

# Friedrich List and the political economy of the nation-state

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## ABSTRACT

In an era of global changes the fate of the nation-state is of crucial importance for every student of political economy. This much is indeed reflected in the wide attention recently paid to the implications of globalization on the nation-state. Unfortunately, the point of view of the political economy of nationalism is largely unexplored in this discussion. Thus, this article discusses Friedrich List's political economy in order to shed light on the economic role of the state. List is recognized today worldwide as one of the most influential trade theorists and as one of the first to popularize the theory of 'infant industries'. Yet this recognition only partly reflects his significance as a political economist. The main assertion of this article is that in order to discuss the fate of the nation-state we must first be able to clarify its economic roles. This, in turn, may lead us to the conclusion that current assertions concerning the so-called 'diminishing autonomy of the state' as well as the 'imperative of globalization' are over-stressed under the influence of *laissez-faire* conceptions of political economy.

## KEYWORDS

Friedrich List; political economy; nation-state; mercantilism; economic nationalism.

*Et la patrie et l'humanité.*

*(Friedrich List)*

In an era of global changes the fate of the nation-state is of crucial importance for every student of political economy. This much is indeed reflected in the wide attention and extensive discussion of the nation-state and the process of globalization. Unfortunately, the point of view of the political economy of nationalism is largely unexplored in this discussion.<sup>1</sup> It is only rarely acknowledged that nationalism is a primary source of legitimacy and guidance for the management of the economy of the nation-state. Not much has changed since the British economist,

Joan Robinson, argued that 'in the midst of all confusion, there is one solid unchanging lump of ideology that we take so much for granted that it is rarely noticed – that is, nationalism. The very nature of economics is rooted in nationalism' (Robinson, 1962: 124). Notwithstanding the importance of Robinson's assertion, no 'positive' theory of economic nationalism has since emerged. Our students may know much about economic liberalism and economic socialism, but they usually know very little, if anything, about economic nationalism.<sup>2</sup> This, of course, is hardly the fault of the students; very little has been written on the subject of the political economy of nationalism and, in this respect, teachers are facing a similar problem to that of their students.

For more fertile and productive political economy, the interaction between economy and nationalism should be explored. Indeed, this is a most pressing issue. In an era of 'cascading interdependence' (read globalization), the neglect of nationalism – its interaction with the economy and its effects on policy making – impairs our ability to grasp the full significance of the notion of the nation-state and to analyse the current changes in its economic roles. The main assertions of this article are that in order to discuss the fate of the nation-state we must be able to clarify its economic roles and that this can be done by discussion of Friedrich List's political economy. This, in turn, may lead us to the conclusion that current assertions concerning the so-called 'diminishing autonomy of the state' as well as the 'imperative of globalization' are over-stressed under *laissez-faire* conceptions of political economy. The economic roles of the nation-state should be clarified not only from the marxist and *laissez-faire* points of view (as commonly found in every textbook of political economy). After all, in terms of ideological influences, the nation-state is definitely more a product of nationalism than of its paradigmatic and ideological rivals – whether socialism or liberalism.

Therefore, this article deals with the works of Friedrich List, one of the first heralds of the political economy of nationalism and one of the most influential figures among its proponents in Germany and Europe.<sup>3</sup> Friedrich List's life is a fascinating subject and his political activity and life experience open the window not only onto German liberal nationalism but also onto American economic history in the first half of the nineteenth century. It should be emphasized, however, that the discussion in this article should not lead the reader to uncritical adherence to nationalism or blind us from critical examination of Friedrich List's political activity and, especially, of his moral stand in issues of war and peace and his pan-Germanism.<sup>4</sup> A comprehensive picture of List and a discussion of List's politics are unfortunately beyond the agenda of this article, which is confined to the implications of his writing for the political economy of the nation-state. However, an excellent presentation of Friedrich List's ideas and political activities in the name of a unified and

liberal Germany is available to the readers in *Friedrich List; Economist and Visionary* (Henderson, 1983).

Friedrich List (1789–1846) was born at Reutlingen in south Germany and served as a civil servant in his native state of Württemberg. By 1817 he had been appointed Professor of Administration at the University of Tübingen. List took an active part in the movement favouring 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, his expulsion from the Diet, and then also an accusation of treason. List was sentenced to ten months' hard labour; but after serving six months he was released on condition that he emigrate to America. His American period (1825–30) culminated in his nomination to the position of American consul in Leipzig, where he continued to work for German economic and political unification. Economic difficulties, political disappointments and illness brought on a deep depression and resulted in his suicide. List's influence on policy makers and development theory is widespread (Wendler, 1989).<sup>5</sup>

There are many forms of nationalism and even more interpretations of nationalism; thus it is very unfortunate that Nazi, fascist and conservative versions of nationalism are widely perceived today (mainly in the Anglo-Saxon world) to represent the ideal type. From historical, analytical and scholarly points of view, nationalism has always been more than those dangerous ideologies of hate, and if we strive to understand nationalism adequately, this fact must be taken into account. Rational, benevolent versions of nationalism were always part of human history and this is so obvious that it seems redundant to supply examples. In addition, that nationalism can be based on an enlightened philosophical argument was convincingly argued by many (i.e. Tamir, 1993). Moreover, if we deny nationalism, we must also deny the right of national self-determination – be it Palestinian or Jewish, Chechen or Russian. If one takes nationalism, as I do, as a kind of 'imagined' yet important communal identity, multiculturalism and nationalism reinforce rather than contradict each other.

