

THE EFFECTIVENESS AND RESULT OF ECONOMIC POLICIES IN THE SENSE OF CHANGING ROLE OF NATION-STATES IN GLOBALIZATION PROCESS

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ABSTRACT

Globalization process creates different conditions and facts for every nation-state in the world. There is a new circumstance at the point of the politics for nation-state in globalization age that is reduced efficiency of nation-state as an economic and politic form especially in developing countries. There are arguments on the writings about international economy and international system that have been argued the roles and changing behaviours of international organizations and according to these arguments nation-states are not dominant anymore, because they have been replacing their roles with International Organizations and Non-Governmental Organizations (NGOs) in the international system and international economy. This study is presented a part of these discussions and argued what has changed and is changing in the role of nation-state as a major actor of both domestic and international economy.

Key Words: Capitalism, Economic Policy, Globalization, National Sovereignty, Nation state.

INTRODUCTION

Globalization is expresses principally calling the process and developments at politic, economic and cultural field in worldwide.

Globalization mainly articulates (expound) the producing and supplying of goods and service, and gradually increasing becoming international of them. Inferior structure of globalization is occurred from big leap on communication technologies. Unprecedented developments in communication technologies, acceleration velocity of finance-capital, increasing easiness on acquiring information and speedy expanding circulating of knowledge are making way for production of goods and services and control of international trade on a large scale by multinational corporations and national-further organizations¹. On the

¹ Yakup Kepenek, "From Nation-State to Developer State", ODTÜ Gelişme Dergisi, Say.:26, No:3-4, 1999, s.317.

other hand, there is new circumstance at point of the politics for nation-state in globalization age that is reduced efficiency of nation-state as an economic and politic form especially in developing countries². Nation-state has been faced with many contradictions domestic and foreign which caused needs and desire of capital and democratic right and increasing welfare demand of their citizens.

In decade, there are argument on the writings of international economy and international system that they have argued the roles and changing behaviours of international organizations (like International Monetary Found, United Nations, World Bank etc.) and according to these arguments nation-states are not dominant anymore because of they have been replacing their roles with International Organizations and Non-Governmental Organizations (NGOs) in the international system and international economy³. According to them the market has wrested control from the state over the commanding heights of the economy and that the economic role of the nation-state is only about at an end. Other many writers maintain the global economy is emerging or already emerged in which distinct national economic no longer exist. So that national economic policies, especially macro economics policies, are no longer possible⁴. This article is presented the part of these discussions and argued what has changed and is changing in the role of nation-state as a major actor in both domestic and international economy.

How a Globalization and for Whom?

Obviously there have been very important changes on the international economy and affairs at the end of twentieth century and the beginning of the twenty-first century. The nation-state has under very significant assault from both above and below. In worldwide, ethnic conflicts and politic of identities are defying the inseparable and reliability of the nation-state in many countries. They look for independence and at least more and more autonomy in the sense of the control of own economy and politic-base⁵. Understanding what they want is still important. Many

² Meryem Koray, *ÖKüreselle me Siyaset ve Ulus-Devlet, Ekonomi, Siyaset Tart, malar*, <http://www.antimai.org>, s.1-2.

³ Daniel Yergin and Joseph Stanislaw, *The Commanding Heights: The Battle Between Government and the Marketplace That is Remaking the Modern World*, Simpson and Schuster Inc., New York :1998; Richard O'Brien *Global Financial Integration: The End of Geography*, New York:1998.

⁴ Paul Hirst and Grahame Thompson, *Globalization in Question: The International Economy and the Possibility of Governance*, Polity Press, London:1996.

⁵ Vincent Cable, *ÖThe Diminished Nation-State: A Study in the Loss of Economic Power*, in *What Future for the State?* Deadalus, No:2, Spring 1995, pp.43-46.

groups, for instance, in Middle East like Palestinians, inferior Islamic groups and in the North Caucasus like Chechens, are challenging for their own nation-states and heights control of their own economies. Although they can not give up from nation-state they want to divide existing nation-states into small units for controlling by them.

