

## Economic nationalism: from Friedrich List to Robert Reich\*

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Friedrich List, *The National System of Political Economy*, published in German, 1841 (English translation, London 1885; reprint New York: Augustus M. Kelley, 1991).

B. Robert Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism* (Hemel Hempstead: Simon and Schuster, 1991).

Three principal schools of political economy—economic liberalism, economic socialism and economic nationalism—are offered to students of international political economy by the professional literature. Since the end of World War II and in the context of the rivalry between the ‘liberal West’ and the ‘Socialist East’, economic nationalism has been a neglected field of study.<sup>1</sup> Economic liberalism and economic socialism have vied for scholarly attention, resulting in greater theoretical and analytical sophistication. During the interwar period the situation was different: economic nationalism was well represented in widely read textbooks on international relations and enjoyed attention from both its proponents and its opponents.<sup>2</sup> Now, with the collapse of the Communist regimes, the consequent

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<sup>1</sup> Notwithstanding, some excellent studies of economic nationalism have been published. In the field of international relations, see R. Gilpin, *The Political Economy of International Relations* (Princeton, 1987), and J. Mayall, *Nationalism and International Society* (Cambridge, 1990). In the field of economic development, see D. Seers, *The Political Economy of Nationalism* (Oxford, 1983), and P. Burnell, *Economic Nationalism in the Third World* (Brighton, 1986). For a study of the interaction between Communism and nationalism, see R. Szporluk, *Communism and Nationalism: Karl Marx versus Friedrich List* (Oxford, 1988); for the economist’s point of view, see H. Johnson (ed.), *Economic Nationalism in Old and New States* (Chicago, 1967), and A. Breton, ‘The Economics of Nationalism’, *Journal of Political Economy*, 72 (1964), pp. 376–86. For an excellent review of the origins of the concept, see J. Kofman, ‘How to Define Economic Nationalism?: A Critical Review of some Old and New Standpoints’, in H. Szlajfer (ed.), *Economic Nationalism in East-Central Europe and South America, 1918–1939* (Geneva, 1990), pp. 17–54. During the Cold War period and up until after the collapse of the Soviet bloc, economic nationalism attracted more attention among scholars of Africa, Latin America and Asia than among those of us who studied the political economy of the ‘centre’ (e.g., Mayall, Burnell and Seers, to mention just three, are all scholars of economic nationalism who were initially concerned with the study of developing countries).

<sup>2</sup> F. H. Simonds, *The Great Powers in World Politics: International Relations and Economic Nationalism* (New York, 1939); J. M. Keynes, ‘National Self Sufficiency’, *The Yale Review*, 22 (1933), pp. 755–69; J. Viner, ‘International Relations between State Controlled National Economies’, *American Economic Review*, supp., 34 (1944), p. 328; L. Robbins, *Economic Planning and International Order* (London, 1937), pp. 326–7; T. E. Gregory, ‘Economic Nationalism’, *International Affairs*, 10 (1931), pp. 289–306; W. E. Rappard, ‘Economic Nationalism’, in Harvard Tercentenary publications, *Authority and the Individual* (Cambridge, MA, 1937), pp. 74–112.

change in world politics, the current economic problems in North America and in Europe and, last but not least, the lessons derived from the miraculous economic success of the mercantilist states of East Asia,<sup>3</sup> the time seems to have come to re-examine our perceptions of the discourse of political economy, and redirect scholarly attention toward the theory of economic nationalism.

This review article will focus on the major premises of economic nationalism in the hope of encouraging social scientists to pay it more attention. To this end the article will explore *the persistence of a similar nationalist point of view* in two important studies published 150 years apart. The first is a study by Friedrich List, the founding father of economic nationalism and author of *The National System of Political Economy* (1841).<sup>4</sup> His study, which bears the motto '*Et la patrie et l'humanité*', expresses the deep concern of a devoted German patriot and liberal about the backward, pre-industrial state of Germany in his day. The other study to be discussed here is Robert Reich's *The Work of Nations: Preparing Ourselves for 21st Century Capitalism* (1991). Reich's study is one of the most noteworthy works in a large body of popular and professional literature which in the last fifteen years has dealt extensively with the issue of (American) national competitiveness.<sup>5</sup> Although the two books were written in different centuries, and in radically different world economic contexts, they reflect very similar perceptions of the basic foundations and nature of political economic analysis. Both works firmly belong to the school of 'national' economic thought which may be best characterized by the following three assertions: a nation's citizenry largely shares (or should share) a common economic fate; the state has a crucial *positive* role in guiding the national economy to better performance; and the imperatives of nationalism should guide the state's economic policies.