Asserting the existence of a 'positive' and enlightened nationalism, without denying the existence of malignant versions (or even malignant aspects) of nationalism, this article suggests that the ideology of nationalism has its own economic imperatives; acknowledging the existence of those imperatives should enable us to shed light on the ways in which the economic roles of the state were shaped in the past and may continue to be shaped in the future. Thus, the first part of the article will discuss the notion of national productive powers and their relationship to the concept of globalization. Two views of globalization will be offered. The first emphasizes the material aspects of economic activity and derives from Adam Smith's notion of development, while the second emphasizes

the political and human capital aspects of economic activity and relates to List's concept of development. Part II of the article will focus on four characteristics of 'developed economies'. Part III will use these characteristics to discuss the role of the state in List's political economy. The concluding section will argue that the role of the state has not substantially changed in our 'era of globalization'. Thus, it is maintained that many of the current assertions concerning the so-called 'diminishing autonomy of the state' as well as the 'imperative of globalization' are over-stressed under the influence of *laissez-faire* conceptions of political economy.

## I PRODUCTIVE POWERS AND THE PROCESS OF GLOBALIZATION

List is recognized as one of the forefathers of the theory of 'infant industries'. Nevertheless, this recognition can hardly testify to the full extent of his significance and contribution to the study of political economy. A more comprehensive picture of his political economy can be portrayed by reference to his use and elaboration of the concept of national productive powers.<sup>6</sup> The term 'productive powers' was first used by List in his 'Outlines of American political economy' (1827).<sup>7</sup> The term was further elaborated in *The Natural System of Political Economy* (1838)<sup>8</sup> as well as in his magnum opus titled *The National System of Political Economy* (1841). List's concept of productive powers is first based on a distinction between the causes of wealth and wealth itself.<sup>9</sup> According to List,

a person may possess wealth, i.e. exchangeable value; if, however, he does not possess the power of producing objects of more value than he consumes, he will become poorer. A person may be poor; however, if he possesses the power of producing a larger amount of valuable articles than he consumes, he becomes rich.

(List, 1841: 133)

Productive powers consist of three 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). The capital of nature comprises land, sea, rivers and mineral resources. The capital of matter comprises all objects, such as machines, utensils and raw materials, that are used directly or indirectly in the production process. Finally, the capital of mind includes skills, training, industry, enterprise, armies, naval power and government (List, 1827: 193-4).<sup>10</sup> The creation of wealth is the outcome of the interaction between human skills, industry and initiatives on the one hand, and the natural and material world on the other.

According to List, these three types of capital are distinguishable according to their relative importance to the creation of wealth: natural and material capital are inferior to mental capital. Economic policy

making that is aimed at the development of mental capital, all other things being equal, will result in better performances than economic policy that aims to enlarge the development of natural and material capital. In order to clarify this point, List offered the example of two families, each with a farm and five sons. The father of the first family deposits his savings in the bank and maintains his sons in manual labour. In contrast, the father of the second family exploits his savings for the sake of his sons' education and grants them both time and encouragement for their own personal cultivation. Two of his sons receive training aimed at turning them into competent landowners, while the others learn trades and other professions. Upon the death of the fathers, argues List, the future of these two families will be different due to the two fathers' distinct policies. The decline of the fortune of the first family seems to be an inevitable prospect, as its estate will have to be divided into five parts and tended just as before. The area for cultivation that formerly supplied the needs of one family will now have to supply those of five. The fate of the first family will thus be that of poverty and ignorance. By contrast, upon the death of the second father, his estate will be split only into two, and due to the good husbandry of these trained heirs, each half will be able to yield as much as the whole yielded before. The other three brothers will already have obtained secure incomes for themselves in whatever professions they have. Due to the education of the sons (List did not mention any female family members) their diverse mental forces and talents will have been cultivated and will probably increase over time and generations.

Although in both cases it was the well-being of the family that the fathers had in mind, they had different concepts of wealth that yielded different outcomes. The first father identified wealth with material capital and hence neglected the cultivation of his sons' mental abilities. The second identified wealth with mental capital and therefore invested in his sons' education. This story exemplifies List's strong conviction that the various types of capital have a hierarchical order, and that mental capital is the most important. This distinction further enabled him to argue that the first father acted according to the materialist conceptions of Adam Smith's followers, whereas the second father acted according to a human capital-oriented theory of policy making. The example gives us the opportunity to examine critically the notion of human capital in classical economics and its distinction between wealth and the causes of wealth. I contend that following Adam Smith classical economic theory failed to identify properly the causes of wealth.

Indeed, Adam Smith made the distinction between wealth and causes of wealth a central point in his criticism of the mercantilists' perceptions of the role of silver and gold as sources of wealth. As alternatives to gold and silver, Smith offered the division of labour and the accumulation of

capital as primary *causes* of development. This, however, led neoclassical economic theory to adopt a materialist notion of social change and economic development. Indeed, it is the division of labour that received most of Adam Smith's attention. It is this notion that opens the *Wealth of Nations*: '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 effects of the division of labour' (Smith, 1776: 3). Division of labour is an achievement of a developed economy and is not to be found in underdeveloped economies in which every man endeavours to supply his own needs by his own hands: 'When he is hungry, he goes to the forest to hunt; when his coat is worn out, he clothes himself with the skin of the large animal he kills' (Smith, 1776: 259). Yet, a division of labour is conceived by him as dependent on the accumulation of capital, and so 'the accumulation of stock must, in the nature of things, be previous to the division of labour' (Smith, 1776: 260). Thus, it is the accumulation of capital that enhances the division of labour and it is the division of labour which in turn makes possible the further increase in the accumulation of capital. In Smith's own words, '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' (Smith, 1776: 260). The process of accumulation, which contiguously furthers the division of labour, is hence *the process of economic development*.<sup>11</sup>

Smith's concept of economic development was criticized by List. It is not that List rejected the importance of Smith's notion of the division of labour, nor did he reject the importance of trade and savings as instruments of economic development, but in his view they are inferior to the augmentation of mental capital. In modern terminology we may say that List emphasized the importance of human capital in economic development.<sup>12</sup> The importance of human capital had been neglected in mainstream economic theory. This much has already been argued by Mark Blaug: '[the classical economists] 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' (Blaug, 1975: 574).<sup>13</sup> The same point was made by List more than one hundred years ago when he emphasized the importance of human capital to economic development. List should be considered one of the founders of human capital theory and deserves more appreciation in this regard than he has received (see, for example, Kiker, 1966).