Also there is no need to say that economic independence and dominance is eroded in very important ways by economic globalization, as a part of activities of trans-national economic forces, like International Finance Organizations. However, according to many neo-liberal authors, the level of globalization and the cost of economic globalization in favour of the nation-state have been significantly inflated by anti-capitalists. If there would be possibility to generalize all point of views on economic globalization and effects on nation-states; this is still a state-dominated world. At the same time as Vincent Cable has distinguished, it is not uncomplicated to appraise globalization's implications for the nation-state. Even though the economic role of the state has declined in assured important ways, it has stretched out in others and, for that reason; it is inaccurate to end that the nation-state has turn into unnecessary or old-fashioned⁶.

As a result, its largely impact on the economic role of the state is limited like globalization of international economies is greatly more narrowed than many realize. Also, even though economic globalization has been a factor in whatever diminishment of the state may have occurred, ideological, technological, and international political changes have had an even more powerful influence. Furthermore, many and perhaps most of the social, economic, and other problems ascribed to globalization are actually due to technological and other developments that have little or nothing to do with globalization⁷.

There is more important improvement in transportation and communications. These improvements supplied into contact between as geographical separated people into with the others especially after cold war years. These taken progresses speeded up the economic globalization like changing the forms and concepts of trade flows, activities and effectiveness of multinational corporations and developments of

⁶ Vincent Cable, pp.38-39.

⁷ Robert Gilpin, Understanding The International Economic Order: Global Political Economy, Princeton University Pres, Oxfordshire: 2001, pp.362-363.

international finance systems. But according to a number of authors although the significance of globalization the degree of the incorporation of the international economy has been decidedly rough, limited to determined economic sectors, and not quite as extensive as many believe. As mentioned although technological improving increased economic globalization, national policies that responsible of the process of economic globalization could be reversed these high level of integration of world economy in the future like done in the past⁸.

In addition, this trade is still not largely part of economic activities between national economies. The big parts of the foreign investments in the world are accumulated in United State, Western Europe and Pacific Asia region. These economies define as developed countries. Only small portion of investment are invested in less developed economies and underdeveloped economies. Also these foreign investments are confined raw materials and some limited sectors in these economies. International finance flows are highly short termed and speculative forms in these less developed economies.

The degree of economic integration and globalization could define by some indicators like one price law⁹. According to this concept if in many economies there is same or equal price for particular goods or services, these economies are largely integrated with each others. For example in Europe Union's economies there are similar or same prices for identical goods and services. On the other hand there are still considerable price differences because of labor cost between countries which is opposite indicate of economic integration. There are large disparities in wages. All of this clearly suggests that the world is not as integrated as many proclaim.

⁸ According some authors like Robert Gilpin, We could make a relatively comparison between prior to World War I and nowadays about integration degree of world economic. At the time of the gold standard and the laissez-faire doctrine for example, markets were truly supreme and governments had little power over economic policies and economic affairs as indicators, at least relative to the size of national economies and the international economy, trade, investment, and financial flows were actually greater in the beginning of 1900s, than they are today. Because today globalization is especially only largely restricted to America, Western Europe and Pacific Asia. Robert Gilpin, pp.364-365.

