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**LIMITATIONS OF THE NATIONAL ECONOMIC  
POLICY IN THE FACE OF GLOBALIZATION PROCESS\***

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Key words: globalization, government role, transformation process.

Abstract

The article touches upon the problem of government's role evolution, which is the result of globalization process. The thesis of the paper says that a government is not able to stop and create efficient obstacles for the globalization process. When a government creates national economic policy it can only actively react to the evolution of modern global economy in a way, which is not contradictory to the basic Hayekian spontaneous forces of globalization.

**OGRANICZENIA NARODOWEJ POLITYKI GOSPODARCZEJ W OBLICZU  
GLOBALIZACJI**

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Słowa kluczowe: globalizacja, rola rządu, transformacja.

Abstract

Celem artykułu jest analiza ewolucji potencjalnej roli rządu związanej z procesem globalizacji. W artykule postawiono tezę, że żaden rząd nie jest w stanie indywidualnie przeciwdziałać zjawiskom związanym z procesem globalizacji. Prowadząc narodową politykę gospodarczą, poszczególne rządy mogą co najwyżej aktywnie reagować na zmiany zachodzące we współczesnej globalnej gospodarce, w sposób, który nie jest sprzeczny z kierunkiem narzucanym przez spontaniczny, w sensie hayekowskim, proces globalizacji.

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## **Introduction**

The influence of globalization on national states is currently one of the most exploited subjects among the sciences involved in almost all aspects of social sciences. It is also an important subject of global public debate. Despite that the problem is frequently far from full understanding. It is also difficult to talk about emergence of a consensus in the current debate. As a consequence, numerous controversies concerning the evolution of government role linked to the observed fundamental transformation in global economy can be noticed. Analysis of the development of those public discussions can lead to the conclusion that the problem is particularly important in Europe, citizens of which are strongly attached to strong influence of the national state on economic processes and frequently reject the possibility of limiting the traditional influence of the state in that area.

This paper represents a voice in the discussion concerning the influence of globalization on changes in the options for effective state control of economic processes. The aim of the paper is to present the factors that limit the effectiveness of state activities focused on performance of operational control over the economy. In achieving that aim the method of literature analysis and critique was used coupled with confrontation of theoretical conclusions resulting from the methodology chosen with the statistical data collected by the OECD (See APANOWICZ 2006).

## **New global economy**

According to Joseph Stiglitz, globalization is the „tighter integration of states and people in the world caused by the immense reduction in costs of transport and telecommunication and removal of artificial barriers to the flow of goods, services, capital, knowledge and (to a lesser degree) people from country to country. Globalization has been accompanied by establishment of new institutions, which, next to the existing ones, started conducting activities crossing national borders. [...] Globalization is stimulated significantly by international corporations moving across borders not only the capital and goods but also technology” (STIGLITZ 2004, p. 26).

Globalization is currently one of the most frequently analyzed socioeconomic phenomena. Despite that the opinions skeptical about the thesis concerning the important influence of globalization on structural changes in contemporary economy also appear. According to those opinions the phenomenon has nothing particular in it, as international integration of individual economies has been visible for decades. As a consequence, it represents

a long-term transformation of evolutionary character. This means that globalization should not be treated as the source of accelerated multidimensional structural transformation of contemporary economy. For example, during the years 1870–1914, at the peak period of gold standard development in the global monetary system the share of international trade in generating the national wealth of the major global economies was even higher than today. This means that the increasing rate of globalization today can be treated as return to the process that was suspended by two World Wars and the great crisis of the 1930s (Compare BIEŃSKOWSKI 2004, p. 13).

In some respects that perspective could be considered right. Nevertheless, comparing the major characteristics of the current stage of globalization with its historical stages the immense difference in the scope of proportions and scale of transformations in the global economy that could be caused currently by the so-called 'globalization shock' should be noticed. This is presented in Figure 1. Currently, as compared to the earlier stages of globalization, countries newly integrating with the global economy are characterized by significantly larger populations and much greater GDP per capita gap in relation to the highly developed countries (*OECD Economic Outlook 2007*, pp. 186–187). The difference in those proportions translated into a much faster rate of transformations in the structure of the fundamental economic relations such as flow of goods, capital and people and influences a different mode of global economy functioning.

