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Trading Places

Peter F. Drucker

THE NEW world economy is fundamentally different from that of the fifty years following World War II. The United States may well remain the political and military leader for decades to come. It is likely also to remain the world's richest and most productive national economy for a long time (though the European Union as a whole is both larger and more productive). But the U.S. economy is no longer the single dominant economy.

The emerging world economy is a pluralist one, with a substantial number of economic "blobs."

...Even more novel is that what is emerging is not one but *four* world economies: a world economy of information; of money; of multinationals (one no longer dominated by American enterprises); and a mercantilist world economy of goods, services and trade. These world economies overlap and interact with one another. But each is distinct with different members, a different scope, different values and different institutions... (Page 101)

...*The New Mercantilism*

THE MODERN state was invented by the French political philosopher Jean Bodin in his 1576 book *Six Livres de la Republique*. He invented the state for one purpose only: to generate the cash needed to pay the soldiers defending France against a Spanish army financed by silver from the New World—the first standing army since the Romans' more than a thousand years earlier.

...It took 300 years—the time until the unification of Germany and Italy in the 19th century—before Bodin's political invention, the nation-state, came to dominate Europe. But his mercantilism was adopted almost immediately by every European government, large or small. It remained the reigning philosophy until Adam Smith showed the absurdity of believing (as mercantilism does) that a nation can get rich by robbing its neighbors. Twenty-five years after Smith, mercantilism was still the doctrine that underlay America's first and most important work in political theory, *The Report on Manufacturers* (1791) by Alexander Hamilton. And almost a century later, in the second half of the 19th century, Bismarck based the new German Empire on Bodin's mercantilism as adapted to Europe by Hamilton's great German admirer, Friedrich List, in his 1841 book, *The National System of Political Economy*. However discredited as economic theory, mercantilism, not Adam Smith's free trade, thus became the policy and practice of governments virtually everywhere

(except for one century in the UK).

But mercantilism is increasingly becoming the policy of “blocs” rather than of individual nation-states. These blocs—with the European Union the most structured one, and the U.S.-dominated NAFTA trying to embrace the entire Western Hemisphere (or at least North and Central America)—are becoming the integrating units of the new world economy. Each bloc is trying to establish free trade internally and to abolish within the bloc all hurdles, restrictions and impediments, first to the movement of goods and money and ultimately to the movement of people.

...At the same time, each bloc is becoming more protectionist against the outside.

...A mercantilist world economy, however, faces the same problems that led to the ultimate collapse of mercantilist national policies: It is impossible to export unless someone imports. This means, as Adam Smith showed 250 years ago, that the blocs must concentrate on those areas in which they have comparative advantages. In today’s technology and world economy, that means concentrating on an area of knowledge work.

...And just as it was for the mercantilists of 17th- and 18th-century Europe, an adequate home market... This “home market”—small enough to be protected and big enough to be competitive—is what the “blocs” provide.

Thus, the European Union is already in the process of creating the institutions for its bloc to be effective in this world economy: a European Parliament, a European Central Bank, a European Cartel Office and so on... United States, of course, has been a genuine bloc *and* a nation-state all along.

... **W**HAT, the future relationship between these two blocs?

...The world economy is thus fast coming to look far more like the mercantilism of Alexander Hamilton than like Adam Smith’s free trade. It is fast becoming an “interzonal” rather than an “international” world economy.

But a new kind of mercantilist rivalry is emerging in this new economy—one in which the United States suffers from little-noticed disadvantages. For instance, the EU is seeking to export its regulations (and to impose its high regulatory costs on the United States) through international agreements, the reinterpretation of WTO rules, and the growing acceptance of EU standards in third markets.¹

¹ For more, see Lawrence Kogan, “Exporting Europe’s Protectionism”, *The National Interest* (Fall 2004).