Friedrich List's *The National System of Political Economy* is divided into four parts. The first part consists of a historical study of the wealth of nations (in medieval and Renaissance Europe as well as in nineteenth-century North America); this aids List in the analysis of a problem which preoccupied him throughout his life, namely, the possibility of creating a modern, wealthy and powerful German nation-state. In the second part, List returns to these historical lessons and from them formulates a theory of economic nationalism. A belligerent criticism of Adam Smith

<sup>3</sup> On Japan and East Asian states as mercantilist, see Chalmers Johnson, *MITI and the Japanese Miracle* (Stanford, CA, 1982), and *Japan: Who Governs? The Rise of the Developmental State* (New York and London, 1995); James A. Gregor (with Maria Hsia Chang and Andrew B. Zimmerman), *Ideology and Development: Sun Yat-sen and the Economic History of Taiwan* (Berkeley, CA, 1981).

<sup>4</sup> Friedrich List (1789–1846), born in Reutlingen in south Germany, was a civil servant in his native state of Württemberg. In 1817 he was appointed Professor of Administration at the University of Tübingen. He took an active part in the movement for the abolition of internal duties in Germany and was elected to the lower chamber of the Württemberg Diet. His dissident political views caused his dismissal from the university, followed by expulsion from the Diet and an accusation against him of treason. List was sentenced to ten months' hard labour, but after serving six was released on condition that he emigrate to America. His American period (1825–30) culminated in his nomination as US consul in Leipzig, where he continued to work for German economic and political unification. Financial difficulties, lack of recognition and illness drove him to deep depression and suicide. He is commonly regarded as one of the most important German economists of the nineteenth century, and his influence on economic policies was widespread. For an English biography, see O. W. Henderson, *Friedrich List: Economist and Visionary* (London, 1983).

<sup>5</sup> See, e.g., E. Vogel, *Japan as Number One: Lessons for America* (Cambridge, MA, 1979); M. L. Dertouzos et al., *Made in America: Regaining the Productive Edge* (Cambridge, MA, 1989); R. Kuttner, *The End of Laissez-faire* (New York, 1991).

and his followers constitutes the third part, while the fourth and last part is devoted to an analysis of international economic relations.

Robert Reich's *The Work of Nations* is also composed of four parts. The first part discusses the 'old' economic nationalism that characterized American political economy during the nineteenth century and most of the twentieth. The second part describes the 'new era of globalization' and the challenges it poses to the old system of economic nationalism. In the third part, Reich presents the new class of 'symbolic analysts', the producers of ideas and meanings, and analyzes the social implications of the new demand for their services. The final part, titled 'The Meaning of Nation', discusses the economic foundations of the American nation and outlines the principles of benevolent economic nationalism.

As the aim of this article is to draw attention to the importance of economic nationalism and to the persistence of nationalist economic thought, List's and Reich's treatment of the following three issues is discussed: the sources of national wealth and power; international economic relations; and a benevolent economic nationalism.

### List and Reich on the sources of national wealth and power

The sources of the wealth and power of nations will clearly remain in the future, as they always have been, an issue of great public concern and the focus of intense scholarly debate. It is thus not surprising to find that this issue forms the point of departure of both List's and Reich's analyses. According to List, the source of the power of nations is their productive powers. The notion of the productive powers, although not original, is one of List's major contributions to the field of political economy, and was first discussed in his *Outlines of American Political Economy* (1827).<sup>6</sup> Through this notion List draws a distinction between the *causes* of wealth and wealth *itself*.<sup>7</sup> Wealth, claimed List, is created not merely by material capital but by the interaction between material capital and man's skills, industry and initiatives. Thus, even if a person possesses significant material wealth, '[if] . . . he does not possess the power of producing objects of more value than he consumes, he will become poorer'. The reverse, of course, is also true, which is to say that 'a person may be poor; if he, however, possesses the power of producing a larger amount of valuable articles than he consumes, he becomes rich'.<sup>8</sup> In a nutshell, productive

<sup>6</sup> *Outlines of American Political Economy* is composed of what was originally a series of letters which were published as articles in the *Philadelphia National Journal*. The letters were written to Charles Ingersoll, vice-president of the Pennsylvania Society for the Promotion of Manufactures and Mechanic Arts, during List's exile in America. More details about List's American period are offered in his biography, as well as in W. Notz, 'Fredrick List In America', *American Economic Review*, 16 (1925), pp. 249–65.

<sup>7</sup> Marx, unsuccessfully, in my view, tried to invalidate this distinction when he claimed: 'But if the effect is different from the cause, must not the nature of the effect be contained already in the cause? The cause must already carry with it the determining feature that is manifested later in the effect . . . The cause is in no way superior to the *effect*. The effect is merely the openly *manifested* cause. List pretends that he is everywhere interested in productive forces for their own sake, quite apart from bad exchange value'. K. Marx, 'Draft of an Article on Friedrich List's Book *Das nationale system der politischen Okonomie*', in K. Marx and F. Engels, *Collected Works*, vol. 4 (New York, 1975), pp. 285–6.

