

# **Supranational Political Economy: *The Globalisation of the State-Market Relationship* — A Synopsis**

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The following is a synopsis of Prof. Montani's recent book, *Supranational Political Economy. The Globalisation of the State-market Relationship*, published by Routledge in 2019.

The international political and economic system has now entered an irreversible crisis that could threaten the very future of humanity. The return of nationalism in the USA, Russia, China, India, Brazil and even the European Union (EU) is not the result of random, transitory factors: nation states are attempting to defend their imaginary national sovereignty to protect the rights and life expectancy of their citizens, labouring under the illusion that it is possible to keep the great challenges of the twenty-first century at bay simply by closing their borders. Only if the major world powers forge an agreement for peaceful cooperation will it be possible to reverse this trend.

This century presents two main challenges. The first is the process of globalisation that has initiated the great convergence between the rich, industrialized countries and the poor, emerging counterparts. The latter are rapidly closing the gap that had held them behind the major Western powers in the nineteenth century. The process of convergence, however, is generating mass migration flows, causing multinational companies to relocate to take advantage of differing costs of labour and fiscal regimes in different countries, and lastly boosting the dominance of global finance, which no international power can currently curb or control to mitigate the growing income inequalities between rich and poor, which affect even industrialized nations.

The second challenge is the systematic destruction of nature, the Earth system, due to the unstoppable spread of industrial processes and pollution, which are wiping out species across the continents and in all of our oceans, threatening all forms of life including the human race, which has little hope of surviving on a planet with unbreathable air, unbearably high temperatures and tainted water.

The foremost social sciences – politics and economics – have not yet identified the methods and institutions needed to respond effectively to these challenges. In the course of the nineteenth century and afterwards, economics and politics became two distinct academic disciplines, two non-communicating vessels. It was only in the second half of the twentieth century, after the crisis of the Bretton Woods system, that people became more interested in the interdependence of the state and the international market: the economic crisis that broke after the 30-year period of postwar prosperity proved the need for in-depth study of the inter-relationships between international politics and the international market. This led to the creation of a new discipline, International Political Economy (IPE).

Here, we propose a new approach, namely Supranational Political Economy (SPE), and explain why this is necessary. In Part I (The supranational approach to political economy) we present a critique of IPE and the analytical foundation from which we will tackle the main global issue in the contemporary period: the transition from intergovernmental cooperation to supranational governance.

We examine the transition of the present international system towards global governance on the basis of two criteria drawn from the history of European integration: the supranational principle and Hamilton's problem. The history of European integration starts with Jean Monnet's proposal for the European Coal and Steel Community (ECSC), endorsed by the French Foreign Minister Robert Schuman. Monnet's proposal was directly based on the federal system of the United States, which he was very familiar with. Indeed the link between the construction of Europe, as a budding federal institution, and federalism, is explicitly mentioned in the Schuman Declaration of 9 May 1950. Essentially Europe was seeking to experiment with a supranational federal union in order to overcome the divisions that had dragged its countries into two bloody world wars. The supranational principle was explained very well by Jean Monnet, the first President of the ECSC, at the inaugural meeting of 10 August 1952:

«Within the limits of the powers conferred upon it by the Treaty, the High Authority has received from the six States a mandate to take decisions with complete independence, decisions which immediately become effective throughout their territory. It is in direct relationships with all the firms. The Authority obtains its financial resources, not from contributions by the States, but from direct levies on the industries under its control. It is responsible to a European Assembly. It has already been provided that the Assembly may be elected directly by the people. The members of the Assembly are not bound by any national mandate; they vote freely and individually, not by national blocs. Each of them represents not his own country but the whole Community. The Assembly controls our activities. It has the power to refuse us its confidence. It is the first European Assembly endowed with sovereign powers. The acts of the High Authority are subject to review. But such review will be not by national courts, but by a European court, the Court of Justice. Any of these institutions may be changed and improved in the light of experience. What cannot be challenged is the principle that they are supranational — in other words federal — institutions. They are institutions which are sovereign within the limits of their competence — that is to say, which are endowed with the right to make decisions and carry them out».

The gradual process of European unification has advanced when progressive European forces have accepted supranational European federalism, and has receded in the presence of major or minor surges of nationalism. To date the European Union (EU) has created two very important supranational public goods: the Single European Market and the Economic and Monetary Union. We can therefore say that supranational institutions have the power to provide supranational public goods to all the citizens of the Union.