⁹ As stated originally, the venerable law of one price succinctly describes long-run equilibrium in a perfectly competitive market. The law was later amended, defining a market as the geographic area within which the same thing sells for the same price at the same time, allowance being made for transportation costs. Modified in that way, the law has two plausible interpretations. By one interpretation, every production site is a market. By the other, prices in fact do not differ by transportation costs. The transportation-cost amendment thus introduces internal contradictions that render the revised law of one price either useless or wrong. Fred S. McChesney, William F. Shughart, II and David D. Haddock, *On the Internal Contradictions of the Law of One Price*, *Economic Inquiry*, 2004, Vol. 42(4): pp.706-716;

Another significant and important relative evaluation point is one of the highest differences between in today and the beginning of 1900s about migration. There was many different way of migration in the world till the 1900s. Firstly millions of European crossed the Atlantic Ocean to settle as permanent resident in Canada and America as a whole. Secondly West Europeans also migrated to Australia, South America like Argentina for settling. These migration streams affected the structure of the world economy¹⁰. Still in 21st century, labour migration is available in spite of low level from underdeveloped countries to developed countries. These mass streams can not become determinants of the structure of the world economy like before, but national borders still stay significant elements of the globalizing world economy for lots of people in underdeveloped and third world economies.

There have been shifts from manufacturing sector to services sector in developed countries after between important economic changes at the end of the twentieth century. These shifts were like as general technological developments related with the computer, as specific Internet and information economy. Even if some development on economic and technological area like related with computer, telecommunication and information society-economy, have without doubt been a factor of the process of globalization. Globalization in some cases has accentuated these economic and technological changes, but these two developments are not synonymous. In fact, the contemporary technological "revolution" has been a far more persistent and, in many ways, a much more profound development than is globalization, at least thus far¹¹.

Expanding list of problems what has been really caused by technological change, by national government policies and by wholly other local aspects that usually assigned to the globalization would be easy. Globalization is repeatedly blamed for disappointment and problems of globalization that have emerged from the economic and political integration of the area. In Western Europe, globalization and

¹⁰ There are argues on differences of migration and how it affected the world economy. There is detailed study on it written by Lewis. W .Arthur Lewis, Evolution of the Economic Order, Princten University Pres, USA:1980.

¹¹ Lots of troubles contended to be the consequences of economic globalization are really the outcome of unlucky national policies and government decisions. Environmentalists rage against globalization and its evils; yet, most environmental damage is the result of the policies and behaviours of national governments. Air, water, and soil pollution result primarily from the lax policies of individual nations and/or from their poor enforcement procedure. Robert Gilpin, pp.366-367.

regionalism are featured by lowered economic barriers, restructuring of business, and other economic/social changes. But still both of these two main streams have different goals from each other especially on focusing to achieve.

Mother Law (Constitutions) of Globalization: The MAI Equal to Inequality-Poverty

Dilemma between needs of capital movements and portion of national welfare occur inequality-poverty for defendant of international capital flows. In last 10 years, variety agreements between developing or underdeveloped nation-states and developed and/or international organization, brought more freedom to capital movements and easiness to its needs, therefore inequality for example wages between developed and underdeveloped economies increased. Population who lives under poverty has risen.

The MAI¹² and similar agreements, and more forcefully the programs of the IMF and the World Bank, are the practical manifestation of this shift in economic theory. They have the effect of enforcing compliance with the laws of ömonoeconomicsö¹³, as embodied in their rules and operations. As such they severely restrict the choices available to nation-states and especially to parliamentary and elected bodies around the world¹⁴.

Provisions which come with MAI could boundary act requests. It necessitate that corporations to obey with convinced circumstances with the purpose of operate in a particular nation-state or region. Requirements that foreign firms employ a certain proportion of local

¹² MAI is Multinational Agreement on Investment. In 1995, MAI negotiated contained by OECD under without almost knowledge of public. It was including liberalization of investment without confrontations with difficulties of nation-states. Its arthitechs hoped to extend liberalization (freedom to capital) and include other countries. Mark Weisbrot, öThe Impact of the MAI on Employment, Growth, and Income Distributionö, CEPR Working Papers, 2001, <http://www.cepr.net/globalization/income.html> 19.09.2004.

¹³ Concept of ömonoeconomicsö is begun to use by Albert Hirschman. According this impression, the confidence that there are general laws of economics that be relevant to all economies, and economic policy making is devastatingly a subject of conforming to these laws. And today, this translates more than ever into following the dictates of the global economy. Albert Hirschman, öThe Rise and Decline of Development Economicsö, in Essays in Trespassing: *Economics to Politics and Beyond*, Cambridge University Press, London:1981.