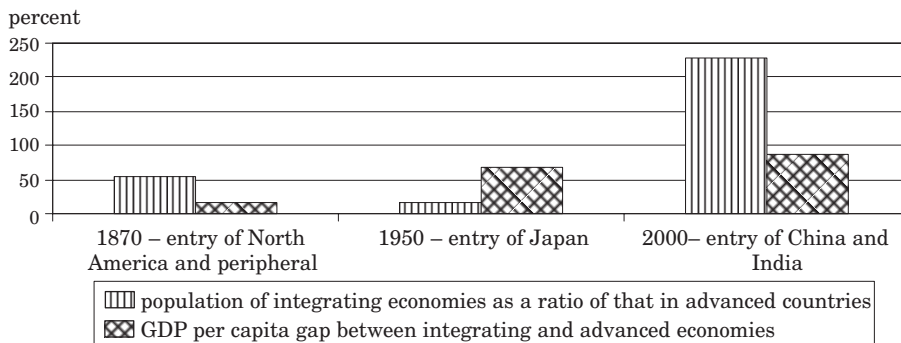


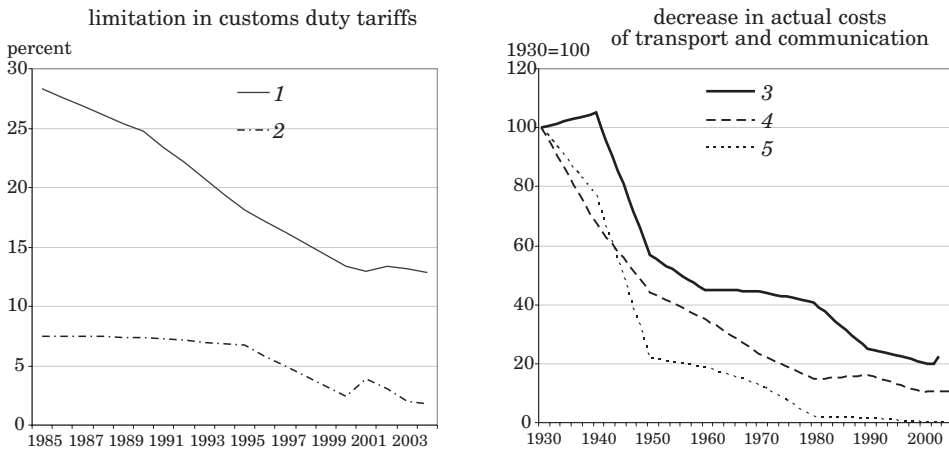
Fig. 1. Differences in scale between different stages of the globalization process

Source: *OECD Economic Outlook 2007*, p. 186.

On those bases it can be concluded that although the globalization process has been observed for decades, its earlier stages had a very limited influence on global economy functioning. With the exception of small-scale international trade in products and services as well as changes in relatively few earlier

globalized industries, the national economies maintained their relatively local character all the time. Currently, on the other hand, the process of gradual transformation that offered all the entities lots of time for adjustment is the thing of the past. Nowadays the influence of the globalization process is general, it determines the situation of both the developing and the highly developed countries and manufacturing as well as service sectors (FRASER, OPPENHEIM 1997, p. 169).

The definition of globalization according to Joseph Stiglitz indicates that the rapid decrease in the costs of transport and information exchange accompanied by the limitation in national protectionism supportive to liberalization of international trade were among the key driving forces of that phenomenon. This is confirmed by the data presented in Figures 2 and 3. During the recent



Where:

1 – Median for non-OECD member states from the average tariffs level for a given country.

2 – Median for OECD member states from the average tariffs level for a given country.

3 – Average price per ton for international freight.