The partial, gradual path of European supranational federalism has helped conceal to the eyes of observers and scholars the true nature of the process of integration, also in view of the fact that the European Union is not yet an independent player on the contemporary panorama of international politics. For these reasons, we felt it was necessary to include a chapter on the birth of federalism in the United States, with particular reference to the ideas of Alexander Hamilton, one of its founding fathers, who understood the existential flaws in the European system of states in the eighteenth century and helped clarify the nature of the American constitutional system: a crucial institutional innovation in the centuries-old history of democracy, from the direct democracy of the city-state, to representative democracy on a national, continental and even global basis – i.e. the democratic government of a plurality of democratic governments. According to the constitutionalist Kenneth Wheare, the federal principle describes a set of independent and coordinated governments: note that independent does not mean sovereign, as some sub-national independence movements surreptitiously attempt to assert. Hamilton clearly states that if one of the states belonging to a federation attempts to claim absolute sovereignty, it would spell the end of the federation. US history distinctly illustrates the advantages and limitations of a federal system of government. For this reason we have chosen to illustrate Hamilton's problem, which sheds light on the complex question of constitutional balance between the various levels of government, and between different governments and the market. There are no easy solutions to this problem in a global economy where economic interdependence now largely overshoots the territorial limits of the federation. Indeed the US has been forced to centralise its system of governance more and more, due to the expansion of the domestic and international economy and the country's role as world superpower. The constitutional problem that Hamilton faced in his time now presents itself on a global scale.

We can therefore say that supranational political economy (SPE) analyses the foremost international economic, social and political issues in order to identify the supranational institutions that would enable the citizens of the world, organised in national political communities, to uphold their values and safeguard the rights achieved within their states. To accomplish this we need supranational government authorities endowed with the power to provide supranational public goods. The principles of Westphalia must gradually be replaced by the principles of federalism, using the rule of law to coordinate relationships between governments worldwide, respecting their national independence. Supranational political economy does not supplant the field of international relations: as long as nation states continue to have the option of using armaments to settle their disputes, the rule of law will not take the place of armed conflict. Yet establishing intensive, peaceful relationships of cooperation among nations represents a step towards a cosmopolitan civilisation.

After Part I (the critique of IPE) and Part II (Hamilton's problem and the principle of supranationality), the third section of the book deals with the major economic and political issues

of the contemporary period. One initial chapter explores the various stages in the formation of the modern economy, from the scientific and technological revolution whose cultural roots lie in the European Middle Ages, to the formation of the contemporary international economy. The implications of the Anthropocene era we now live in have not yet been sufficiently studied by social scientists. We must acknowledge that we are now in a new phase of human history. This awareness will enable us to identify the political priorities that shape the world we live in, and in which – we hope – future generations will continue to thrive. The key issue at stake in this new era is sustainable development, which has been recognized as a strategic objective and translated into the Sustainable Development Goals (SDGs) approved by the UN in 2015. Yet these objectives have been left in the hands of national governments, who are free to choose whether to implement them or not. In some cases, as happened with the objective of halving extreme poverty, decided in 2000, significant results have been achieved, even in the absence of global governance, but only thanks to the decisive contribution made by the economic development of countries with very large populations, such as China and India. A disunited Africa, on the contrary, has remained almost at the starting post.

The current struggle to ensure we do not continue to overstep planetary boundaries is a very different issue, and mere intergovernmental cooperation is proving to be entirely inadequate. When it comes to the planetary boundaries of the Earth system we are entering ‘high risk’ red zones, yet there has been no kind of moral outcry or even acknowledgement of this, and there is at present no world leadership capable of halting our race towards the abyss. For this reason, the second chapter of Part III takes a closer look at the contemporary capitalist system, endlessly debated by liberals, socialists and Marxists alike. We have tried to tackle the phenomenon using the simple empirical criterion proposed by Deng Xiaoping at the advent of a crucial stage in the industrial development of China: it does not matter if reforms are defined as socialist or capitalist, the important thing is that they create development. Capitalism is an organizational formula that combines capital and labour in enterprises that aim to be competitive on the national and global market. Of course the framework of rules in which companies operate has to be decided by a public authority, the state. If in the international context there is no world government to establish the rules of the game, the rules will be set by the ‘spontaneous’ forces of the market – a concept theorized by some liberals, such as Hayek. We therefore analyse the situation of capitalism in the USA where, thanks to the process of globalisation, finance has grown out of all proportion, and the all-pervasive hegemony of financial capital eclipses the rest of the economic system. We also examine the development of capitalism as a state system in China and democratic India, exploring the great convergence: an impressive planetary process of integration of different civilisations. In addition, we discuss the European Union, where different types of capitalism have formed, in an institutional context characterised by forms of welfare state that differ but basically converge towards a common model. These analyses help show that the issue of the sustainability of the Earth system cannot be limited to identifying one or more social objectives, but must take account of the inevitable global interdependence of the economic system.