¹⁴ It is not doubtful that the MAI is planned to make possible the process of globalization. The debate above its impact has to do with whether the sort of globalization it promotes will advantage broad sectors of population, or whether it will worsen the problems the problems that critics have attributed to the global economic integration of the past twenty-five years. Mark Weisbrot, öGlobalization for Whom?ö, Cornell International Law Journal, 1998 Symposium Issue, Vol:31, No:3, p.2-3, <http://www.cepr.net/Globalization.html> 20.09.2004.

residents, or use nationally-nearby created inputs, such as, could be prohibited under the MAI.

Idea of MAI that no nation-state may discriminate among foreign and domestic investors in its laws is the guiding attitudes of the MAI. As a consequence, it would make it more difficult for nation-states to carry local economic activities and development derived from local business. National states even wouldn't be able to defend themselves if sued by foreign firm which work under MAI because they will have no chance for defending themselves opposite the specialist advocates (barristers) of multinational firms in international tribunal.

For those who believe that only economic impact of government is to introduce distortions into the otherwise efficient operation of markets, the continuing subordination of the state to global markets -*and hence the dictates of global corporations*- is a welcome development. But the danger is that the domestic consensus in favor open markets will ultimate erodes to the point where a generalized resurgence of protectionism becomes a serious possibility¹⁵.

Together with second round of globalization after 1970s, unemployment has also increased noticeably. Poverty and inequality have also increased dramatically in recent years. The advocates of increasing trade and investment liberalization do not dent the basic facts of the decline in economic performance over the post-Bretton Woods era. The question is one of cause and effect: how much has the increase in globalization contributed to these problems? For example in US, Robert Lawrence says in his Societal Cohesion and the Globalizing Economy, the reversal of the gains from War on Poverty is most strikingly revealed in the poverty rate for children: in 1960 this rate was 27%, and fell to 14% in 1973. By 1993 it was back up to 23%. The post-War progress in the area of income inequality has been destroyed with a vengeance. If look at the ratio of family income for the top to the bottom quintile of families, it declined from almost 9 to 1 in 1947 to 7 to 1 in 1973; since then it has soared to 11 to 1. There is no doubt, in that case, according to the historical convergence of these trends in the direction of rising

¹⁵ In addition, the progression of globalization finds sustain between numerous that would never donate to such deep-seated libertarian prescriptions for their own national economies. This is principally factual between neoclassical economists, even those like Rodrik who have concerned themselves with the impact of globalization on inequality. These concerns are not enough to shake his faith in the principle of comparative advantage, or globalization generally. Mark Weisbort, pp.2-3. see for details; Dani Rodrik, Has Globalization Gone Too Far?, Institute for International Economics Publishing, Washington DC:1997.

globalization and the declining living standards faced by the majority of the US, while the decelerated US statistics in here, it is worth nothing that the same is true for most of the rest of the world¹⁶.

The predisposition to charge of globalization for many inconvenient problems of modern age is due in part to nationalistic and chauvinistic attitudes on the political right and an anti-capitalist mentality on the political left¹⁷. Especially in France, the criticism from left towards capitalism runs deep in some peoples and countries and within advanced capitalist economies. The rightful hostility toward capitalism and globalization as new form of capitalism is directed at the major legislative bodies of the system in the modern world¹⁸: Mains of them are The United States, great multinational firms, and such international economic institutions as the International Monetary Fund and World Trade Organization¹⁹. IMF has been imposing similar conditions for decades around the world, and it has often been criticized for causing recessions and worsening poverty, unemployment, and income distribution with its structural adjustment programs²⁰.