<sup>8</sup> List, *National System of Political Economy*, p. 133.

powers are what stand behind one's ability, and consequently one's nation's ability, actively to create one's own wealth, and thus actively to control it.

Although the term 'productive powers' is ascribed by List to a type of capital, he does *not* use it in the narrow material sense in which it is usually understood. Instead, he defines three distinct types of capital: the capital of *nature* (or *natural capital*), the capital of *matter* (or *material capital*) and the capital of *mind* (or *mental capital*).<sup>9</sup> The capital of nature comprises land, sea, rivers and mineral resources. Material capital consists of all objects, such as machines, utensils and raw materials, that are used directly or indirectly in the production process. Finally, the capital of the mind refers to skills, training, industry, enterprise, armies, naval power and government. Hence, the productive powers cannot be described exclusively as either 'the causes of wealth' or 'the sources of wealth'; they are instead a combination of those three types of capital that may include both wealth and its causes. The innovative element of the notion of the productive powers is the idea of mental capital; its significance derives from the fact that it incorporates the economic and political initiatives of human skill and industry into a single concept.

These three types of capital are distinguishable according to their relative significance to the creation of wealth. Natural and material capital are, List maintained, inferior to mental capital. Following the Cameralists, List highlighted the importance of education and its intrinsic relationship to economic growth.<sup>10</sup> Nowadays, this assertion may seem rather trivial, but for more than a century, and under the influence of classical economic theory, the significance of *human capital* to economic development was overlooked.<sup>11</sup> Indeed, this was one of the main grounds for List's disapproval of the materialistic conception of 'productive labour' in Smith's *Wealth of Nations*. List forcefully asserted that

the popular school has fallen in making material wealth or value of exchange the sole object of its investigations, and by regarding mere bodily labour as the sole productive power. The man who breeds pigs is, according to the school, a productive member of the community, but he who educates men is a mere non-productive. The maker of bagpipes or jews-harps for sale

<sup>9</sup> For a similar approach to the concept of capital, see Rae John, 'Statement of some New Principles on the Subject of Political Economy' (1834), in J. Warren, *Rae John Political Economist*, vol. 2 (Toronto, 1965). For a more current approach, see Tomer's concept of organisational capital, in F. J. Tomer, *Organisational Capital: The Path to Higher Productivity and Well-being* (New York, 1987).

<sup>10</sup> Cameralism is the German and Austrian version of mercantilism. The term is derived from the Latin word *camera* which denotes 'the treasury'. Cameralist thinking developed in the context of the administrative problems which faced the German states' bureaucracy. See J. F. Bell, *A History of Economic Thought* (New York, 1953), pp. 106–20; T. Riha, 'German Political Economy', *International Journal of Social Economics*, 12 (1985). For a more comprehensive study, see A. W. Small, *The Cameralists* (Chicago, 1909). Also commendable is K. Tribe, *Strategies of Economic Order: German Economic Discourse, 1750–1950* (Cambridge, 1995).

<sup>11</sup> See, e.g., Blaug's statement regarding the classical economists who 'simply failed to explore the implication of a human capital view of labour supply. Adam Smith made a start; John Stuart Mill carried it a little further.' M. Blaug, 'The Economics of Education in English Classical Political Economy: A Re-examination', in A. S. Skinner and T. Wilson, *Essays on Adam Smith* (Oxford, 1975), p. 574. The problem with Smith's concept of human capital is not that he did not recognize it but rather that he failed to emphasize its crucial role for economic development. 'Neither [Smith] nor later classical writers followed this path to any extent or examined the variety of related phenomena considered by modern economics under the heading human capital theory'. S. R. Bowman, 'Smith, Mill, and Marshall on Human Capital Formation', *Journal of Political History*, 22 (1990), p. 239. This neglect of the importance of human capital ceased, however, with Gary S. Becker's studies beginning in the 1950s.

is productive, while the great composers and virtuosos are non-productive simply because that which they play cannot be brought into the market . . .<sup>12</sup>

