

Does the national state still have a role to play in the direction of the economy? Discuss in relation to at least two European countries.

The recent internationalisation of the global economy has raised questions about whether or not the traditional nation-state still has the power to direct economic policy in its own territory. Some writers believe that a 'globalised' economy has fully negated the effectiveness of government policy, and see a world dominated by economics, and the movements of global markets, rather than by the political decisions of populations and their representative governments.

When we are asked if the nation-state still has a role to play, there is an implied assumption that the state has always held a virtual monopoly on the direction of economic policy. In a longer-term historical context, this is not the case, and it is only in the past few centuries that the state has dominated over other forms of governance. It is interesting to note from the outset that this claim to exclusivity in governance depended largely on international agreements, such as the Treaty of Westphalia in 1648 – it was believed at the time that the autonomy of states was a precondition for the effective monopoly of power within. Only in very recent times has the state been defined mainly in economic terms: Crouch and Streeck say that modern capitalism has been organised 'within and through the nation-state'.

It now appears that this monopoly of power may be in decline. Supranational organisations such as the WTO, along with economic areas such as the EU, plus the giant multinational companies, whose turnover often exceeds the domestic product of smaller nations, are all competing for influence in global policy-making. This has been, according to Hirst and Thompson, a 'godsend for the Right' – after the failure of monetarism and individualist policy in the early 1980s, the right wing are now able to use 'globalisation' to justify the neo-liberal economic ideology and anti-political sentiment which dominates much of national politics today. This suggests that the counter-cyclical Keynesian methods employed by the nation-state are ineffective, and will be challenged by global financiers. This has been taken up by Ohmae, who suggests that national governance is not only ineffectual in the face of the global market, but is also undesirable. Ironically there is also something interesting in this view for the revolutionary Left – they could argue that the futility of the social democratic strategies pursued by the reformist Left has been exposed, and only a

revolutionary change in the organisation of international capital will bring about equality.

A more moderate view, espoused by Crouch and Streeck, suggests that control by international bodies such as the World Bank, is more of an issue than the 'market governance' suggested by Ohmae. These writers often urge political efforts to recapture public control of these bodies; Jessop, who rates them less highly, claims that until these supra-national organisations achieve the same democratic legitimacy as the nation-state, they will be prevented from completely dominating the policy decisions of national governments.

P. Hall looks at the role of the state in Germany, France and Britain in order to establish whether or not the state does still exercise control over economic policy. Hall looks at the market for capital – which is perceived to be mobile and having few national attachments – and the market for labour, which is nationally rooted and relatively static. In Germany, there has historically been a strict division between the Ministry of Economics and the Bundesbank. The latter has an entrenched constitutional power in the state, with representatives chosen by central banks of the German Lander. Financial capital is highly concentrated into the hands of three large banks – Deutsche Bank, Dresdner Bank and Commerzbank – and these 'Big Three' have an immense influence over firms. It seems unlikely that international capital management will affect the role of the German state too much, as they have already conceded monetary policy in its entirety to an undemocratic national institution. As for the labour force in Germany, there is a strong, structured union system. This is likely to strongly resist the 'downsizing' pressures of competing in global markets.

In France the banks have a similarly large influence, though they tend to run a system based on long-term loans rather than shareholding. The stock market is underdeveloped, further insulating companies from the effects of global competition. However, the French state, unlike the German one, has a massive influence in the banking sector. Institutions such as Credit Lyonnais and Credit National are state-led, the Treasury and Bank of France participate jointly in the Conseil National du Crédit, and Treasury officials often direct industrial policy. It seems unlikely that France will soon surrender this vast amount of control. On the labour front however, the French unions are generally weak and poorly organised. The lack of a tripartite system in incomes policy suggests that the French state is convinced of its own ability (and

right) to run the economy as it sees fit. However, Boucek recognises that a number of changes have taken place in the last two decades. Rather than the *dirigiste* 'national reconstruction' policy pursued in the early post-war period, the main priority became 'industrial competitiveness' compared to other countries. International commitments did interfere – a policy in defense of the franc increased inflationary pressures, as the EMS prevented a counter-cyclical policy stance. Deflationary measures resulted, and France has had persistently high unemployment in recent years, possibly as a hysteresis effect of these policies. France also began a programme of privatisation and the elimination of state subsidies, aiming to reduce barriers to entry which the EU had declared illegal.