These institutions have more irrational side, one that is unreasonable even from the viewpoint of those who have power over the authoritative heights of the global economy. This feature has turn into more well-known in view of the fact that 1980s, like the ideology of neo-liberalism has progressively more taken on a life of its own, and globalization pursued as an end itself²¹.

¹⁶ Mark Weisbort, p.3.

¹⁷ According to Patrick Buchanan and Ross Perot American organized labour; the latter long ago gave up the slogan "workers of the world unite" in favour of their own parochial interests. For detailed expression on political right Patrick Buchanan, *The Great Betrayal: How American Sovereignty and Social Justice are Being Sacrificed to the Gods of the Global Economy*, Little Brown Company, USA:1998; Ross Perot, *Not For Sale at Any Price; How We Can Save America for Our Children*, Canada:1993.

¹⁸ Furthermore in another study of Robert Gilpin, *The Challenge of Global Capitalism*, author have addressed many of the negative consequences alleged to have been caused by globalization and have argued that most of the charges against globalization are wrong, misleading, or exaggerated. Domestic and international income disparities, the problems of unskilled workers, and the alleged oracle to the bottom in modern welfare states in general should not be attributed to economic globalization. In almost all cases, such other factors as technological changes, national policies, or the triumph of conservative economic ideologies carry primary responsibility for these developments.

¹⁹ For detailed arguments; Geoffrey Garrett, "Global Markets and National Politics" International Organization, No:4, Autumn 1998, pp.787-824.

²⁰ Eric Altbach, "The Asian Monetary Fund Proposal: A Case Study of Japanese Regional Leadership", Japan Economic Institute Report, Report No:47-A, December 1997, p.19.

²¹ Detail information related with neo-liberalism and its result on human capital and development see. Taylor Lance and Ute Pieper, "Reconciling Economic Reform and Sustainable Human Development: Social Consequences of Neo-Liberalism", UNDP Development Studies Discussion Paper, Working Paper No: 2, 1996.

Globalization and Macroeconomic Policies: Inefficiencies and Contradictions

Globalization of world economy, as politic system and manufacturing system for goods and services, increased contradictions and inefficiencies for nation-states. Either nation-state will be placed at international capital flows and its desires or will be accepted less welfare for their citizens because of all economic policies will be ineffective in account of international and domestic collaborators of multi national capital.

After great depression Keynesian macro economic policies were accepted by many national governments as way of solution from exiting depression. Ever since the end of 1940s and especially since governments accepted Keynesian economic prescriptions in the early post-war period, national governments in the highly developed and industrialized economies have been held accountable for national economic growth and performance. Governments were assigned the responsibilities of promoting nationwide economic permanence and map-reading their economies between the unwanted circumstances of depression, recession and price rises. In the course of economics policies, the state has been able to control the markets. Although some regulator control power of government and nation states over markets, the power of the state over economic dealings has considerably declined implies that national governments can no longer manage their economies as a whole. This arguments are true but it is not one because macroeconomic policies has became more complicated and problematical in the exceedingly integrated world economy of the modern age, however states has still possibility to achieve their national goals at least as well as in the past at theoretical base by using necessary economic policy instruments if they could behave as independent. There is useful point to remember is making dependent power of globalization will be obstacle on its practice success of economic policy.

Managing of national economy for determined goals by macro economic policy has two main instruments called as fiscal and monetary policies. Taxation and government spending are principal tools of fiscal policy and governments try to effect national economic activities level increasing/decreasing tax rates or/and expenditures level²². If tax

²² smail iriner, Türkiye'de 1990-1998 Döneminde Uygulanan Makro Ekonomik Politikalar,n Toplam Talep Üzerindeki Etkinlik inin Analizi, (Yay.nlanmam, Doktora Tezi), Marmara Üniversitesi, stanbul:1999, s.45;

revenues equal to national government expenditures, there will be not budget deficit. If government expenditures more than tax revenues, it will encourage the economy for growing way or vice versa.