4 – Average income of earliness per passenger mile until 2000, next the passenger fees in the USA

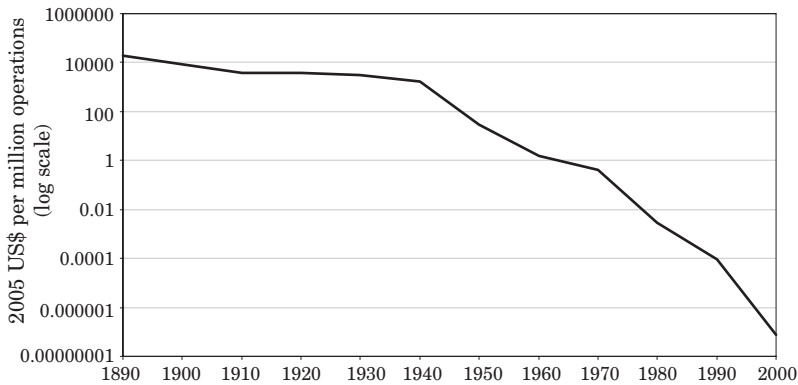
5 – Cost of three minutes connection between New York and London.

Fig. 2. Decrease in the costs of trade and transaction costs

Source: *OECD Economic Outlook* 2007, p. 187.

decades the global reduction in the customs duty barriers has taken place. Additionally, the actual costs of transport decreased fourfold during the last fifty years, which can be considered a very modest result compared to the decrease in costs of information transfer and processing costs. According to the study by William Nordhaus, the entire 20<sup>th</sup> century was marked by unprecedented decrease in information processing costs. Between 1890 and the end of

the 20<sup>th</sup> century the effectiveness of the unit labor cost at fixed prices assumed as the measure for processing power cost achieved the yearly growth rate at the level of 30%. It should also be highlighted that the increase before 1940 was very low. After World War II with the era of the computer the increase in processing power unit effectiveness at fixed prices exceeding 55% per year was recorded (NORDHAUS 2001). Those factors determined the increase in the technical potential for internationalization of all economic entities.



Where:

1. The graph presents the cost of processing capacity necessary for performance of an average operation (totaling and multiplication). This is based on the cost of manual processing in 1890, electromechanical processing between 1890 and 1940, and computer processing after 1940

Fig. 3. Decrease in the information processing costs

Source: *OECD Economic Outlook 2007*, p. 187.

Historical analysis indicates existence of correlation and feedback between the technological development in telecommunication, increasing importance of information and increasing role of network solutions on one hand and the globalization process. It can be said that establishment of network system, corporation based on remote communication and major decentralization of decision processes related to that, development of teleinformation assuring shortening of the access time to information have become the key premises for rapid development of new economy (BOEHLKE 2005, pp. 34–35).

As a result, according to Władysław Szymański focusing mainly on the microeconomic perspective, a change in market operation is the most important economic consequence of the current globalization stage. The process of limiting barriers to allocation of economic resources on the basis of the market mechanism across the borders of national states, which translates into a qualitative jump in mobility of the means of production, is the main element of that development. Allocation of economic resources, in particular knowledge and

capital across the borders of national states changes the optimally profitable distribution of those means. This makes the contemporary economy global and the contemporary market entirely different from the situation during the period of strong national states and economies separated by obvious borders. As a consequence we can talk about an important change in the most important economic problem faced by economic entities. As Władysław Szymański concludes “If the economy deals with the problem of coping be entities with rarity of resources that have multidimensional applications the globalization changes the approach to rarity of resources and options for their use. The perspective for assessment of resources rarity or abundance and places of using them transforms from the local issue into the global one. Globalization leading to liberating markets from border barriers at the same time eliminates the competitive limitations. In the same way as there is no market without competition, there is no global free market without opening to external competition. As a consequence [...] globalization is the process of eliminating the instruments and means of protection against external competition. Countries, and most of all enterprises, are increasingly exposed to frontal, unrestricted competition”. As a consequence, it should be highlighted, that the evolution of the mechanisms responsible for the way and character of functioning of the market of contemporary highly developed economies is the key to the nature of the globalization process (SZYMAŃSKI 2002, pp. 10–11).