It was only in the 1960s, through the works of Gary S. Becker, that the concept of human capital was introduced into mainstream economic theory. Yet, even when it was finally introduced, it received an individualistic interpretation that hardly did justice to the important role of

the state and nationalist movements in building a mass system of education – not as a response to individuals, or to a market-driven demand for education, but as an elite effort to educate (and mobilize) the masses.<sup>14</sup> On the basis of the concept of productive powers, List was able to offer an analysis that connected government educational policies and the notion of human capital with the desired outcome of economic development. List was able to distinguish between the characterizations or outcomes of development and the causes of development. The transformation from one stage of development to another is *characterized* by the division of labour and by the quantity of capital manifested in it. Nevertheless, material capital and the division of labour should not be identified as the causes of economic development. It is mental capital that is more important and thus should be considered the most important cause of development, and it is the government that is responsible for the education of its citizens and therefore for the augmentation of human capital. It is the extent and amount of human capital that distinguishes between developed and underdeveloped economies. At the most primitive stages of an economy, mental capital is very limited while in later stages of development the constraints on the augmentation of mental capital are removed. This in turn makes the division of labour and the accumulation of capital possible.

It is possible therefore to identify two concepts of economic development, one that stresses material factors and another that emphasizes politics and human capital. These two concepts are embedded in the current popular notion of globalization. Globalization, while rarely properly defined, implies that certain economic processes, often understood as unavoidable imperatives, carry human society towards economic and political reorganization on a global scale. This interpretation of globalization is materialistic – it neglects human capital and the role of government in economic development. It is a Smithian or a *laissez-faire* concept of globalization as it associates globalization with the economic processes of accumulation and the division of labour. According to this view we are now in a new stage of economic development, where the movement towards a more efficient (i.e. global) accumulation of capital and division of labour will create favourable conditions for the setting of a new global-political order. This new order will then diminish (or at least minimize) the economic roles of the state and will also reinforce the *laissez-faire* conceptions of the economic role of government.

A second notion of globalization, Listian or that of economic nationalism, may also be introduced. This notion stresses that the forces of globalization are products of the augmentation of mental capital, a learning process which includes the creation of new forms of knowledge as well as the products of new forms of political organization. The nation-state in this interpretation has a crucial role in promoting, guiding

and regulating the process of globalization. The nation-state is crucial to the process of globalization as it nurtures it, protects it and gives it meaning. Indeed, it is possible to argue that for List protectionism as a state policy is a transitional policy on a road which will lead eventually to free trade. But his definition of the role of the state primarily rests on the concept of productive powers and not on the theory of trade (as the next part of the article demonstrates), and thus it is possible to contrast an argument in favour of the indispensability of the state to the process of economic development on the basis of List's arguments. The nation-state and the national economy as the intermediate institutions between the individual and humankind have, in this interpretation of globalization, a crucial role that is not transitory but everlasting.

## II CHARACTERISTICS OF ECONOMIC DEVELOPMENT: LIST'S POINT OF VIEW

Four characteristics of the process of economic development make the role of the state indispensable to List's political economy. These four, which will be examined in this part of the article, include the collective nature of economic activity, the fragmentation of interests and identities in a developed economy, the need for long-term investments, and the cultural nature of productive powers.<sup>15</sup>

### The collective<sup>16</sup> nature of economic activity in a developed economy

The concept of the division of labour was used by Adam Smith in order to assert the claim that interdependent economic interactions generate a strong rationale for harmonious social and political relations. However, by suggesting that a distinction should be made between *objective* and *subjective* divisions of labour List highlights a more complex picture:

It is a division of labour if one savage on one and the same day goes hunting or fishing, cuts down wood, repairs his wigwam, and prepares arrows, nets, and clothes; but it is also a division of labour if (as Adam Smith mentions as an example) ten different persons share in the different occupations connected with the manufacturing of a pin: the former is an objective, and the latter a subjective division of labour; the former hinders, the latter furthers production.

(List, 1841: 149)

The essential difference between the two types of division of labour is that whereas in the former a *single person* divides his own working

powers so that they will yield *various* products, in the latter, *several persons* share in the production of *one* single product. The importance of this distinction between the objective and the subjective forms of the division of labour derives from the fact that the more meaningful type – i.e. the subjective – entails a greater need for cooperation or, as he put it, ‘*a confederation or union of various energies, intelligence, and powers on behalf of a common production*. The cause of the productiveness of these operations is not merely that *division*, but essentially the *union*’ (List, 1841: 149–50). Thus, List offers a collectivist interpretation of the production process, which is the *union* of human efforts towards a common goal of development.

The increasing specialization of the production process makes efficient communication increasingly crucial for the success of production efforts, since ‘the one who makes the heads of the pins must be certain of the cooperation of the one who makes the points if he does not want to run the risk of producing pin heads in vain’ (List, 1841: 150). Without an adequate measure of cooperation, the cost of the product will increase, and consequently the advantages of the division of labour will diminish and may eventually even turn into a source of conflict. Thus, the fragility of the modern production process is enhanced by the fact that any individual’s refusal to cooperate may suffice to ‘throw all the others out of work’. The division of labour entails not only an increase in the number of participants in the production process of any single product but also a diffusion of its geographical scope; this in turn will deepen its dependence on better communication and cooperation. The story of the Tower of Babel may illustrate our point. The success of this ambitious project depended on both the cooperation and the communication between the builders. In the biblical story it was made clear that it was due to the poor communication between the builders that their cooperation was hindered. In a developed economy, where every product is a Tower of Babel in terms of complexity, we must find ways to supply adequate means of communication and cooperation. The threat embedded in any potential failure to cooperate should be our first concern in structuring an effective system of political economy.