On the basis of the concept of the productive powers, List draws another distinction, one between the ‘causes of development’ and the ‘characteristics of development’. The transformation from one stage of development to another is characterized by the extent to which economies are interconnected, i.e., by the size of markets, by the amount of capital used in the production process, and most important, by the extent of the division of labour. At the most primitive stage, economic production is self-sufficient, it requires relatively small amounts of capital, and goods are not produced for the market. It is also true that, at more advanced phases, the economy becomes increasingly specialized, involves more trade between nations and requires larger amounts of capital. Yet, according to List, it is a mistake to see those *characteristics* of development as its *causes*. Here, List openly challenges Adam Smith’s notions of materialist causes of economic development.<sup>13</sup> According to List, the real distinction between backward and well-developed economies is based on the *quality* and *quantity* of the *productive powers*. Productive powers—mental capital, natural capital and material capital—are to be found in large quantities in developed economies, whereas they are present to a much lesser extent in backward economies.<sup>14</sup> Of crucial importance for List is the quantity of mental capital, which is the most important element differentiating developed from underdeveloped economies. Thus, development is perceived as a process of augmentation of mental capital. This leads List to the conclusion that the main role of the state in the economic sphere should be the nourishment of the national productive powers.<sup>15</sup>

<sup>12</sup> List, *National System of Political Economy*, p. 142. Adam Smith, in book II chapter III of *The Wealth of Nations*, distinguished between productive and unproductive labour, thus: ‘There is one sort of labour which adds to the value of the subject upon which it is bestowed. There is another which has no such effect. The former, as it produces a value, may be called productive; the latter, unproductive labour. Thus the labour of a manufacturer adds, generally, to the value of the materials which he works upon, that of his own maintenance, and of his master’s profit. The labour of a menial servant, on the contrary, adds to the value of nothing . . . The labour of some of the most respectable orders in the society is, like that of menial servant, unproductive of any value, and does not fix or realise itself in any permanent subject’ (Oxford, 1976), p. 330.

<sup>13</sup> On Adam Smith’s materialism, see M. Brown, *Adam Smith’s Economics: Its Place in the Development of Economic Thought* (London, 1988), pp. 119–20.

<sup>14</sup> The division of labour, the accumulation of capital and the size of a market are, according to Adam Smith, of crucial importance to economic development: ‘The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgement with which it is anywhere directed, or applied, seem to have been the effect of the division of labour’ (*Wealth of Nations*, p. 13). On accumulation and growth: ‘As the accumulation of stock is previously necessary for carrying on this great improvement in the productive powers of labour, so that accumulation naturally leads to this improvement . . . The quantity of industry, therefore, not only increases in every country with the increase of the stock which employs it, but, in consequence of that increase, the same quantity of industry produces a much greater quantity of work’ (*ibid.*, p. 277). On the size of the market: ‘As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market. When the market is very small, no person can have any encouragement to dedicate himself entirely to one employment’ (*ibid.*, p. 31). On transformation and the opening of new markets: ‘Good roads, canals, and navigable rivers, by diminishing the expense of carriage, put the remote parts of the country more nearly upon a level with those in the neighbourhood of the town. They are upon that account the greatest of all improvements’ (*ibid.*, p. 163).

<sup>15</sup> While List’s theory of trade does attract some notable attention, probably a more important contribution regarding the importance of mental capital still goes largely unnoticed.

Robert Reich's book opens with a statement that seems to lead us away from economic nationalism. Reich asserts that the new economy of the twenty-first century will reflect new economic realities. First, we will have no national capital, no national corporations, no national technologies and no national products. In addition, the distinction between local and foreign capital, as well as the distinction between local and foreign investors, will become outdated and even misleading. Finally, protectionism, which was useful for the economic development of the USA, is no longer necessary and is even harmful. A new reality is now reshaping the American as well as the global economy. To illustrate his point, Reich presents the case of one specific American product: General Motors' Pontiac Le Mans. Reich shows how and why, when an American citizen purchases this car, he no longer buys a national American product but an international product. According to Reich,

of the \$10,000 paid to GM, about \$3,000 goes to South Korea for routine labour and assembly operations, \$1,750 to Japan for advanced components (engines, transaxles, and electronics), \$750 to West Germany for styling and design engineering, \$400 to Taiwan, Singapore and Japan for small components, \$250 to Britain for advertising and marketing services, and about \$50 to Ireland and Barbados for data processing. The rest—less than \$4,000—goes to strategists in Detroit, lawyers and bankers in New York, lobbyists in Washington, insurance and health care workers all over the country, and to General Motors shareholders—most of whom live in the United States, but an increasing number of whom are foreign nationals.<sup>16</sup>

Thus, Reich maintains, because of the 'globalization of production' the very notion of 'buy American', 'buy British', 'buy Israeli', etc., has become obsolete.