### **Limitation of the effectiveness of the state in the area of direct control over the economic processes**

On the basis of the fact referred to in the previous subsection it could be expected that globalization will be the key process influencing the evolution in the economic role of the government during the 21<sup>st</sup> century.

Changes that occurred during the 20<sup>th</sup> century such as the great crisis of 1930s and expansion of the welfare state ideas in the world after World War II were the source of almost general increase of economic omnipotence of the national state (BALCERZAK 2007, pp. 243–257). On the other hand, Wojciech Bieńkowski analyzing the influence of globalization on the potential for conducting an effective macroeconomic policy indicates rapidly changing potential of governments in the area of creating the conditions for operation and competition among business entities in both domestic and foreign markets (BIEŃKOWSKI 2004, pp. 11–25). That new situation of the governments results mainly from the change in the number and effectiveness of the instruments they could currently use in an attempt at influencing the economic situation as compared to the range of economic instruments that were available to the

governments twenty or thirty years ago. Currently the possibilities of effective control by the state over economic processes and certain zones of economic life that were earlier even within its exclusive domain have been limited or modified significantly. This results from the loss of traditional economic instruments of the state that are passed to the international organizations such as WTO, UE, NAFTA or CEFTA. The effectiveness of the numerous state tools is also limited as a consequence of the increase of the economic power of enterprises transforming into international corporations and the necessity of participating in the international financial market, which is inevitable for creating economic growth conditions. All those factors force governments to apply relative discipline and limit the options for discretionary activities in the field of macroeconomic economic policy (BIENKOWSKI 2004, pp. 11–25).

The thesis by Wojciech Bienkowski is consistent with the empirical data presented in Figure 4 presenting the increasing share of international trade in the global GDP and Figure 5 presenting the increasing volume of international financial flows.

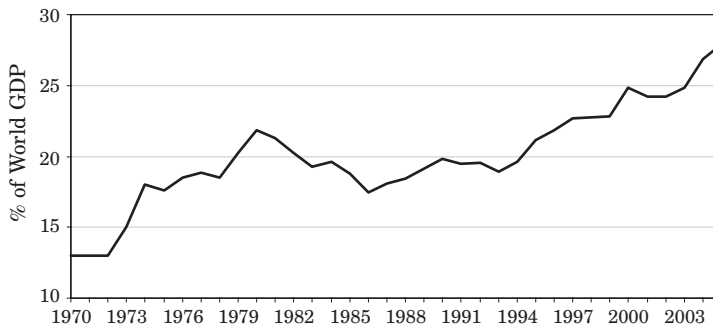


Fig. 4. Increase of international relations in the result of trade: share of the goods and services in global GDP

Source: *OECD Economic Outlook 2007*, p. 188.

Figure 5 confirms that during the recent years a particular increase in the flow of financial capital has taken place. During the analyzed decade the relation of the international financial capital flows to the global product tripled. Nevertheless it should be highlighted that as a result of the global stock exchange crisis at the turn of 2000 and 2001 a change in the structure of capital flows has taken place. The flows of foreign direct investments and foreign capital investments have been limited much more than the flows of investments characterized by higher liquidity and more time was required for returning to the levels matching those from the times preceding the crisis.

Direct foreign investments returned to that level only in 2006 (*World Investment Report 2007. Transnational Corporations, Extractive Industries and Development*. 2007, p. 3).

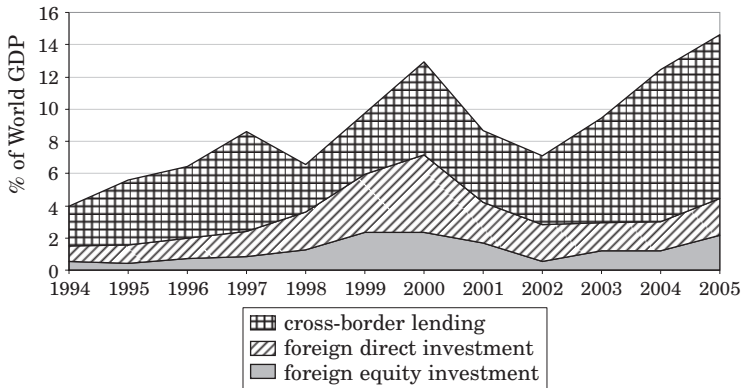


Fig. 5. Share of capital flows in the Gross Global Product

Source: *OECD Economic Outlook 2007*, p. 189.