### **Societal conflict in a developed economy**

Although the division of labour significantly enhances the need and rationale for cooperation, the fact that it also creates new interests, new social and personal identities, and new professions – each with its own logic, perspective, concerns, experience and outlook – was hardly taken into account.<sup>17</sup> The deeper the specialization becomes, the greater the fragmentation of interests and identities that will follow. Thus, a division of labour does not merely strengthen the rationale for cooperation

but also broadens the potential sphere of conflict. Within the social sphere, the division of labour will make ever more clear the distinctions between various social interests (e.g. commercial, industrial and agricultural interests). In contrast to David Hume, Adam Smith and David Ricardo who pointed to the mutual benefits of trade between agricultural countries (like Portugal) and industrial countries (like Britain), as well as in contrast to the classical economic theory, List was sensitive to the implications of economic specialization on a country's society, politics, culture and military might.<sup>18</sup> The need to coordinate the interests of commerce, agriculture and manufacturing was the social conflict List was primarily concerned with. If we take into account List's extensive involvement with German and North American politics, as well as his study of British history and politics, his concerns are completely understandable. What is common to these historical settings is that the manufacturing sector had to overcome political resistance from opposing social groups before it could flourish and prosper.

In the British case, the public debate during the first half of the nineteenth century was largely focused on the Corn Laws, the tariff on grain imports. In this debate it was the landlords who resisted foreign competition, opposing the representatives of manufacturing interests who protested against the high tariffs. According to the manufacturers, higher tariffs meant higher food prices and accordingly higher costs of labour (which reduced their ability to compete abroad). A similar conflict of interest, which was the outcome of an increasing national fragmentation, was experienced by List while he lived in the United States: this was the conflict between the industrial north and the agricultural south. Again, at stake was the future of economic and social progress in North America, which depended on the victory of the manufacturers. But it was primarily against the background of Germany in the first half of the nineteenth century that List's ideas were shaped. List was very active in the political debate regarding the German customs union, which eventually resulted in the formation of the Zollverein (1834). During the promotion of the idea of German customs union, List became aware that the interests of manufacturing were not the only social interests at play, and that despite their importance to further economic development and the future of the German nation, they were not necessarily the most powerful. A developed economy implies therefore new forms of social conflict, and this should be taken into account in the formation of national political institutions. Moreover, those institutions should structure the national economy to promote the national interests and to overcome obstacles and constraints on the operation of those economic sectors that are most beneficial to the national interests. Here, List demonstrates his awareness of the importance of the state to the process economic development by overcoming societal opposition in the same

vein that was one century later presented by Karl Polanyi's classic *The Great Transformation* (1944). Markets and industrialization in this approach are to a large extent state-created institutions rather than an autonomous sphere of human action.

### Time preferences in a developed economy

Economic actors can take either a short-term or a long-term view in their expectations about harvesting the fruits of their labour. However, for an economy to develop, it is a necessary condition that the economic actors adopt the long-term view. In a hunting society, in contrast to an agricultural society, the products of a day's work will take the form of the hunted beast hanging over the hunter's fire. On a bad day, when the hunter returns empty-handed to his encampment, he can do no more than sleep with an empty stomach and hope that the next day will be better. On both the fortunate and the unfortunate days the results of the hunter's work are immediately visible. In this kind of society, there is no need to distinguish between the long and the short term, since the ability to store the meat is very limited and there is no rationale for long-term efforts. In agricultural societies, however, at least one seeding cycle needs to pass, from ploughing to harvesting, before a person can enjoy the fruits of his work. This waiting period necessarily broadens the farmer's time horizon and so makes long-term calculation necessary. In a manufacturing economy, an even longer view is required. Here, the products of any single day of work will only be ready for consumption after a long period of investment. For instance, inventors' work, which requires continuous investment of material and mental capital, will, after years of efforts, hopefully yield the knowledge and skills required for invention. We therefore can characterize a developed economy by its longer time horizons and argue that the more developed the economy, the more the economic actors will be required to adopt the longer view.

As developed economies require longer periods of fruition we get to the crucial question: 'How should time preferences be determined?' What we need is a theory that will account for the motivation to invest in the future; such a theory will have to account systematically for the willingness to sacrifice certain amounts of present goods for the attainment of greater amounts of future goods.<sup>19</sup> Starting with the question, 'What spurs men to make something?' List offers the following answer: 'We always find that there is some inner urge which sets the human body in motion' (List, 1841: 185). As will be demonstrated later, this 'inner urge' is liable to be influenced by four distinct social conditions, each of which has the potential to stimulate the propensity to invest in the future.

### Culture and the productive powers in a developed economy

Productive powers are both culturally grounded and nationally bounded. They are culturally grounded because they thrive against a certain cultural background and languish with its decline. Hence there is a causal connection between the prosperity of the arts, the sciences, and social and personal ethics on the one hand, and the productive powers of that culture and nation on the other. The agents of the productive powers in List's theory include teachers, clergy and artists, as well as blue-collar workers. The political and cultural institutions of society greatly influence the state of its productive powers:

The publicity of the administration of justice, trial by jury, parliamentary legislation, public control of the state administration, self-administration of the commonalties and municipalities, liberty of the press, liberty of association for useful purposes . . . we can scarcely conceive of any law or any legal decision which would not exercise a greater or smaller influence on the increase or decrease of the productive power of the nation.

(List, 1841: 139)

Other potential sources of productive power include the abolition of slavery, the invention of printing, and freedom of the press. In particular, it is mental capital that depends on cultural and political institutions, whereas material capital is relatively free from such influences. It is this cultural propensity of the productive powers which gives meaning to the notion of national economy.<sup>20</sup>

Productive powers are nationally bounded because they are codified in laws, norms and morals, and thus are not as easily transferable as *laissez-faire* theories tend to assume. Moreover, it is the least important component of the productive powers, the material capital, that is discussed in *laissez-faire* theories of growth and trade. Indeed, capital and technology may move from one side of the globe to the other, but this is not true of mental capital, which is carried by human beings and is subject to restricted rules of immigration (which are themselves legitimized by national values). Since the productive powers are nationally and culturally grounded, List's notion of *national economy* is not determined by the physical borders between states or by customs barriers or by any other kind of political machinery. Instead, national economy is viewed by List as the outcome of national ideas, national institutions and people's desire to belong to a nation. This is the historical origin on which customs barriers and state institutions have been built. The cultural and national characteristics of the developed economy, as well as the other three characteristics that were presented, guide our analysis of the role of the state in List's political economy.