There are many more such examples in Reich's book: 'Precision ice hockey equipment is designed in Sweden, financed in Canada, and assembled in Cleveland and Denmark for distribution in North America and Europe, respectively . . . A space satellite designed in California, manufactured in France, and financed by Australians, is launched from a rocket made in the Soviet Union. Which of these is an American product? Which a foreign? How does one decide?'<sup>17</sup> In addition, he argues that there is no longer any sense in encouraging *national* savings, simply because capital transcends national borders. Similarly, there is no point in erecting trade walls in a global economy where products are imported only to be then exported in other forms. Another crucial development in this new economic era is the growing returns for highly skilled labour, and conversely the diminishing returns for *both* blue-collar labour *and* capital investors! According to Reich, highly skilled analysts whose main occupation is to conceptualize problems gain ever higher salaries and fees. Thus, 'in 1920, more than 85 percent of the cost of an automobile went to pay routine labourers and investors. By 1990, these two groups received less than 60 percent, with the remainder going to designers, engineers, stylists, planners, strategists, financial specialists, executive officers, lawyers, advertisers, marketers, and the like'.<sup>18</sup> This tendency is even more pronounced in the domain of high-tech products, where 'today, not more than 3 percent of the price of a semiconductor chip goes to the owners of raw materials and energy, 5 percent to those who own the equipment and facilities, and 6 percent to routine labour. More than 85 percent is for

<sup>16</sup> Reich, *Work of Nations*, p. 113.

<sup>17</sup> *Ibid.*, pp. 112–13.

<sup>18</sup> *Ibid.*, p. 104.

specialised design and engineering services and for patents and copyrights on past discoveries made in the course of providing such services'.<sup>19</sup>

The new economic era of the high-skills economy has brought about the creation of a new class of symbolic analysts. This new class possesses distinct qualities that enable its members to design new global products, to identify new global opportunities and to link specific technologies with potential products and markets.<sup>20</sup> Reich argues that what is now being traded between nations in this global web is mainly three human skills: 'specialised problem-solving (research, product design, fabrication), problem-identifying (marketing, advertising, customer consulting), and brokerage (financing, searching, contracting) services, as well as certain routine components and services, all of which are combined to create value'.<sup>21</sup> All that will remain rooted within national borders are the people who comprise a nation. A nation's primary asset therefore will be its citizens: their skills, their insights, their training.

But if at first sight Reich seems to be turning away from economic nationalism, he later proves to have done anything but. Instead of the old forms of nineteenth- and twentieth-century economic nationalism, which nourished American corporations and American products, Reich suggests a new form of economic nationalism that will nourish the *national workforce*. Like List, he claims that the key to superior production performance is human capital, not material capital. This is reasonable, yet viewed in the light of List's analysis, Reich's emphasis on the importance of human capital does not seem as innovative as it might do otherwise. One can also question Reich's assertions regarding the diminishing need to support American products and American corporations. The difficulty in identifying the origins of various components of GM's Pontiac Le Mans does not in itself mean that the concepts of the American corporation and the American product are obsolete. In addition, as was argued by Cohen and Zysman in *Manufacturing Matters*, the export of manufactured goods is still crucial for the American economy; and the high-skills economy, which is part of the service sector, is dependent on manufacturing (and therefore should not be considered a substitute for it).<sup>22</sup>

### List and Reich on international economic relations

How one understands the nature of wealth and its sources has a direct effect on how one perceives the nature of conflict and cooperation between nations. The perception of the mercantilists, that wealth is grounded in the amount of gold and silver a nation possesses and that those metals exist in nature in very limited amounts, led them to view international relations as a zero-sum game (the possession of gold and silver by one nation directly decreases the wealth of others). Thus, mercantilism carried a justification and rationalization of war and international conflict, inasmuch as these are related to rivalry over wealth. By contrast, perceiving human

<sup>19</sup> Ibid.

<sup>20</sup> Ibid., pp. 84–5.

<sup>21</sup> Ibid., p. 113.

<sup>22</sup> S. S. Cohen and J. Zysman, *Manufacturing Matters: The Myth of the Post-industrial Economy* (New York, 1987).

capital rather than metals to be the major source of wealth may lead to the opposite conclusion regarding the rationality of international conflict. In contrast to metals that are a definite source of wealth, human capital is an unlimited resource that can be augmented almost indefinitely. Moreover, augmenting the human capital of one nation does not necessarily decrease the human capital of other nations. This limits conflict and relieves Reich of the need to deal with the implications of international conflict, which is the outcome of national economic policy-making and of the active promotion of national economic interests.