Most people are unaware of the tremendous impact that monetary policy, such as the setting of interest rates by central bank, its impact of economic growth, employment, wages and income distribution. Controlling money supply at national level is main instrument of monetary policy. It works in the course of its determination of the size and velocity of money supply. Central bank can encourage or depress the level of economic activities by increasing or decreasing the supply of national money. However central bank has main indicator while it controls the national level of size and velocity of money supply. That main indicator is interest level. Interest level has a key role on level of national economic activities because a low interest rate stimulates economic growth, a high rate depresses it. Although determining the interest rate by increasing or restricting the supply of national money for achieving the main goal of central bank effectiveness of monetary policy could notably reduce by increased or decreased international financial flows (hot money)²³. In all these conducts, economic globalization is believed to have destabilized the effectiveness of fiscal and monetary policy. Therefore, national governments have not power to control and run their level of national economic activities²⁴.

Each state is confronted by to be expected trade-off between the following three enviable aims of macro economic policy²⁵:

1. *Fixed exchange rates*: each government could want a stable exchange rate in sequence to decrease economic indecision and stabilize the economy.
2. *National autonomy in macroeconomic policy*: it might desire flexible monetary policy to keep away from high unemployment

Otto Eckstein, Public Finance, *Foundation of Modern Economics Series*, Prentice-Hall, 4th Ed., New Jersey:1979, p.146.

²³ For instance, if a central bank decreases interest rates to rouse the the level of national economic activities, investors will shift their assets and funds to other economies where could be higher interest rates and therefore counter the planned incentive of lower rates. In the same way, if a central bank increases interest rates successively to slow the economy, investment capital will flow into the economy, counter the intended deflationary effects of higher rates, and stimulate economic activities.

²⁴ For more detailed examining this argue by applying the logic of the ötrilemmaö and öirreconcilable trinityö see Joseph Stiglitz, Globalization and Its Discontents, *Winner of the Nobel Price for Economics 2001*, Penguin Books, London: 2002.

²⁵ Robert Gilpin, p.371.

and guide the economy in good balance without thrust economy into a recession and inflation.

3. *International capital mobility:* each government could desire liberty of assets and movements to make easy the ways of doing business, foreign investment, and other international commercial activities.

However achieving all three of these goals is not possible for governments at the same time because these aims are in contradiction with other. Mostly two of them could be achieved as simultaneously²⁶. Such an analysis tells us that although economic globalization does constrain government policy options, it does not impose a financial straitjacket on national macroeconomic policies. Whether an individual nation does or does not have the capacity for an independent macroeconomic policy is itself a policy choice. If a nation wants the capability to pursue an independent macroeconomic policy, it can achieve that goal by abandoning either fixed exchange rates or capital mobility. Different countries do, in fact, make different choices. The United States, for example, prefers independent monetary policy and freedom of capital movements and therefore sacrifices exchange rate stability; members of the European Economic Monetary Union (EMU), on the other hand, prefer fixed exchange rates and have created a common currency to achieve this goal. Some other countries that place a high value on macroeconomic independence -China, for example- have forced controls on capital movements.

The methods of controlling money supply as a main instrument of monetary policy have not been totally defeated by globalization. Still the power of central banks is available to increase or decrease the level of national money for changing liquidity in economy to feed or drop the level of national economic activities. Its mean governments are able to steer the overall economy by using monetary policy, in spite of globalization. Nevertheless in globalization process increasing the level of national money supply will stimulate economy, because of exchange rate and reserve of limited foreign money, and then exchange crises will occur in economy, so that central bank will have to raise exchange rate

²⁶ Such as, selecting a fixed and stable exchange rate along with some autonomy for independent monetary policies would mean ceasing from latitude of capital movements, because international capital flows could weaken both exchange rate stability and independent monetary policies. In contrast, an economy would pick to follow macroeconomic policies to encourage full employment, but it then would have to give up either a fixed exchange rate or latitude of capital flows.

and money supply will be reduced, with the intention the level of economic activity will decrease.