Some economists see rapidly increasing financial flows as a significant potential risk for social welfare. This applies in particular to the rapidly increasing volume of the most liquid assets. Joseph Stiglitz points at possible risks for the developing countries related to the sensitivity to speculative attacks and currency crisis. That was confirmed by currency collapses during 1990s, particularly painful to the developing countries with open financial markets frequently accompanied by low quality of institutional infrastructure increasing the risk of speculative bubbles formation. As a consequence, he points at justification of strong state control over capital flows and reasonability of limitations to liberalization in that area (STIGLITZ 2004, pp. 57, 71, 2003, pp. 505–524).

Empirical studies, however, provide a significant number of arguments indicating low effectiveness of such activities. The volumes of financial flows in global markets are currently so large that individual intervention activities by individual governments undertaken in capital markets can prove insufficient even in case of large and strong states. Currency crises of the last two decades have proven that possible intervention activities required international collaboration of all the largest participants in the global financial market. The institutional infrastructure necessary for such activities can be provided only by new international organizations as the effectiveness of activities undertaken by the most important currently operating organizations of that type



such as the International Monetary Fund and the World Bank is frequently low (STIGLITZ 2003, pp. 505–524).

Additionally, many empirical studies confirm the strong positive influence of high openness of the capital markets both in relation to relatively liquid assets as well as direct foreign investments and direct capital investments to the processes of modernization and productivity increase rates acceleration. That last element is the marginal condition for increasing the social welfare in every country. Liberalization in the area of financial flows is supportive to modernization, development and increase of financial markets effectiveness necessary for effective allocation of resources<sup>1</sup>. On the other hand, foreign direct investments are a very important carrier of impulses for technological modernization and diffusion of innovation, which translates into a higher productivity increase rate (*A New Economy: The Changing Role of Information Technology in Growth* 2000, pp. 40–42, pp. 190–191).

As a result, it is most frequently pointed out that from the perspective of individual countries limiting negative consequences of operation of the international market of liquid financial assets coupled with the use of their potential could be achieved mainly as a result of conducting reasonable macroeconomic policy creating no bases for financial destabilization of the country. The arbitrary and discretionary activities of the state, on the other hand, aimed at preventing financial flows shaped by the market would rather be characterized by low effectiveness.

The process of globalization has not bypassed also the labor markets. Despite the non-economic limitations to mobility of labor, since mid 1990s an increasing mobility of human capital and increasing integration of labor markets have been observed. This results in the increasing share of immigrants in resources of labor in the majority of OECD countries (Tab. 1). In particular increasing importance of economic migration of highly skilled labor should be noticed.

A lot indicates that despite increasing codification of knowledge, the tacit knowledge in the form of skills, experience and education established in the human capital gains increasing importance in contemporary economy. This means that expanding links among labor markets of individual markets that translate into larger migration of highly skilled workers represent an important

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<sup>1</sup> Multi-aspect studies conducted by Ayhan Kose, Swar Prasa, Kenneth Rogoff and Slang-Jin Wei provide powerful empirical arguments confirming that the developing countries gain evident benefits resulting from integration of their financial markets with the global market. The extent of those benefits, however, depends on numerous institutional conditions. In view of the analyzed studies, nevertheless, there are no pieces of convincing empirical evidence proving medium- and long-term negative influence of financial markets globalization on development potential in the countries aiming at liquidation of the development gap. See: A. KOSE, E. PRASA, K. ROGOFF, S. J. WEI, *Financial Globalization: a Reappraisal*, "NBER Working Papers" 2006, No. 12484, August.