Reich's elegant way of avoiding questions relating to trade wars and other economic conflicts would not have been possible in List's era. Then, when territory and natural resources were perceived as crucial sources of wealth, the question of conflict and cooperation in international economic relations could not be avoided by economic nationalists. List faces the real problems of conflict and cooperation in international economic relations in his discussion of the costs and benefits of international trade. According to List, free trade is doomed to bring about a harmful division of labour between developed and underdeveloped countries. As a German nationalist, and in the context of British commercial and industrial dominance, List argued that Smith's free-trade theory significantly favoured British interests since 'free competition between the advanced factories of England and the relatively backward factories of other manufacturing countries would . . . simply lead to the destruction of the industries of the weaker states'.<sup>23</sup> Indeed such a policy, 'far from being advantageous to humanity in general, would be to the sole advantage of the dominant economic nation'.<sup>24</sup>

List's assertions about the conflicting interests in international economic relations do not imply, however, that he advocated conflict or rejected the promised land of 'one society living in a perpetual state of peace'.<sup>25</sup> His argument is simply that Adam Smith's harmonious society 'would constitute itself were there no interference on the part of any government, were there no wars, no hostile foreign tariff restrictions'.<sup>26</sup> Thus, List insists that economic policies must take into account the reality of potential international conflicts. In contrast to the economic liberal cure for international conflict (i.e., free trade), List's recommended remedy for such conflict is essentially a *political* one. It is worth noting that List was probably the first to aspire to a world congress as a means to regulate all international economic relations. He first proposed this in 1820, to the Congress of the German State assembled in Vienna.<sup>27</sup> The general disregard for his proposal did not deter him from reviving it, seventeen years later, before the French Academy: 'A world trade congress should be convened at which all countries should be represented by experienced and well qualified experts . . . *The congress should consider the varied interests of regions and*

<sup>23</sup> F. List, *The Natural System of Political Economy* (London, 1837), p. 48.

<sup>24</sup> *Ibid.* This point was another source of List's criticism of Smith's followers who viewed international economic relations as a positive-sum game. Cf. R. Gilpin, *U.S. Power and the Multinational Corporation* (New York, 1975), p. 26. It is worth noting that Gordon Tullock's assessment of the (liberal) economic approach to politics and international relations supports this view. 'Economics traditionally has been essentially a study of co-operative behaviour, not interpersonal conflict'. G. Tullock, 'The Economics of Conflict', in G. Radnitzky and A. Weinberg (eds.), *Universal Economics: Assessing The Achievements of the Economic Approach* (New York, 1992), pp. 301–13.

<sup>25</sup> List, *National System*, p. 122.

<sup>26</sup> *Ibid.*, p. 170.

<sup>27</sup> E. Silberner, *The Problem of War in Nineteenth Century Economic Thought* (Princeton, 1946), p. 159.

*societies at different stages of economic development—such as industrialised, agrarian, colonial, and primitive societies*'.<sup>28</sup> The international world trade congress called for by List resembles the General Agreement on Tariffs and Trade (GATT) formed more than a hundred years later. Indeed, the national character of the trade agreements of GATT seems more reminiscent of List's theory of economic nationalism than of the economic liberalism of Adam Smith and his followers. Thus, List's and Reich's economic nationalism does not reflect a narrow, 'selfish' zero-sum game, and stands as an example of a benevolent version of economic nationalism.<sup>29</sup>

### Reich and List on benevolent economic nationalism

Neither nationalism nor economic nationalism is free of problems. Moral as well as practical questions about economic nationalism should be raised and require clear answers. However, we have no reason to assume that the flaws of economic nationalism are bigger or smaller than those of its two rivals, economic liberalism and economic socialism. Indeed, all three leave open questions and confront us with difficult dilemmas. Reich's and List's versions of benevolent economic nationalism are especially important against the background of widespread identification of economic nationalism both as a Fascist political economy (Hitler's and Mussolini's economic policies, Mihail Manoilescu's political economy) and with the agendas of right-wing extremists (Patrick Buchanan in the USA) and social conservatives (the Euro-sceptics in the British Conservative Party).<sup>30</sup> Two levels of analysis, the intranational and the international, may be useful in our exploration of the morality of economic nationalism.

On the international level, Benjamin Cohen's distinction between 'malign' and 'benign' economic nationalism is useful to our analysis. According to Cohen,

malign nationalism seeks national goals relentlessly, even at the expense of others; benign nationalism, by contrast, is prepared to compromise national policy priorities where necessary to accommodate the interests of others. The difference between these two types of nationalism lies in the willingness of a country to identify its own national interest with an interest in the stability of the overall international system. Benign nationalism acknowledges a connection between self-interest and systemic interest; malign nationalism ignores or denies it . . .<sup>31</sup>

In accordance with Cohen's definition of benevolent economic nationalism, List's nationalism embraces a world constituted by a society of nations, and he believed that self-determination on the basis of nationality is by its very nature progressive. List believed that conflicts of interests between, as well as within, nations are unavoidable. His benevolent nationalism is hence embodied in, and expressed by, the

<sup>28</sup> List, *Natural System*, p. 126; italics added.