The last chapter of the book outlines the reforms needed to construct global governance. The method proposed is that which enabled Jean Monnet to create the ECSC, namely a system of supranational governance of the European economic process which did not initially address complex issues such as foreign policy and security. Today, we need to build global,

supranational institutions to foster peaceful cooperation between the major powers, in the awareness that, over time, increasing economic integration will overcome political and military tensions, including issues related to foreign policy and security.

The accelerated pace of technological progress – the ICT, nano-technologies, genetic engineering, robotics and space exploration – also dramatically influences the development of the global economy. We have chosen to focus on three sectors crucial to global governability: international currency, international trade and international finance, in other words, three supranational public goods: monetary and exchange rate stability, free trade and the stability of public and private finance. With regard to monetary stability we considered the plans for a World Clearing Union (WCU) presented by Keynes at the Bretton Woods conference. This project inspired the international reforms proposed by Robert Triffin and the proposals advanced by the governor of China's central bank, Zhou Xiaochuan, at the conference in London in 2009 to prevent a major new international financial crisis. In short, the Keynes Plan was based on a World Governing Board comprising representatives of national banks (or governments); an international currency, the Bancor; a system of fixed but adjustable exchange rates, and a ban on exporting capital, but not goods.

Nowadays, in a scenario which is very different to that of the post-war period, we also need to take account of the free circulation of capital, but this does not stand in the way of creating a WCU, because a currency similar to the Bancor already exists, namely Special Drawing Rights (SDRs); moreover, the free movement of capital is already established, while monetary stability requires there to be limits on the indebtedness of national government in the world currency (SDRs). A similar system was created in Europe in 1979: the European Monetary System which preceded the creation of the Monetary Union. It is not a question of creating a global monetary union, but just a system of monetary cooperation coordinated by a World Governing Board: if the world's major powers, the G20 for example, were to reach an agreement, it would guarantee the monetary and financial stability of the global economy, a solution that would help close the great divide between the world's rich and poor nations.

With regard to international trade, the functioning of the WTO is currently hampered by the ominous return of economic nationalism and the US government's attempt to thwart the Dispute Settlement Mechanism (DSM), an embryonic form of supranational tribunal established to resolve trade disputes between states. The crisis of the WTO can be overcome as long as the major trade powers agree to better regulate the world market, with something akin to the Single European Market, whose member states agree to abide by a set of supranational compulsory rules.

Lastly, the regulation of international private and public finance is a pressing concern due to two factors. The first is the increasing inequality between rich and poor in all nation states. Some reports show that 1% of the world's population possesses 35% of world private wealth. This is a scandal that cannot be allowed to continue. The second factor is the unstoppable erosion of national fiscal sovereignty, held in thrall by global finance, which constantly forces states to reduce taxation on people and capital, above all for multinational companies. Fiscal competition between states forces national governments to progressively reduce spending on social security. Yet there are ways to combat the growing power of international finance. In Addis Ababa, on the

occasion of the UN conference on Sustainable Development Goals, a group of NGOs proposed the creation of a World Tax Agency (WTA) to collect taxes on multinational firms and rich individuals. The revenues would be distributed to national governments according to their GNP, with the exception of a percentage destined to the UN budget. A UN budget of 1% of world GNP could fund a plan for the great convergence and for the sustainable development of the Earth system: a world carbon tax could become the main revenue for financing the UN budget.

Lastly, the book explores the difference between the creation of the modern nation state and that of world governance, i.e. the relationship between national and supranational democracy. The philosopher Pauline Kleingeld offers an interesting interpretation of Immanuel Kant's philosophy of history. In early writings, Kant proposed an analogy between the primitive state of barbarism (state of nature) and the modern form of international anarchy, that is, a world of sovereign states in which disputes can ultimately be resolved through war. Subsequently, however, he rejected the analogy between international anarchy and the state of nature. To leave the state of nature individuals are willing to accept an imperfect state, even a despotic state. On the contrary, modern nation states enable individuals to gradually gain more freedoms and rights, becoming republics (or democracies). At the international level, a state of states with coercive powers is not necessarily better, in terms of rights, than the state of nature. A despotic world sovereign would not be tolerable. The disanalogy explains why Kant advocates a voluntary, non-coercive league as a transitory step towards a world federation – the cosmopolitan state – and offers insight into the difficulties involved in building supranational institutions, such as the European Union and global governance. Democratic constitutional gradualism is the path to follow. The European Union already has a European Parliament, albeit with insufficient legislative powers. If a system of global governance is created, sooner or later the UN will need a world parliament.