed, over time the relatively low-productivity service industries that are part of the market sector tend to absorb the workers shed as a result of technology-driven productivity growth in agriculture, manufacturing, infrastructure and clerical services.

While there are both military and civilian reasons to retain some kinds of high-value-added manufacturing within national economies, there is no reason to lament the long-term pattern observable in the U.S. and similar societies, in which production jobs are declining and most new jobs are being created in health care, education, and leisure and hospitality. This is exactly the pattern one would expect to see in a highly mechanized and automated economy. As technology lowers the price of food, appliances, staples and communications, even if incomes are mostly stagnant this frees more discretionary income which even working-class and lower-income individuals can spend on amenities, mostly in the form of quality-of-life services and tourism, rather than on more material goods (illustrating "Wagner's Law," named after the German economist Adolph Wagner). Whether, in the interest of social equality, some of these quality-of-life goods in the labor-intensive sector are "merit goods" which should be subsidized or provided by the public non-market economy, in order that all citizens may have access to them, is a question beyond the scope of this essay.

From geoeconomics to geopolitics

When we think of the global economy as a bimodal economy, the potential for interstate conflict is evident. Some forms of the transition from a premodern agrarian society to an industrialized society are limited to the territory – for example, replacing premodern with modern transportation, energy and sanitation and telecommunications grids. But if we superimpose a division of the economy into traded and nontraded sectors atop the division between the increasing-returns planning sector and constant-returns market sector, it

[119] Erik Reinert, "How Rich Nations Got Rich: Essays in the History of Economic Policy," Working Paper No. 2004/01 (University of Oslo: Center for Development and the Environment).

becomes clear that there is a high degree of overlap between the traded sector and the increasing-returns sector, particularly in the case of manufacturing.

Indeed, because the costs of manufacturing tend to fall with larger plant size and production runs made economical by larger markets, in theory an industrial complex in a single country, or a single firm with suppliers in multiple countries, could produce all of the aircraft or automobiles or mobile phones in the world, assuming an adequate supply of inputs like resources, energy and labor.

This would not be a source of conflict in a world with a single government or in a world of multiple sovereign states and perpetual peace. In the real world, however, there has always been intense international rivalry over national shares of industries in the global increasing-returns traded sector – partly for military reasons and partly for pure economic reasons.

Modern military power depends largely on the ability of nations or alliance to ramp up advanced industrial production within their borders of military goods for wars or arms races. This is chiefly a consideration for great powers and aspiring great powers.

Most countries cannot aspire to great power status, because of small populations or other constraints. But even countries that do not strive to be major military powers frequently seek to obtain and maintain shares of high-value-added industries, chiefly manufacturing, in the interest of economic development.

One reason is the terms of trade. If a country wishes to import high-value-added goods, it is easier to do so by exchanging modest quantities of other high-value-added goods rather than large quantities of low-value added goods. Here is an illustration, courtesy of Ha-Joon Chang.[120] With the Hat Act of 1732, the British government restricted hat manufacturing in its American colonies. The American colonists could not make their own beaver hats, but had to purchase them from British merchants, while the colonies exported beaver skins to British hat manufacturers. A great quantity of low-value-added beaver pelts was necessary to make the money to buy one high-value-added beaver hat. This explains the seeming paradox that, contrary to the Ricardian theory of international specialization among nations exchanging complementary products, most global trade is not only among advanced industrial nations, but also takes the form, among those industrial nations, of trade in similar kinds of high-value-added manufactured goods like electronics and automobiles, if not beaver hats.

It is possible to imagine, if only as a science fiction scenario, a wholly industrialized, urbanized world – a planet in which all societies have reached the stage that has been reached by the industrial democracies of North America, Western Europe and Northeast Asia. This possible future world economy would resemble today's Triad. Each bloc or major nation would both import and export manufactured goods and other high-value added traded sector goods, produced by small numbers of workers using advanced technology. Although the national traded sectors would employ relatively few workers, their access to global markets and scale economies realized by transnational firms would make them important as sources of taxes and local economic activities even in economies in which most people worked in the nontraded domestic service sector (whether for for-profit firms, non-profit agencies or the public non-market sector).

