11
The End of the Nation State?

11.1 Introduction

It is generally recognized that international economic links are more extensive now than ever before, making it difficult for individual countries to achieve their economic and social objectives in isolation. It is perfectly rational, therefore, to wonder, as an increasing number of people have been doing in recent years, whether the nation state has reached the end of its useful existence.

The question may be topical, even deserve our urgent attention, but it is not new. Twenty-four centuries ago Aristotle (Politics, Book VII) defined the optimum size of a state according to the level of its self-sufficiency. Modern theories of optimum currency, or policy, areas are saying in effect something very similar (Ishiyama 1975, Panić 1988). If this is correct, then in reducing the self-sufficiency of existing states the international division of labour has also made it necessary to examine seriously the possibility of creating larger forms of political organization in order to cope with the economic and social consequences of greater international interdependence.

It is considerations such as these that led Robert Schuman, one of the architects of the post-war European economic integration, to argue in the 1940s that the nation state had become “an anachronism, a nonsense, a heresy” (quoted in Milward 1992, p. 326). Yet more than half a century later, with international economic interdependence far greater than at any time during Schuman’s long life, the nation state still remains the most effective form of macroeconomic organization – a fact which, contradictory though it may seem, would not have come as a surprise to Schuman. Although he was convinced that existing nation states were incapable by themselves of improving the economic welfare of their citizens – a view which he shared with many of his contemporaries – Schuman was sufficiently a realist to recognize that “[o]ur European States are a historical reality; it would be impossible to make them disappear” (quoted in Milward 1992, p. 329).

* Abridged from Structural Change and Economic Dynamics, May 1997, pp. 29–44.
In fact, according to one eminent political scientist, there is an important practical obstacle to developing an alternative, more effective form of political organization in place of the nation state. “Even at its most ideologically pretentious the [human] species has not yet conceived a practical form in which to transcend the nation state” (Dunn 1993, p. 66). In other words, the real problem is that even if we wanted to go beyond the nation state we would lack a realistic blueprint for a viable, effective alternative.

In what follows, I shall suggest that there are perfectly rational reasons for our reluctance ‘to transcend the nation state’. Successful multinational, multiregional ‘nation’ states, especially those with federal constitutions, provide a ready-made institutional framework for developing practical forms of supranational organization (Panić 1988). The problem is not, therefore, that we lack the blueprint for such a form of organization. The real obstacle to creating it is that we have yet to be convinced that the welfare gains that could be realistically expected within a supranational framework would be equal to, let alone greater than, those that we believe to be attainable nationally.

These issues have assumed considerable practical importance in Europe since 1991 when, at their meeting in Maastricht, members of the European Community committed themselves, effectively, to the objective of an economic, monetary and, ultimately, political union.

### 11.2 Economic integration and economic sovereignty

The effort needed to establish a successful, lasting, framework of supranational institutions, rules and conventions – capable of conducting macroeconomic policy more effectively than the nation state – is justified only if the level of international economic integration and interdependence is such that existing states find it impossible to achieve their most important economic objectives without the active cooperation of the countries with which they have close economic ties.

It is, of course, indisputable that, whatever the criterion used for historical comparison, the degree of economic interdependence (especially among the industrialized countries) is greater now than during any other period for which relevant data are available.

For instance, measured at constant prices, exports accounted for a much higher percentage of GDP in all industrial countries at the end of the 1980s than in 1870, 1914 or during the intervening period (Maddison 1991). The degree of international specialization and trade is particularly high among the countries of Western Europe and North America. Moreover, a high proportion of imports of manufactures in many sectors consists of intermediate products (see Panić and Vacić 1995). In other words, as foreign products form a significant input in domestic production, levels of economic activity are influenced now by external supply as well as demand conditions. This is, of course, in addition to the dependence of all economies, once they begin to industrialize