### III THE ROLE OF THE STATE: NURTURING THE PRODUCTIVE POWERS OF THE NATION

The four characteristics of developed economies discussed above are those that eventually account for the role of the state in List's political economy.<sup>21</sup> The role of the state in List's trade theory is that of the protector of the national productive powers. List's analysis of the implications of the wool and cotton trade between the United States and Britain gives adequate expression to his views of productive powers (List, 1827: 187–202). In the first half of the nineteenth century the bilateral trade between those countries consisted of the export of cotton and wool from the United States in exchange for British manufactured goods. According to List, this kind of trade could not allow for equal gains on both sides (although, following Ricardo's theory of trade, free-traders claimed that it is precisely such a policy which would result in equal benefits for both sides). On the basis of his concept of productive powers, List raised an interesting and important argument directed at the advocates of unregulated free-trade policies. According to List, the exchange between the United States and Britain involved two forms of capital: material and mental. While free-trade theorists restricted themselves to discussing the exchange of *matter for matter* (i.e. material capital), List claimed that in fact one should take into account the other and the most important form of exchange between the United States and Britain: the exchange of mental capital.

Although the division of labour between the Americans and the British was seemingly equal, in fact it enabled the British to maximize their national productive powers while putting constraints on the American productive powers. Under these conditions, the trade between the two countries confined the Americans to the production of agricultural products, which impeded intensive augmentation of their mental capital. This state of affairs reinforced the economic and military inferiority of the United States and the superiority of Britain. Protection, in certain cases, is therefore recommended and justified as an education tax that would eventually enable the Americans to engage in an equal exchange with the British, i.e. exchange not only of *matter for matter* but also of *mental capital for mental capital*. Manufacturing involves many domains of knowledge and science, and presupposes much experience, skill and practice. The extensive employment of the British in manufacturing gave them the opportunity to develop their productive powers and constrain the opportunities of the agricultural United States. According to List, the role of the state in such a case was to create adequate conditions for the development of American mental capital. These conditions, however, could not be provided unless a managed trade policy was implemented.

In addition, long-term considerations should be also taken into account

by policy makers, and current sacrifice of material capital for the sake of future returns is recommended by List:

A nation which has an agrarian economy and is dependent upon foreign countries (for its manufactured goods) can . . . stimulate the establishment of industries by means of a protective tariff. Such a country may well sacrifice much 'exchange value' [i.e. material capital] for the moment, if its new workshops produce expensive goods of poor quality. But it will greatly increase its productive power in the future. . . . This is our main argument in support of a protective tariff and in opposition to the doctrine of free trade.

(List, 1838: 35–6)

Trade policy that will support the augmentation of national productive powers should be constructed very carefully since the erection of economic borders involves potential losses in material capital. List thus maintained that 'any exaggeration or hastening of protection punishes itself by diminished national prosperity'.<sup>22</sup> The principle of increasing the productive powers of the nation should guide the national economic policy. A nation should thus be evaluated not by its self-sufficiency, nor by its trade balance but, according to List, by the degree to which 'its industry is independent and its productive powers are developed' (List, 1827: 189).

Another issue that may shed light on the role of the state in List's political economy is the role of the state in the sphere of education. List's conviction of the economic importance of education is reflected in his notion of mental capital and the superior status he attributes to it. His study of the linen industries in France, Germany and England demonstrates this. List claimed that the attempts of the British to monopolize the production of linen throughout Europe were rather similar to the manner in which they managed to monopolize the cotton market during the preceding half-century. Indeed, the future of linen industries was a subject of great concern in France, since the French machinists and manufacturers who previously enjoyed considerable advantages in this trade faced a real danger of losing their market to the British. The source of the British trade superiority, argued List, was the British educational system:

Before the time of Edward III, the English were the greatest bullies and good-for-nothing characters in Europe; certainly it never occurred to them to compare themselves with the Italians and Belgians or with the Germans in respect to mechanical talent or industrial skill; but since then, their Government has taken their education in hand, and thus they have by degrees made such progress that they can dispute the palm of industrial skill with their instructors.

(List, 1841: 386–7)

Education is indigenous rather than exogenous to List's political economy. In the notion of productive powers, education is an important factor in national economic performance. A nation has to develop its educational system in accordance with its economic progress:

As a nation becomes more industrialised, it becomes more necessary to secure the service of suitable, trained people in the factories and workshops. Such people are now able to command higher salaries and wages than was formerly possible. It will be easier for them to devote themselves entirely to a particular branch of knowledge, provided that they have the necessary natural aptitude and the good preliminary training. Knowledge is becoming more specialised.

(List, 1838: 67)<sup>23</sup>

If we now go back to consider the first characteristic of the productive powers, namely their cooperative and communicative nature in developed economies, we may see why the coordinating role of the state is an indispensable one. As the division of labour deepens and as more and more individuals become involved in the production of any single product, and as more and more products are produced, coordination becomes increasingly crucial. It is with correspondence to this process that the management and the coordination of the social composition become ever more complex. The public interest in each citizen's socialization and education increases, and with it, its interests in each citizen's improved capacity to cooperate. The economic fate of each member of the nation becomes increasingly dependent on that of others; after all, the break of any link in the long chain of production will eventually affect all others.

The cultural characteristics of the productive powers are the second factor that shapes the role of the state in List's political economy. According to List, there is a significant difference between agricultural and industrial societies. While he perceives industrial activity as the 'mother and father' of science, as well as of the arts and enlightenment in general, agricultural societies are perceived by him as ignorant, intolerant and parochialist:

The intellectual powers of such a people [in agricultural societies] are hardly awakened and are put to little use. There are no opportunities for latent talents to be developed. Only physical exertion secures rewards and they are poor enough since the landowners monopolise the labour of the workers on their land. . . . Moral strength never makes its mark and never triumphs over brute force.