Open world economy and globalization have had just negligible influence on the central bank's manage ability of their national economy. However diminishing control on international financial flows and giving more freedom to these flows will reduce the effectiveness of open market operations which is important mechanism to steer the level of money supply for central banks.

An other notably thing is other new forms of money while financial markets are becoming deeper and attaining higher transaction volume and new assets are improving day by day. With another expression, the problem is controlling the level of tricky e-money and internet commerce which is restrict the control power of central bank on the level of national money supply so that globalization have affect on monetary (economic) policies, because use of a credit card and/or participation in e-commerce, an individual or business can create money.

Even though the influence of central banks over interest rates and the money supply has been a bit diminished, as long as cash and bank reserves are left behind the ultimate means of exchange and of settlement of accounts, central banks can still keep control over the money supply and hence of the economy. On the other hand, in the near future, e-money could displace other forms of money. If and when this develops, financial settlements could be carried out without going through commercial banks, and central banks would lose their ability to control the economy through interest rates. Such a development could lead to the denationalization of money. The most important constraints on macroeconomic policy are found at the domestic level. If an economy were isolated from the international economy, fiscal policy would be constrained by the cost of borrowing. If a national government were to use deficit spending to stimulate its economy, the resulting budget deficit would have to be financed by domestic lenders. In that situation, an upper limit would be placed on government borrowing, because as the budget deficit and the costs of servicing that deficit rose, bond purchasers would become more and more fearful that the government might default on its debt and/or use monetary policy to inflate the money supply and thus reduce the real value of the debt. Increased risk as debt rises causes lenders to stop lending and/or to charge higher and higher interest rates; this then discourages

further borrowing by the government. Also, another important constraint on monetary policy in a domestic economy is the threat of inflation; this threat places an upper limit on the ability of a central bank to stimulate the economy by increasing the money supply and/or lowering the interest rate. At some point, the threat of inflation will discourage economic activity²⁷.

The role of globalization in consolidating the power of international financial interests, and their ability to exercise a veto over expansionary monetary and fiscal policies is probably one of its most important effects. The expectations of financial markets tend to be self-fulfilling. If bondholders believe that increased deficit spending causes interest rates to rise, this will in fact happen, even if there is no economic basis for their belief²⁸.

In fact, when macro economic policy put into practice it has natural restrictions on achieving economic goals, which have nothing related with globalization. Nevertheless, new regulations of necessity of neoliberal macro economic policy that made under influence of big capital groups, multinational corporations and some multinational institutions will tightened the those natural limitations of economic policies, because they will limit the independent behaviors of national government, for instance, independency of central banks that takes free and independent policy making skills from national governments which is necessary for national economy like monetization of high-rated domestic borrows of governments. At the same time, globalizing of economies brought some easiness on some possibilities as it made difficult some others. More open economies have more facilities to borrow for budget deficits from international finance and markets instead of high-rated domestic financial markets, so that globalization has enabled governments to borrow for their economic growth without restraint²⁹. Therefore, even if economic globalization has enlarged the freedom of governments to follow expansionary fiscal and monetary policies through borrowing markedly out of the country, such serious financial crises as the Mexican crisis in

²⁷ Robert Gilpin, p.378.

²⁸ That is basically correct for the reason that their selling of bonds in reply to an increase in government expenses will drive to long-term interest rates. Globalization sabotages the aptitude of national-states all the way through the world connect in any kind of social spending in the public interest by growing the influence of these financial interests. John Eatwell, *International Capital Liberalisation: The Record*, (University of Cambridge, Center for Economic Policy Analysis), CEPA Working Paper Series, Working Paper No. 1, August 1996, p.3., <http://www.newschool.edu/cepa/papers/archive/cepa0101.pdf>, 18.09.2004

²⁹ Such as debt-financed growth strategy, as Susan Strange pointed out it is extremely dangerous and can't keep on for a long time in her two different studies; Casino Capitalism, Blackwell, Oxford:1986, Mad Money; *From the Author of Casino Capitalism*, Manchester University Press, Manchester:1998.