The British state appears the most likely to be affected by the new global governance. In the capital markets, there is a strict division (and often conflict) of interests between financial and industrial managers. Despite the popular conception that financial capital is dominant in Britain, ironically because of this split, the financial sector may be less powerful than its counterparts in France and especially Germany, as it has no equivalent control of industry. This puts the British government under pressure from its own businesses to pursue finance-focused, rather than industry-focused, national policies. In the labour markets as well, there is strong potential for a declining role of the state. The unions, although deeply embedded socially, are very poorly organised, and have suffered a drastic loss in membership over the past two decades. This, combined with their history of conflict rather than co-operation with government, means that the government will find it easier to allow falls in wages to make the economy more competitive at a global level.

In Hall's final analysis, the role of the state and the pace of its decline clearly depends on institutional and organisational factors within the individual countries. Hirst and Thompson approach these factors from a different perspective, saying that states now exist mainly to create the conditions for effective international governance, and legitimate the supra-national and sub-national governance mechanisms. The international economy is not in this view 'globalised' – businesses and especially people are still very much attached to their own countries – so the nation-state continues to play an important role. In this vision, states will become less 'sovereign entities', more 'components of an international polity'. National politics could become more like municipal politics – rather than producing grand ideas about the management of the economy, national leaders could base their rhetoric on the efficient provision of mundane services and on the politics of morality.

Hirst and Thompson go on to say that international, national and regional powers must be 'sutured' together into a well-integrated global system. The nation-state is seen as absolutely central to this process. Extreme globalisation theorists such as Ohmae do not recognise this, believing instead that global markets and multi-national companies are ungovernable by politicians. In this view, national governments are merely municipalities of the global market. However, there still exist enormous differences between nation-states. States define who is and who is not a citizen, so still wield the power to exclude those who wish to enter their country for economic reasons. This also extends to businesses – firms have little incentive to be extra-territorial. They are embedded in a national business culture which provides them with intangible but real advantages, whereas transnational corporations would have to create this culture within the firm itself. They also benefit from relations with government, trade associations, national financial institutions and even occasionally with organised labour. The world is not 'globalised', simply 'internationalised' – national policy therefore remains viable and indeed essential to preserve the strength of the national economic base in any given country. There is also no reason to believe that market forces will always prevail over regulation in the finance markets, as most major players have a genuine interest in financial stability. Trade rules, property rights and exchange rate stability are all defined by national states, not by the businesses themselves. The world which the globalisation theorists imagine is but an unrealistic dream of classical liberal economics, deriving possibly from a rather simple reading of the texts.

Hirst and Thomson identify five different forms of economic governance which we are likely to see: agreement through the major advanced states (such as G7); the decisions of supra-national agencies created by nation-states; the control of large economic areas by one entity, such as the EU; a national-level politics struggling to balance social cohesion and competitiveness; and collective regional services for industrial districts. In this definition the state itself is not a governing power, but the locus from which new forms of governance are proposed, legitimised and monitored.

The alternative view suggests that nation-states are actually more important as a governance body than ever before. As firms under international competition develop niche strategies to compete, states must directly work to create favourable conditions for those businesses. Multi-national corporations are not independent of their home country by any means, and as described previously, it often benefits them

to be tied to a particular state. This view sees the state primarily as a developer of institutions.

These views can be reconciled by saying that the state is still very important – and will continue to be so – but has changed its form from the 'nation-state' to the 'competition-state'. It can no longer run Keynesian policies with the same effectiveness as before due to the volume and fluidity of global capital flows, but is still ultimately responsible for production and consumption. Jessop says the state's main objective now is to keep foreign investors happy through a productivist reordering of social policy in a 'neo-Schumpeterian workfare state'. Cerny suggests that globalisation can undermine but also expand the state – in order to keep the national economy competitive, the state aims to be more pro-active. To conclude, the state still has a vital role to play, even if this role has changed greatly over time.