(List, 1838: 54)

Industrial development is hence perceived as both a cultural and a national imperative. Raising vines, profitable as it could be in terms of material capital, cannot satisfy a nation's desire for cultural prosperity. It is an argument such as the latter that enables us adequately to understand the following claim of List: 'A nation should not regard the progress of industries from a purely economic point of view. Manufacturing becomes a very important part of the nation's political and cultural heritage' (List, 1838: 39).

A developed economy is also characterized by the creation of new social identities and interests. In this context, List mentions two distinct conflicts that are products of the developed economy: new kinds of conflicts between the interests of the individual and society, and the segmentation of society into different economic sectors, such as commerce, agriculture and manufacturing. In regard to the conflict between the individual and society, List argues that although the production of many goods increases the material capital of both the individual and the nation, it may also weaken the nation's mental capital. The production of alcoholic beverages, for instance, may increase the profit of the individual and the material wealth of the society, but it decreases its mental capital. In such cases of conflict between the individual's interests and those of society, the principle of nurturing the nation's productive powers should guide the state to limit the production or the distribution of alcohol (List, 1838: 35). The state's action is crucial not only in cases of conflict of interest between the individual and the community, but also in cases of conflict between various social and economic groups. For instance, because the national interest requires industrialization, it is the state that is supposed to support the interests of industry *vis-à-vis* agricultural and commercial interests. In his political activity in Germany, List made huge efforts to present the benefits of collaboration to all segments of society, yet as an experienced political analyst he knew that an autonomous state is crucial for the promotion of reforms that will pave the way towards a more developed economic structure, and List argues that this role is functional to the flourishing of the productive powers.

A developed economy necessitates a long time horizon, and the state may play an important role both in acting towards the attainment of long-term goals and in expanding the time horizons of individuals and facilitating their willingness to invest in the future. First, the state may decrease the insecurity and uncertainties confronting individuals. Wars, crimes and other threats to private property all curb the individual's ability and propensity to plan and invest in the future. Second, argued List, it is the open society that encourages individuals to invest in the future. Social mobility, an open society and social rewards are crucial to the tendency to invest in the future:

Where it is not possible to raise oneself by honest exertions and by prosperity from one class of society to another, from the lowest to the highest . . . where persons engaged in trade are excluded from public honour, from taking part in administration, legislation, and juries; where distinguished achievements in agriculture, industry, and commerce do not lead also to public esteem and to social and civil distinction, there the most important motives for consumption as well as for production are wanting.

(List, 1841: 306–7)

Another form of social reward that List emphasizes is the prizes to inventors: 'It brings honour to the inventive mind in society, and roots out the prejudice for old customs and modes of operation so injurious among uneducated nations' (List, 1841: 307).

In addition to honour for inventors, material rewards should also be assured. This is a third way in which the state may expand the time preferences of individuals. List was extensively active in the promotion of legislation that would ensure German inventors the fruits of their inventions. Thus, he called for a patents law that 'provides the man who merely possesses mental faculties for new inventions with the material means which he requires, inasmuch as capitalists are thus incited to support the inventor, by being assured of participation in the anticipated profits' (List, 1841: 307). The fourth factor that may motivate long-term investment comprises shared aspirations and a people's sense of national solidarity. For List, an individual is not simply a producer or a consumer; he is a member of a national community and this fact has a crucial significance to his willingness to invest in the future. Individuals who are not members of such communities are more liable to make short-term decisions, since

mere individuals do not concern themselves for the prosperity of future generations – they deem it foolish . . . to make certain and present sacrifices in order to endeavour to obtain a benefit which is as yet uncertain and lying in the vast field of the future (if events possess any value at all); they care but little for the continuance of the nation.

(List, 1841: 173)

Thus for List national identities have a functional and positive role of stretching individuals' time horizons.

Could it be that List's expectations of the state were naive? Could it be that he overlooked the potential problems of power abuse by politicians, as well as the inefficiency of public bureaucracies? I believe the answer to these questions must be negative. As a bureaucrat as well as a Professor of Public Administration, List was well aware of these potential problems (see also Backhaus, 1992). He was careful to avoid

such abuses and argued that 'it is bad policy to regulate everything and to promote everything by employing social powers, where things may better regulate themselves and can be better promoted by private exertions' (List, 1827: 213). In addition, List knew very well that 'every law, every public regulation, has a strengthening or weakening effect on production or on consumption or on the productive forces' (List, 1841: 307). Despite his awareness of those possible negative implications of governmental intervention he did not hesitate to recommend, and even to require, political and economic entrepreneurship from government.

#### IV CONCLUDING REMARKS

More than 150 years have elapsed since Friedrich List first published his *National System of Political Economy*. Yet his ability to analyse and predict the practices of the state's economic role is still remarkably relevant to our present political and economic analysis. Much of what is now perceived worldwide as a 'pragmatic' conception of the state's economic role was already predicted, analysed and justified by List. The regulated system of trade in the form of the General Agreement on Trade and Tariffs, the investment in infrastructure, and the emphasis on education were all suggested by List as key policy objectives for any national economic policy making and are now visible in the international economic system. Current key political economy concepts, such as those of national product, national product per capita, national accounts and national balance of trade, also reflect the fact that our economic terminology and perspective on economic matters today are still tied to *national* terms. All these are important and sufficient reasons to attract attention to the political economy of nationalism. This in turn may lead us to a more fruitful discourse regarding the economic roles of the nation-state and the meanings of national economy.