[120] Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective* (Anthem Press, 2002)

This scenario, however, assumes peace – not only the absence of hostilities, but the kind of deep peace that exists between the U.S. and its dependent military protectorates in NATO and Northeast Asia. Absent that kind of deep and enduring peace, great powers and insecure lesser powers will inevitably limit international industrial and financial integration, in the interests of a degree of national military self-sufficiency.

The scenario also assumes that early-developing nations will voluntarily cede shares of the global high-value-added traded sector to late-developers as they catch up. In practice, advanced countries in every era have been extremely reluctant to do so.

As the first industrial great power in the mid-nineteenth century, Britain sought to lock in its advantages by monopolizing manufacturing and compelling other societies to specialize in non-industrial commodity production, so that Britain could enjoy a seller's market in high-value-added manufactured goods and a buyer's market in industrial inputs like cotton for textile mills and cheap imported food to lower British industrial labor costs. Britain carried out this strategy in two ways. One was coercion – direct coercion, in the form of conquest and colonialism, and indirect coercion, in the form of "unequal treaties" imposed at gunpoint on weaker societies. Another was evangelism – the British export of classical economics, which purported to be a scientific doctrine holding that countries should specialize along the lines of comparative advantage, a doctrine highly convenient to Britain at a time when it was the only major manufacturing economy.

The British attempt to monopolize world industry failed, because of the determination of the U.S., Bismarck's Germany and Meiji Japan, among other countries, to catch up by means of import substitution policies which reserved home markets for domestic producers while in some cases welcoming British foreign investment. After World War II, protectionism had ceased to serve the interests of U.S. industry. The United States, now the leading manufacturing power like Britain a century before, repented of its protectionist youth and began preaching free trade and treated the tariff as an abomination like slavery or genocide.

At first glance, the post-Cold War offshoring of much manufacturing by U.S. and other firms in the period of globalization would seem puzzling. Why would the U.S. deliberately deindustrialize itself? But for the most part American and European and Northeast Asian firms have merely offshored lower-value-added production to China and Mexico and other developed countries, keeping the higher-value-added links in supply chains at home. Most of the value of an iPhone, for example, comes from components from Japan, South Korea, Taiwan, the U.S. and Germany and other developed economies, with China's export-processing zones acting as low-wage assembly platforms. Most so-called "globalization" has merely been labor arbitrage, no different in kind than intra-national labor arbitrage like the transfer by American firms of manufacturing from high-wage, pro-union states to low-wage states with anti-union "right to work" laws.

Corporations and investors based in the Triad have been hostile to efforts by developing countries which seek to pursue strategies of state-sponsored industrialization of the kind that the U.S., Germany, Britain, Japan and the Little Tiger themselves pursued when they were catching up. Indeed, a central purpose of "multiregional" trade pacts like NAFTA and the failed TPP has been to deny developing nations the legal right to use the classic tools of import substitution – tariffs, local content requirements, forced technology transfer, and nontariff barriers. The very architecture of international trade treaties and trade law, even as it has displaced mid- and low-skilled First World industrial workers by enabling firms to engage in global labor arbitrage on a massive scale, tends to lock in developing nations to the lowest rungs on global supply chains controlled and orchestrated by transnational firms based in the U.S., Europe and Japan.

Within the bimodal global economy, then, there tend to be two kinds of conflicts among state. First, there are horizontal conflicts among already-industrialized nations, particularly leading military powers, that compete for relative shares of the global increasing-returns traded sector. Second, there are vertical conflicts among developed nations, which would prefer that developing countries remain as cheap labor pools and sources of commodities, and some (not all) developing nation governments, which seek to use public policy to move their economies from lower-value-added to higher-value-added activities.

The bipartisan global geoeconomic strategy of the United States can only be understood in light of these dynamics. Since the end of the Cold War, in slightly different ways, the administrations of Bill Clinton, George W. Bush and Barack Obama have sought to lock in the geopolitical status of the U.S. as the dominant global military power, while using global trade treaties and institutions to lock in a global division of labor favorable to the advanced industrial countries of the core – all of them U.S. allies or protectorates – to the detriment of the long-term prospects of developing nations.

The first objective – securing American global geopolitical hegemony in a unipolar world – has been the goal of the expansion of NATO into the territory of the former Warsaw Pact. Turning the Greater Middle East, a zone contested by the U.S. and the Soviet Union during the Cold War, into an American sphere of influence has also been the unstated objective of most of the wars the U.S. has fought in the region, only two of which – the invasion of Afghanistan and the campaign against ISIS in western Iraq and Syria – could be plausibly justified by reference to post-9/11 jihadist terrorism.