<sup>29</sup> Gilpin, for one, identified economic nationalism with a zero-sum-game conception of international relations. See Gilpin, *Political Economy of International Relations*, p. 47.

<sup>30</sup> Another prominent economic nationalist is John Maynard Keynes; see Keynes, 'National Self Sufficiency'. See also A. S. Milward, *The European Rescue of the Nation-state* (London, 1992), pp. 42–3; E. F. Heckscher, *Mercantilism*, vol. 2 (London, 1944), p. 340.

<sup>31</sup> See B. J. Cohen, *Crossing Frontiers: Explorations in International Political Economy* (Boulder, CO, 1991), p. 47.

international (political) mechanisms he devised to coordinate and negotiate the economic development priorities and interests of different states.<sup>32</sup>

Reich's benign economic nationalism is grounded in the positive moral role of economic nationalism in creating and sustaining the American welfare state. According to Reich, benign economic nationalism means that 'each nation's citizens take primary responsibility for enhancing the capacities of their countrymen for full and productive lives'.<sup>33</sup> In general, he argues, this was the principle according to which big business, the big labour unions and big government formed the economic and political order of America in the post-World War II era. The consensus around this benign economic nationalism led American society to a prosperity never experienced before in the history of humankind. However, because of the rise of the global economy and the decline in American competitiveness, this postwar order is changing. In the past, the economic fate of a nation's citizens was to a large extent a shared one. Wealth, progress and modernization were largely nationally rooted and nationally bounded phenomena; the income and opportunities of the new-born were largely predetermined by their nationality (and also, of course, by their class, ethnicity and gender). Reich, however, maintains that this situation is now over, or at least that it is about to end, and with it also the economic interdependence between the members of the nation.

The idea that 'each nation's citizens take primary responsibility for enhancing the capacities of their countrymen for full and productive lives' is challenged by the new global economy.<sup>34</sup> The American elite (namely, the symbolic analysts) are now able to withdraw from national life:

No longer does [the symbolic analyst's] well-being depend exclusively or primarily on his productivity, purchasing power, or wage restraint exercised by the other four-fifths of the population. The American executive software engineer, linked to his world-wide web by computer, modem and facsimile machine, is apt to be more dependent on design engineers in Kuala Lumpur, fabricators in Taiwan, bankers in Tokyo and Bonn, and sales and marketing specialists in Paris than on routine production workers in a factory on the other side of the town.<sup>35</sup>

This may naturally lead one to conclude that the notion of national economy has lost any possible meaning. This, however, is precisely where Reich brings economic nationalism '*back in*'.

Reich's benevolent economic nationalism refers to a voluntary solidarity between the members of a nation. The sharing of private revenues (i.e., the willingness of the rich to pay higher taxes) should be based on a national solidarity grounded in moral and social values. Reich's suggestion is that national solidarity will be sufficient to solve the basic social and economic problems of Americans. 'Without the support of the fortunate fifth,' he argues, 'it will be almost impossible to muster the resources, and the political will, necessary for change'.<sup>36</sup> In the new economic era, this support is a precondition for any political arrangement that will ensure the welfare of Americans: 'The possibility that symbolic analysts might relocate their homes,

<sup>32</sup> On List's conceptions of international relations see also L. L. Snyder, *Roots of German Nationalism* (London, 1978).

<sup>33</sup> Reich, *Work of Nations*, p. 311.

<sup>34</sup> *Ibid.*

<sup>35</sup> *Ibid.*, pp. 250–1.

<sup>36</sup> *Ibid.*, p. 251.

laboratories, or offices where in-person services are cheaper or where taxes are lower *operates as a powerful inhibition* [to an increase in their taxes, for example].<sup>37</sup> In addition, the monopoly of the symbolic analysts over the creation and distribution of symbols and values strengthens their power *vis-à-vis* the state and other parts of American society. While Reich's predictions about the challenges to the current political order of nation-states and national economies seem convincing, his reliance on the national solidarity of the fortunate elite with the less fortunate masses is dubious.

One needs a large amount of good faith to believe that the class of symbolic analysts will *voluntarily* acknowledge and undertake such responsibilities. Other than the ethical appeal of such responsibilities, Reich does not provide any grounds on which such a political scenario may be established. All in all, his benevolent welfare-guided economic nationalism is far from satisfying as a solution for the social and economic problems of his country, which is currently becoming more and more Darwinian. His supply-side welfare state, in which education is to be the main tool of social and economic mobility, gives only a very limited solution<sup>38</sup> for the parts of the population that suffer most from the new global market, namely, unskilled and semi-skilled labour.<sup>39</sup> In this respect, Reich's weaknesses are very similar to those of List: both adopt intellectual and moral values that pay much more attention to national goals (economic development and competitiveness) than to social ills.<sup>40</sup> However, as we are now much more experienced than in the first half of the nineteenth century and, moreover, as we are now better equipped to confront poverty and other social problems, it is legitimate to expect Reich to pay more serious attention to these problems. Whether economic nationalism can regain its past appeal and vitality and supply coherent guidelines for managing national economic policies still remains an open question—and with it also the issue of the fate of the nation-state.