On the basis of this discussion it is possible to offer two insights into the future economic roles of the nation-state and economic nationalism. First, the current discourse overlooks the intertwined relationship between the ideology of nationalism and the current roles, practices and functions of the state. Both liberals and marxists often treat nationalism as a widespread type of 'political anomaly'. This does not help to attract attention to the study of the political economy of nationalism.<sup>24</sup> *Laissez-faire* theories, which always regarded the state as a dysfunctional factor in the conduct of economic affairs, are now reasserting themselves again in the current terminology of globalization.<sup>25</sup> The facts are, however, that nation-states always faced economic challenges and usually overcame them (of course with different degrees of success in different countries and periods). It is reasonable to doubt the assertion that globalization leads to a diminishing of the nation-state. There is no reason to

believe that the economy can regulate itself on an international scale better than on a national scale. Economic development on a global scale will only make the need for better coordination and cooperation more urgent and clear, new forms of conflict will emerge and the need to create social conditions that are adequate for long-term investment will become more evident than ever before.<sup>26</sup> Indeed, globalization is increasingly removing limitations on trade and capital, but to concentrate on those aspects of economic activity is to repeat the mistake of materialist conceptions of economic development of neglecting the importance of human capital. Human capital is less likely to be subject to globalization and is nationally bounded as labour markets all over the world are becoming more and more closed to immigration. If it is possible to speak reasonably of global capital and trade, it is meaningless to speak of global labour markets. As the importance of human capital is increasing rather than decreasing, one may even point to the increasing importance of the nation-state in nurturing the national productive powers. Trade barriers may collapse and material capital may be dispersed in all directions but perceptions of the nation-state as the protector and nurturer of the national productive powers are still valid.

This brings us to a second issue which has to do with the practicality of nationalism in economic development. In this respect Friedrich List was one of the founders of the political tradition that perceives nationalism as a rational and universal force. Economic nationalism, one has to remember, had an important role in the elimination of the particularistic political economies of pre-modern Europe. Nationalism was then closely intertwined with the imperative of industrialization (Gellner, 1983), and for the peripheral nations of Africa, Latin America, Eastern Europe and the Middle East it was closely connected with the idea of progress. Since this is true for the past in industrial societies as well as for the present and future in developing ones, there is no reason to assume that it will not be the same in the future. As was well argued by James Mayall, nationalism and globalization are more interconnected with than contradictory to each other, since they always appeared 'in the world together and constantly reinforced one another ever since. The rise of nationalism was a response to a globalization process, just as globalization itself, or rather what kept the process going, was largely a consequence of nationalist competition' (Mayall, 1997). Nationalism and globalization, 'like a bickering old married couple', predicts Mayall, will remain mutually dependent. If nationalism is to survive – in either its Gandhian or its Nazi versions – it will have some important implications for the way in which economic structures are shaped and economic policies are enacted. If this is the case, we cannot continue to avoid nationalism and its implications; indeed, we must give proper attention to the political economy of nationalism.

## NOTES

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- 1 Economic nationalism was a popular subject of study in the interwar period and thus it was then an integral part of most textbooks on international relations. However, due to the prominence of the Cold War and the interrelated dominance of the liberal-marxist debate, this situation has changed and economic nationalism has since been pushed to the peripheries of scholarly attention. It has acquired a pejorative tone, which accounts for the fact that nowadays we can hardly find scholars, politicians or regimes which will openly and directly confess to being economic nationalists. Economic nationalism has been customarily described as a narrow-minded and aggressive political view. Bertrand Russell, for one, described it as one of the most harmful ideas to mankind – putting it alongside sadistic impulses, religion, superstition, envy, pride, racism and sex superiority (Russell, 1946). Thus, even when economic nationalism does attract attention, it is often tinted by an ideologically hostile approach.
- 2 Take for example Robert Gilpin's *The Political Economy of International Relations* (Princeton, NJ: Princeton University Press, 1987). This is one of the rare cases (especially in the US) in which economic nationalism is presented – alongside marxism and economic liberalism – as a theory of political economy. However, Gilpin's characterization of economic nationalism is based largely on secondary sources, and even these are not ones that were originally or specifically devised for the study of economic nationalism. Furthermore, it is striking to notice that even the work of most prominent figures in the development of economic nationalism – such as Friedrich List – is absent from the bibliography of Gilpin's book.
- 3 Misunderstanding and misinterpretation of List's theory are not uncommon. It seems that List's *German* nationalism may account for the biased evaluation of the man and his theory. Another possible reason is his unrestrained attacks on classical economy – which were then answered by economic liberals in much the same tone and approach. Despite recent contributions to the study of List's politics by Szporluk (1988) and Backhaus (1992) some important issues still call for further discussion and exploration which may be able to cast more light on the political economy of the nation-state. In addition, the neglect of Friedrich List should be seen in the context of the little attention that Cameralism receives in the Anglo-Saxon world. Cameralism is the German and Austrian version of mercantilism. The term was derived from the Latin *camera* denoting the treasury. Cameralist thinking developed in the context of the administrative routines and problems which faced the German states' bureaucracies. See Bell (1953: 106–20) and Riha (1985). The most comprehensive discussion available in English is probably still that of Small (1909).
- 4 This issue is very interesting because his political theory supplied the economic rationale for the unification of Germany. The current literature presents diverse interpretations and evaluations of List's views. On the one hand there are studies such as Earle's (which was published during the Second World War) where List is presented as a pan-German advocate

(Earle, 1941). On the other, there are those studies where he is presented as the forerunner of the European Union (Roussakis, 1968).