Maintaining perpetual U.S. military protectorates over Europe, Japan, South Korea and Taiwan is justified by what the administration of George Herbert Walker Bush called "reassurance". This is the idea that in the absence of a permanent U.S. security umbrella, the nations of Europe and East Asia would rearm and engage in dangerous internecine rivalries. Instead, the Germans and Japanese among others outsource their protection to the U.S. and specialize in the pursuit of civilian manufacturing.[121]

This strategy for American hegemony is not without significant costs to Americans. To begin with, there are the costs of the wars and arms races engaged in by the U.S. in the "near abroads" of Europe and Northeast Asia, in its role as protector of a vast bloc, rather than merely North America or the U.S. In addition, the deal offered by the U.S. to its former enemies Germany and Japan, a deal made in the Cold War and renewed afterwards – "Make cars, not wars" – has required the U.S. to turn a blind eye to the mercantilism of allies, even when U.S. industrial capacity is eroded, in the interest of harmony in the Pax Americana and the dubious benefits of the dollar as the global reserve currency. U.S. military and diplomatic officials routinely argue against American retaliation against the policies of allies that hurt American industry. As a result, within the American-led Triad, the U.S. runs chronic merchandise trade surpluses with Germany, Japan, South Korea, and other allies. And the U.S. share of global manufacturing output is smaller than one would expect from its scale, while the shares of Germany, Japan and the Little Tigers are greater.

[121] Michael Lind, *The American Way of Strategy* (Oxford University Press, 2006).

The second objective – making the world economy safe for firms based in the U.S. and its European and Asian allies – has been the goal of American economic policymaking until recently. Having used infant-industry tariffs, subsidies, procurement policies and other techniques of state capitalism to become the world's dominant economy by the mid-twentieth century, the U.S. sought to use its clout as the sole surviving superpower after the fall of the Berlin Wall to outlaw these and other measures, to prevent developing countries from using them to catch up. So-called multiregional trade pacts, like NAFTA and the Trans-Pacific Partnership (TPP) are called "free trade treaties" but they have little to do with liberalizing cross-border trade in finished goods. They are not treaties in the traditional sense but a kind of transnational legislation. Their purpose is to remove the power of national governments to shape their own economies by writing detailed laws and regulations into the fabric of treaties which can be amended only with difficulty and which can be enforced by private corporations suing signatory states (investor-state dispute settlement or ISDS provisions). The TPP in particular was an attempt to replace laws in many developing Asian nations with regulations drafted by lobbyists for U.S. pharma and financial lobbies and tech lobbies, illustrating, in the international arena, James K. Galbraith's concept of "the predator state."[122]

From global market to global public economy

Multiregional trade pacts can be seen as a kind of transnational governance in the absence of a single overarching sovereign government. The fact that they have been warped by special interests – in particular by large multinational firms and financial institutions – does not mean that they should be rejected as an instrument of diplomacy.

Nor do abuses of their power and influence by multinational corporations mean that they cannot serve constructive purposes. While large multinational firms may have too much political influence, most of them exist because they benefit from genuine economies of scale or scope or network effects. Breaking up most large corporations into smaller ones, as champions of radical antitrust propose, or pushing them entirely back into the Procrustean bed of national borders, the preferred strategy of nostalgic protectionists, would sacrifice genuine dynamism and efficiency.

Another approach, favored by many progressives, would preserve the neoliberal approach of creating transnational legal and regulatory regimes, but make the regimes more favorable to workers and the environment, instead of being skewed toward Triad-based firms and financial institutions, as they are now. Quite apart from the political difficulties – if it is possible to take over the rule-writing process, why haven't labor representatives and environmentalists done so by now? There is the problem that this kinder and gentler version of transnational rule-based governance sacrifices national sovereignty as much as does the familiar version.

Another alternative is suggested by John Kenneth Galbraith's description of the increasing-returns sector as "the planning sector", in which many activities within the firm (and nowadays among many actors in supply chains) are coordinated by a centralized private bureaucracy. The global traded sector is a very imperfect market, to the extent that it is a market at all. It is best thought of as a collection of giant oligopolies or monopolies, which are "price makers" not

[122] James K. Galbraith, *The Predator State: How Conservatives Abandoned the Free Market and Why Liberals Should Too* (The Free Press, 2008).