Table 1

Increase in importance of migration in highly developed countries

Country	1		2	
	1992 or the first year available	2004	1992 or the first year available	2004
Hungary	0.97	1.77	2.91	3.77
Finland	1.66	2.55	1.77	1.91
Portugal	1.22	6.36	3.01	13.2
Denmark	2.29	7.16	1.72	9.35
Norway	4.97	7.6	6.69	8.65
Greece	2.85	7.63	3.72	6.16
Ireland	5.5	8.12	11.16	14.33
Spain	1.81	9.84	3.34	10.34
United Kingdom	7.64	10.16	9.15	10.76
France	11.65	11.6	12.83	11.4
The Netherlands	9.88	12.34	8.67	10.52
Sweden	7.08	12.51	8.16	14.86
Belgium	10.36	12.55	9.57	13.31
Australia	11.14	13.03	15.53	15.18
USA	12.08	16.39	11.63	15.32
New Zealand	19.81	22.56	30.44	35.37

Where:

1. Share of immigrants in the population of men in the productive age group
2. Share of immigrants on the population of highly skilled men in the productive age group

Data concerns men only as a consequence of data availability. Employees are treated as immigrants if they were born abroad. Productive age group means: 16 – 64 years. 1992 was assumed as the first year with the exception of: Australia – 1995, Finland – 1996, France – 1993, Hungary – 1997, The Netherlands – 1996, Norway – 1996, Sweden – 1995, New Zealand – 1997, USA – 1994  
Source: *OECD Economic Outlook* 2007, p. 189.

component creating positive effects of overlapping and positive external effects in generation and proliferation of knowledge. For countries using that factor in an effective way this can represent an important source for mitigating shortages in high quality human capital. Empirical studies indicate that this was a significant phenomenon facilitating the use of globalization potential during 1990s in such countries as the United States, Australia and Sweden (*A New Economy*. 2000, pp. 44–47).

That phenomenon, on the other hand, means also that contemporary states loose not only the strong influence and control of not only the flows of material and financial capital but also their potential for control over the highest quality human capital also decreases. Increasingly frequently phenomena such as tax optimization applying not only to enterprises but also citizens, influence of macroeconomic policies and influence of government bureaucracy on intensifi-

cation of migrations can be observed. This means that contemporary states, for the first time in history, are facing the necessity of participating in the international competition for knowledge and high quality human capital, also that, which is the element of their own societies. As a consequence, governments that do not consider those factors creating their economic policies will probably be unable to increase innovation and competitiveness of their economies.

## Conclusions

Globalization is an objective, spontaneous in Hayekian sense process of creating the global institutional order<sup>2</sup>. The process is driven by voluntary, spontaneous activities of people and multinational corporations aiming at achievement of their individual goals when new conditions for identification of the global market and allocation of production factors across national states; borders appeared. The process is the source of the new potential, which is the effect of wider choices available to business entities within the reality allowing production of almost anything almost anywhere. It is, however, also the source of new challenges. Currently, it is difficult to assess which of them will develop further and which will loose on importance. Nevertheless, the current level of advancement in the globalization process clearly determines that the individual national state is not able to prevent effectively the mechanisms of economic life transformation initiated by the process on its own. On the other hand, activities of the state inconsistent with the philosophy of the global market are doomed for failure.

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<sup>2</sup> According to Friedrich August von Hayek, the market mechanism is the result of human spontaneous process of acting and learning during thousands of years and not of the focused constructive plan that could be developed in any way, e.g. on the basis of the arbitrary decisions of the state. See: A. P. Balcerzak, *Antyetykizm w doktrynie społeczno-politycznej F.A. Hayeka* [in:] *I Krakowska Konferencja Młodych Uczonych, 21–23 September 2006*, Sympozja i Konferencje KKMU 1, Akademia Górniczo-Hutnicza in Kraków, Kraków 2006, pp. 621–630. In that sense, globalization can be treated as another stage in the market mechanism evolution in relation to the global economy.

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