- 5 Understanding the context in which List worked requires some familiarity with the history of Germany and of the German Historical School. Chapter 11 of Oser and Blanchfield (1975) is very useful to that end. For further background regarding the economic unification of Germany see Price (1949). See also the two English biographies of List (Hirst, 1909; Henderson, 1983).
- 6 On the origins of the concept of productive powers see Henderson (1982). One of the referees of this article suggests that important exponent of economic nationalism, Heinrich Luden (1778–1847), expressed the concept of productive powers in a similar way to List in his *Handbuch der Staatsweisheit oder der Politik* (Jena: Frommann, 1811). Unfortunately, I could not locate a copy of this book.
- 7 ‘Outlines of American political economy’ is a set of letters originally published as articles in the *Philadelphia National Journal*. The letters were written to Charles Ingersoll, the vice-president of the Pennsylvania Society for the Promotion of Manufactures & Mechanic Arts, during List’s exile in America. More about List’s American period is to be found in his biographies (Hirst, 1909; Henderson, 1983) as well as in Notz (1925).
- 8 *The Natural System of Political Economy* was written during the autumn of 1837 for a contest of the French Academy of Moral and Political Science. The manuscript was finally submitted to the French Academy in the first week of 1838. The Academy decided that none of the twenty-seven manuscripts submitted was worthy of its prize although it did mention three manuscripts as ‘ouvrages remarquables’; one of those three was that by List. The manuscript was discovered in the archives of the Institut de France only in 1925 and was translated into English by Professor Henderson in 1983.
- 9 Marx, unsuccessfully in my view, tried to invalidate this distinction by insisting:

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.  
(Marx, 1845: 285–6)

- 10 My references are to the text which is the most accessible and was included in Hirst’s biography of List. Yet Hirst’s text (1909) includes a proofreading mistake: ‘capital of the matter’ was printed instead of ‘capital of the mind’ (see p. 197 in Hirst’s text, seventh line from the bottom); compare with List’s original text (p. 21) to be found at the British Library.
- 11 The process of accumulation of capital and the process of the division of labour are constrained by the size of the market. A free and open market is crucial for any economic development and thus trade is not a cause of economic development: ‘The carrying trade is the natural effect and symptom of great national wealth; but it does not seem to be the natural cause of it’ (Smith, 1776: 354).
- 12 See List’s emphasis on the importance of human capital and his criticism of Adam Smith and his followers:

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 physician who saves the lives of his patients does not belong to the productive class but, on the contrary, the chemist's boy does so.

(List, 1841: 142)

- 13 Compare: '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' (Bowman, 1990: 239). An interesting criticism to the same effect was raised also by the Scottish-Canadian political economist John Rae (1834).
- 14 On the interaction between nationalism, education and industrial society, see Gellner (1983).
- 15 I chose not to deal with the economic role of the state in the context of security problems because economic liberals and economic nationalists have quite similar positions in this regard. See Earle (1943).
- 16 Collectivism here does not imply any socialist values. Instead, similar to the modern communitarism, List points to the fruitfulness of national cooperation and the convergence of interests between different members of the nation.
- 17 On Smith's neo-pluralist perception of the British politics of his time, see Reisman (1976: 198–211). For similar criticism of Adam Smith's analysis of the social implications of the division of labour, see Arrow:

Smith is touching upon a very deep point. There is more to the story than he has stated, and there are more problems that the division of labour creates than he has indicated for the working of the economy and society. Division of labour increases the value of co-operation, but it also increases the costs of co-operation and can give rise to conflicts. . . . Each individual thus has a different outlook on the world, a different assessment of the way things are – his experiences have been unique.

(Arrow, 1979: 160)

- 18 Classical economic theory as well as the economic discipline are largely power-ignorant On power-ignorance in the discipline of economics see K. W. Rothschild (ed.) *Power In Economics* (London, 1971). Tullock, for example, argued that: 'Economics traditionally has been essentially a study of co-operative behaviour, not interpersonal conflict'. See 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), p. 301. See also S. Strange, 'What is economic power and who has it?', *International Journal* 30 (1975): 222–3.
- 19 Since the problem is far from being adequately resolved even today, it would be unfair to expect List to provide us with a definitive answer to it. Compare:

Among the many questions concerning the accumulation of capital the following has been said to be the most important. According to which rules should choices between direct and indirect processes of production be determined, that is, when can we say that it is efficient to save today in order to increase future consumption?

(Malinvaud, 1953: 233)

Economic theory supplies practical criteria to investment decisions, for example the rate of return on capital, but still there are big gaps in the understanding of investment processes and the moral decisions they involve.

The current economic solutions are now largely expressed in the 'golden rule of capital accumulation' according to which every generation should invest, on behalf of future generations, that share of its income that it would have wished past generations to invest on its own behalf (Niehans, 1990: 460–5). This 'rule' adequately captures the individualistic point of view of contemporary economic theory.

- 20 The ideal of national economy arises with the idea of nations. A nation is the medium between individuals and mankind, a separate society of individuals, who, possessing common government, common laws, rights, institutions, interests, common history, and glory, common defence and security of their rights, riches, and lives, constitute a body, free and independent, following only the dictates of its interests, as regards other independent bodies, and possessing power to regulate the interests of the individuals, constituting that body, in order to create the greatest quantity of common welfare in the interior and the greatest quantity of security as regards other nations. The object of the economy of this body is not only wealth and individual and cosmopolitical economy, but power and wealth, because national wealth is increased and secured by national power. Its leading principles are therefore not only economical, but political too.
- (List, 1827: 162)
- 21 List's conceptions of the role of the state in the sphere of infrastructure of transportation – the construction of roads and railways – is another issue which may equally reveal his views of the economic functions of the state. See Henderson (1983), Kitchen (1978: 48–56) and Earle (1943).
- 22 From List's introduction to *The National System of Political Economy*; see Hirst (1909: 313). Indeed, he claimed that Hungary, whose policy makers legitimize their actions by his theories, adopted a commercial policy which is too protectionist and may harm its economic interests (Hirst, 1909: 95–6). His moderate approach to protection was severely criticized by Manoilescu (1931: 240–51).
- 23 In emphasizing the importance of human capital, List probably could have benefited from and relied on the Cameralists.
- 24 On the background of the general negligence of the study of economic nationalism, the studies of Burnell (1986) and of Seers (1983) stand out noticeably.
- 25 This argument was further elaborated in my article 'The European Union and economic nationalism – from antithesis to synthesis', presented at the Fourth Biennial International Conference of the European Community Studies Association, 11–14 May 1995, Charleston, South Carolina.
- 26 A similar argument, but from the point of view of regional development, was raised by Amin and Thrift: 'We argue that globalisation does not represent the end of territorial distinctions and distinctiveness, but an added set of influences on local economic identities and development capabilities' (Amin and Thrift, 1994: 2).

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