"price takers," and which engage in somewhat less-than-cutthroat rivalry – what Schumpeter called "corespective competition" and what others have called "co-opetition".

By its very nature as a collection of a small number of large, complex, highly-bureaucratized enterprises, the global traded sector lends itself to deviations from classic notions of the free market, including in different eras cartels, consortiums and the participation of companies that are partly or wholly owned by the state. These deviations from free market ideals in the international realm were more tolerated by states before the age of neoliberalism that began in the late twentieth century.

For example, between World War I and World War II many European and American firms participated in international cartels, like the Phoebus cartel in light bulbs. Most European governments at the time took a lenient attitude to such cartels, as did the U.S. as long as the activity took place outside of the American market. In imperfect markets – the norm in manufacturing – such cartels arguably can prevent "ruinous competition" in which the prices of rivals fall below fixed costs, and can also establish a degree of certainty allowing longer-term private R&D. Following 1945, unfounded claims that fascism somehow resulted from monopolies and cartels and the influence of U.S. antitrust laws made cartels fall into disfavor on both sides of the Atlantic. But for national security reasons the U.S. government quietly supported a western-dominated global cartel in oil up until the Arab oil embargo in 1973.

There is also a rich if neglected history of transnational public agencies. Telstar 1 and Telstar 2, the first satellites to relay television, telephone calls and telegraph images, were created by a multinational consortium including the publicly-regulated private U.S. telephone monopoly AT&T, NASA, a government agency, and the British and French national postal and communications agencies. A similar model was followed by the establishment of the agency that coordinates Internet names, the Internet Corporation for Assigned Names and Numbers (ICANN), created as a nonprofit agency in 1998 and sharing its functions with the National Telecommunications and Information Administration (NTIA) of the U.S. Department of Commerce until 2016, when its oversight was transferred to multinational stakeholders.

Here is a contemporary example. In 2016 four multinational corporations – Akzo Nobel, DSM, Google and Philips – formed a consortium which entered into an agreement to buy enough wind-based renewable energy from two cooperatives in Zeeland and Goeree-Overflakkee in the Netherlands to power 100,000 Dutch households per year.[123] As this suggests, international economics can include complex deals among different kinds of organizations, not merely conventional market activities.

In neoliberal ideology, markets are presumed to be better than governments and other organizations. It is thought to be preferable to promote a public purpose by creating a market with certain rules and incentives and then encourage private firms to compete. But this is a relatively recent consensus and one which deserves to be overturned. For certain international purposes, creating a transnational organization – a private consortium, a public corporation, a nonprofit agency, a hybrid public private entity – and allowing sovereign governments working together to oversee and direct it might be better than trying to motivate numerous small, for-profit actors to achieve the desired end by means of rules.

[123] Alexander Stark, "Multinational Consortium Forms Energy Partnership," October 19, 2016, Worldwide Process, https://www.process-worldwide.com/multinational-consortium-forms-energy-partnership-a-554777/

It is also worth rethinking the idea of a rule-governed global trading system, in light of the growth of transnational production. It is estimated that between a third and a half of cross-border “trade” actually consists of the movement of components and other inputs within transnational supply chains coordinated by a single firm, the systems integrator or “original equipment manufacturer” (OEM). These firms also tend to be the largest sources of private foreign direct investment in developing nations.

Developing nations that seek to attract multinational firms to invest in their countries and transfer skills and technology to their citizens are more accurately described as being engaged in economic development rather than trade in the traditional sense. Economic development strategies with the goal of encouraging direct investment by corporations have long been used by American states and other sub-units in federal nations. Some economic development strategies are limited to the basics – favorable tax climates, useful infrastructure, educated (or in some cases low-wage) workforces. But in many cases, state governments and municipal governments negotiate directly with individual corporations, providing incentives to specific forms to locate facilities or headquarters in their jurisdictions, in return for commitments, like creating an agreed-upon number of jobs.

As in all cases of bargaining, the result can be beneficial to both sides or exploitative, depending on the relative bargaining power of the parties. The salient point is that a world economy with imperfect markets dominated by a small number of global oligopolies arguably lends itself better to a system of direct bargaining among a few large firms or agencies and nation-states or multinational blocs than it does to a comprehensive rule-governed system, if the purpose of the rule-governed system is to govern a competitive market with many, mostly small producers which does not in fact exist.