1994, the 1997 East Asian financial crisis, and the disturbing fall down of the Russian ruble in 1998 show the enormous and common risks related with such a practice. Economic globalization and more open domestic economies have also customized the regulations of macro economic policy. Doubtless, the greater than ever openness level of domestic economies has made the work out of macroeconomic policy more complex and difficult for national government.

CONCLUSION

Nation-states have modest influence power over their economic activity because of prescription of Classic School³⁰. After great depression 1930s, whether gradually more rising total demand, or main framework of Keynesian economic thought-economic policy increased the role of nation-states over economies. Throughout concentrated anxiety for security, nation-states had had new and first-time applies for controlling their level of economic activities. Furthermore increasing activity of Western economy managements for the welfare of their citizens expanded the nation-states over economic activities. In addition, apparent achievements of the communist block stimulated, made bigger the role of nation-states for controlling and affecting economies.

While analyzing effects of globalization on macro economic policies, historical background mustn't forget, for the reason that the globalization argument lacks a historical perspective. Globalization has strictly narrowed the influence and control power of governments on economic autonomy and come out to believe that nation-states once obsessed unlimited national self-government and latitude in economic matters. Each nation-states have enjoyed unlimited aptitude to decide macro economic policies and steer their economies. They had latitude because they were not inferior to or burdened by international market forces. However, nation-states have turned into constrained by the augmented incorporation of national economies throughout commerce, financial flows, and the activities of international capital groups in out of their own countries.

Even their roles of states became different in developed, developing and underdeveloped or open and more open economies, by this point, throughout while nation-state supports and meets needs of capital,

³⁰ Classical gold standard had limited governments. See for detailed historical explanation Barry Eichengreen, *The Gold Standard and the Great Depression*, Oxford University Press, UK:1992. And, W. Arthur Lewis, *Growth and Fluctuations, 1870-1913*, Allen and Unwin Press, London:1988.

although different functions of states, quality of function of state will be the same.

Economist who support increasing deregulation of international trade and investment have recently begun to concede that a very large number of workers have indeed been hurt by the globalization process. However they argued that these effects are small relative to the gains and potential gains. In measuring the impact of trade liberalization, there is a standard of comparison that comes immediately to mind: the efficiency gains that are claimed as an achievement of trade liberalization.

Globalization increases the power of multinational firms relative to domestic firms that have more of an interest in a growing national economy. Globalization also discourages the use of the expansionary fiscal policy, that is deliberate increase in national government spending in order to stimulate the economy. When national economy more integrate to global world economy, the feasibility and effectiveness of both monetary and fiscal policy will be reduced

In all of these ways and more, globalization has strengthened the forces and tendencies in the overall political economy that favours slower growth, higher employment, and lower wages. In sum, globalization serves the interests of international financiers, whose agenda may be more powerful than those of the trade and investment flows themselves. These effects are difficult to measure, but they are no less real than the plant closures and direct job loss due to import competition.

Financial liberalization, in many countries, like South Korea, Russia, Turkey, and Argentina, build-up the total borrowing stocks in the years of preceding the crisis. International agreements and deregulations what meets only needs of international capital like MAI, and international institutions like IMF and/or World Bank, that works for gains and benefits of international capital reduce the role of nation-states and increase the inefficiency of macro economic policies in the economy. As a result, globalization works to support international capital more than a bit useful effects.

As Quasi-State (supreme-national) institutions IMF, World Bank, GATT, World Trade Organization, and targeted MAI and MIGA, bear a resemblance to the nation-states just in its mainly oppressive aspects. They strengthen and worsen the existing sharing of national wealth and authority, over and above the international labour between rich and poor nations.