## Conclusions

Both List and Reich reject the basic suggestion of economic liberalism, that self-interest can serve as the principal guideline for shaping the social and economic order. This rejection is strongly echoed in all of List's studies. His various attacks on Adam Smith were often criticized as too harsh and even as unfair; however, the essence of his criticism remains powerful even today. Economic liberalism, he argues, suffers from

firstly . . . boundless *cosmopolitanism*, which neither recognises the principle of nationality, nor takes into consideration the satisfaction of its interests; secondly . . . dead *materialism*, which everywhere regards chiefly the mere exchangeable value of things without taking into

<sup>37</sup> *Ibid.*, p. 298; italics added.

<sup>38</sup> And this largely in the long run, in which, following Keynes, we are all dead.

<sup>39</sup> In this context, see Adrian Wood's study where he demonstrates that 'more trade with the South has hit *less-skilled workers in all sectors of the economy* by permanently reducing the relative demand for their labour, and is likely to cause further shifts in this direction in the future'. A. Wood, *North-South Trade, Employment and Inequality* (Oxford and New York, 1994), p. 346.

<sup>40</sup> See O. W. Henderson, 'Friedrich List and the Social Question', *Journal of European Economic History*, 10 (1981), pp. 697–708.

consideration the mental and political, the present and the future interests, and the productive powers of the nation; thirdly . . . *disorganising particularism* and *individualism*, which, ignoring the nature and character of social labour and the operation of the union of powers in their higher consequences, considers private industry only as it would develop itself under a state of free interchange with society (i.e. with the whole human race) were that race not divided into separate national societies.<sup>41</sup>

Similarly, Reich suggests sharp criticism of economic liberalism: ‘This position is not that of the *laissez-faire* cosmopolitan, because it rests on a sense of national purpose—of a principled historic and cultural connection to a common political endeavour’.<sup>42</sup> According to Reich, self-interest cannot serve as a principal guideline for social and economic policy and, in the context of the new economic order, this is even more true than before. One’s loyalty to one’s nation could once be justified, according to Reich, largely by an appeal to one’s economic self-interest: ‘Individual citizens supported education, roads, and other civic improvements, even when the individual was likely to enjoy but a fraction of what was paid out in the short term, because it was assumed that such sacrifices would be amply rewarded eventually’.<sup>43</sup> In an era of privatization of economic interests and global rather than national interdependencies, an enlightened self-interest can no longer serve to justify a shared national economic fate. Instead moral (national) principles rather than purely economic interests should guide economic policy-making.

All in all, Adam Smith’s criticism of and scorn for mercantilism seem to have been very effective in preventing scholarly attention being paid to economic nationalism. Both mercantilism and economic nationalism reject the economic liberal assertion that the market can maximize the welfare of the collective. However, while mercantilism is a product of an absolute government that guides economic development in a direction that benefits the state elite, economic nationalism uses the state in order to promote national (and therefore much wider) interests. In this way, economic nationalism is a product of the national revolutions that changed the politics and society of nineteenth-century Europe. Indeed, today, it is quite difficult to find scholars, or even policy-makers, who openly reveal themselves as either mercantilists or economic nationalists. It also does not help that, of all the versions of nationalism, it is the more aggressive ones that are widely associated with economic nationalism. However, from the historical, analytical and scholarly points of view, nationalism has always been more than an ideology of aggression, racism and hate. Rational, benevolent versions of nationalism have always been part of human history; this is so obvious that it seems unnecessary to supply examples. In addition, in spite of its current neglect by scholars and its unpopularity in political discourse, mercantilists’ and economic nationalists’ reasoning has a strong influence on economic policy-making and economic international relations. That ‘nations matter’ (or at least *should* matter) in the shaping of economic policies, that national imperatives should direct the course of a nation’s economic policy not only in regard to national security issues but also in regard to the welfare of the nation’s citizens; and that it is therefore necessary to explore and discuss the political economy of nationalism; these arguments are part of both List’s and Reich’s agenda and are what distinguish them from *laissez-faire* as well as from socialist political economies.

<sup>41</sup> List, *National System*, p. 174.

<sup>42</sup> Reich, *Work of Nations*, p. 312.

<sup>43</sup> *Ibid.*, p. 303.