In aircraft manufacturing, for example, there are only two large-jet manufacturers, Boeing and Airbus. It makes sense for countries that want to participate in the industry to cut deals with one or both of these firms, rather than try to create their own redundant and expensive national champions at great cost.

A one-size-fits-all rule-governed global trading system, then, is not necessary to the extent that development can be promoted by direct negotiations among particular states and particular large global firms. Indeed, a rule-governed global system is likely to be harmful to developing countries, if, like recent multiregional trade pacts, the rules are written by the most powerful and well-connected special interests in the developed nations. Far better is a global economic system which allows sovereign states – including small and poor ones – maximum discretion in deciding whether, and how, to participate in international trade and investment in the interest of their own citizens and their own economic strategies.

Conclusion

Returning to the centuries-old Great Tradition of economic thought requires us to abandon neoliberal orthodoxy when it comes to international trade and development, as well as domestic policy. For the Great Tradition embodied in Reinert’s other canon, the purpose of both foreign and domestic economic policy is the encouragement of productivity growth to enhance the prosperity and security of particular polities, not minimizing prices for consumers in the short term at the expense of the community’s safety and collective productive capacity.

As Alexander Hamilton, Friedrich List and 20th-century dependency theorists recognized, premature free trade and market integration among developed and developing countries tends to forestall the economic development of the latter, limiting them to the role of suppliers of commodities and cheap labor to their already-industrialized trading partners.[124] The experience of "shock therapy" in former communist countries and post-Cold War globalization confirms this analysis. The developing countries that have done the best have been East Asian nations like China with strong states able to dictate the terms of their relations with multinational corporations and international investors.

The alternative to premature globalization is to encourage industrialized countries with comparable industrial structures and living standards and wage levels to form gradually expanding, mutually-beneficial trading blocs, which developing countries can join once they have used infant industry protectionism, state capitalism and other methods to catch up. Development should precede liberalization. In the words of Reinert:

> "Writing in the United States, Friedrich List already foresaw this development around 1830: some time in the future, when the United States had industrialized after a century of protection, when its population had reached 100 million, and its navy was the most powerful in the world, then, the period would come when the United States would proclaim free trade to the world (Reinert 1998). It is impossible to understand Friedrich List's work without seeing that his 'mercantilism' was only a mandatory passage point towards free trade, which would be desirable when a symmetrical situation had been created in which all nations have a comparative advantage in dynamic, increasing return activities."[125]

From this perspective, the merger of the comparably advanced U.S. and Canadian economies with the European Union could be beneficial for all sides, but not the premature merger of advanced economies with low-wage economies like Mexico and China, which permits corporations in the industrial core to engage in race-to-the-bottom labor arbitrage while seeking to forestall the development of indigenous rivals. A multinational trading system in which low wages are treated as a source of national comparative advantage and high wages as a national handicap is perverse and harmful and needs to be replaced.

Another lesson of what I am calling the Great Tradition of political economy is that the mixed economy, not the market economy, has been and will continue to be the historic norm. Government in the form of defense spending, social insurance and public education accounts for a third of the economy in most advanced industrial nations, including liberal ones like the U.S. and U.K. In addition, there are substantial non-profit sectors and what the economist Neva Goodwin calls the "core economy" or household sector, in addition to the for-profit private sector.

Why should the mixed economy be limited to the domestic realm? The global economy could be organized as a mixed economy, as well. The possibilities, as we have seen, are not limited to private international trade and investment, supplemented by government-to-government aid and non-governmental organization (NGO) charity. A greater amount of international economic activity could take place under the auspices of multinational institutions which are

[124] Roman Szporluk, *Communism and Nationalism: Karl Marx versus Friedrich List* (Oxford University Press, 1988).
[125] Reinert, ibid.

ultimately accountable to democratic governments but which take a variety of forms tailored for particular purposes. The fact that many institutions in the last generation, like the World Bank and IMF and the European Union, have been captured and warped by economic elites for selfish purposes does not discredit the idea of transnational economic institutions as such.

The rediscovery of the public economy cannot be complete without rethinking approaches to the global economy. To be relevant and constructive in the 21st century, economics needs to be treated once again, not as the study of markets assumed to be independent of states, but as a branch of practical statecraft.

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