

The Foundation of Mercantile Realism

Friedrich List and the Theory of International Political Economy

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**paper to be presented at the 54th Political Studies Association Annual Conference
5-8 April 2004 - University of Lincoln**

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Friedrich List (1789-1846) is generally seen as one of the central ancestors of a realist approach to international political economy. However, it does not exist any study which examines his work and the impact of his ideas on International Political Economy. This paper offers a systematic analysis of List's theory of political economy. Firstly, it describes List's concept of political economy. Secondly, it offers an analysis of his institutional approach to political economy. Thirdly, the paper discusses List's political-strategic theory of international trade.

The current value of Friedrich List's work lies in his attempt to give a theoretical answer to the emergence of an abstract science of economics. Against all efforts to expel politics from economics, he defends power and politics as integral parts of *political* economy. In addition, his political economy helps us to recognize the continuous importance of the state and national systems of political economy in the world economy. In contrast to any attempts to discuss the world economy in strict separation from international politics, List emphasizes the dependence of international economy on the power and strategies among nation states. Exactly for this reason, he has to be seen as the founding father of a theoretically autonomous approach to international political economy, namely Mercantile Realism. Mercantile realism mainly argues that the economy can not be allowed to run its natural course, if it tends to contradict the national interests (power, security, wealth) of the state. List was the first theorist who introduced systematically the notions of power, national interest, and security into the world of commerce. His Mercantile Realism argues for the primacy of politics over economics. From his perspective, economics is the continuation of politics by other means. In this respect, he formulates a clear alternative to economic liberalism.

1 List and the Realist Tradition in International Political Economy

All current theories opposing the fashionable theses of the retreat of the nation state and the demise of national economies due to economic globalization have Friedrich List (1789-1846) as their acknowledged, or tacit intellectual forerunner¹. Therefore, "the pedigree of thought in international relations merits focused attention not least because ignorance encourages fallacious assumptions about the degree of novelty in theories of our own age".² List stands out as the godfather of all state-centered approaches to political economy, such as economic nationalism, mercantilism, political realism, theories of the developmental state, and state theories of capitalism.

In the last 150 years, List has always represented the "cult figure"³ of those political-economic thinkers, who have doubted the validity of economic liberalism as the only possible route to the wealth and power of nations. In addition, Listian political economy has always served as a kind of remedy against all attempts to eliminate the political dimension from political economy. Finally, List has furthered political realism, as a theory of the state and international competition, in order to overcome its overwhelming focus on military and defense issues. "Indeed, the best treatments of realism's intellectual roots may be found not on its security side (e.g., the literature on balance of power, the security dilemma, or deterrence theory), but rather in its related economic philosophy of mercantilism".⁴ List's theory of political economy represents the first attempt after Adam Smith's "liberal revolution" to combine political realism and mercantilism in order to make sense of international economic relations.⁵ Precisely for this reason, he is undoubtedly the founding father of a theoretically autonomous approach to international political economy, namely "Mercantile Realism"⁶, as "a variant of realism that focuses mainly on the role of economic policy in national strategy".⁷

¹ The most recent biographical study on List, W.O. Henderson (1983): *Friedrich List*. London: Frank Cass mainly focuses on his life as a political activist. Most of the biographical literature on him appeared in Germany during the 1920s and 1950s, see, i.e., F. Lenz (1936): *Friedrich List: Der Mann und das Werk*. München and Berlin: Oldenbourg, C. Brinkmann (1949): *Friedrich List*. Berlin and München: Duncker & Humblot, H. Gehring (1956): *Friedrich List und Deutschlands Politisch-Ökonomische Einheit*. Leipzig: Koehler & Amelang. These German studies are less interested in the systematic value of his work, they are mainly centered on List as an activist for German unification.

² J. Haslam (2002): *No virtue like necessity: Realist Thought in International Relations since Machiavelli*. New Haven and London: Yale University Press, 247. In his chapter 'Balance of Trade' Haslam provides a brief and brilliant history of mercantilist thought and its relevance for political realism.

³ See P. Krugman's unjustified harsh criticism of List's work in his rejoinder to critics of his article on 'Competitiveness as a Dangerous Obsession' in *Foreign Affairs*. July/August 1994, 198-203. In one point Krugman is completely right, namely in classifying the so called pop- or geo-economists as followers of Listian political economy.

⁴ R. L. Schweller (1999): 'Realism and the present great power system: growth and positional conflict over scarce resources'. in E. B. Kapstein and M. Mastanduno (eds.): *Unipolar Politics: Realism and State Strategies after the Cold War*. New York: Columbia University Press, 56.

⁵ J. Kirshner (1999): 'The Political Economy of Realism', in E.B. Kapstein and M. Mastanduno (eds.): *Unipolar Politics*, 69-102 offers instructive attempt how List's ideas can be used for realist analysis.

⁶ I have adopted the term mercantile realism from E. Heginbotham and R. J. Samuels (1999): 'Mercantile Realism and Japanese Foreign Policy', in E.B. Kapstein and M. Mastanduno (eds.): *Unipolar Politics*, 218-260. Instead of Mercantile Realism, it would also be possible to use the term Economic Realism, see, i.e., R.

The central argument of this paper is that List's Mercantile Realism has opened a new dimension in the study of political economy. It shed a new light on political-economic phenomena, which no theorist before him had *systematically* undertaken. The current value of List's work lies in his attempt to give a theoretical answer to the emergence of an abstract science of economics. Against all efforts to expel politics from economics, he defends power and politics as integral parts of *political* economy. In addition, his political economy helps us to recognize the continuous importance of the state and national systems of political economy in the world economy. In contrast to any attempt to discuss the world economy in strict separation from international politics, List emphasizes the dependence of the international economy on the power and strategies among nation states.

Friedrich List's importance in the academic study of International Political Economy has long been recognized⁸, but there is currently no study in existence, which examines the relevance of his work for the analysis and evaluation of international economic relations.⁹ This paper, being part of an ongoing book project, concerning List and the realist tradition in International Political Economy¹⁰, offers a systematic analysis of List's theory of political economy. The first section examines List's attempt to formulate a specifically *political* economy. In the second section, I show why List considers political institutions, particularly the state, as the productive power of any economic system. The third section de-

J. Barry Jones (1988): *Conflict and Control in the World Economy: Contemporary Economic Realism and Neo-Mercantilism*. Brighton: Wheatsheaf Press.

⁷ E. B. Kapstein and M. Mastanduno (1999): 'Realism and State Strategies after the Cold War', in E.B. Kapstein and M. Mastanduno (eds.): *Unipolar Politics*, 3.

⁸ See, i.e., R. Gilpin (1975): *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment*. New York: Basic Books, 20-43, 215-262; R. Gilpin (1987): *The Political Economy of International Political Relations*. Princeton: Princeton University Press, 25-64, 180-190; S. Economides and P. Wilson (2001): *The Economic Factor in International Relations: A Brief Introduction*. London: I.B. Tauris, 34-47; G. T. Crane and A. Amawi (eds) (1997): *The Theoretical Evolution of International Political Economy: A Reader*. Second edition. Oxford. OUP, 5f., 35-54; E. Helleiner (2002): 'Economic Nationalism as a Challenge to Economic Liberalism? Lessons from the Nineteenth Century', in *International Studies Quarterly* 43, 3, 307-329; Y. Namkoong (2000): 'Contending Perspectives of Political Economy: Liberalism and Statism', in *International Area Review*. 3 (2); C. Harlen (1999): 'A Reappraisal of Classical Economic Nationalism and Economic Liberalism', in *International Studies Quarterly*. 43, 733-744. D. Levi-Faur (1997): 'Friedrich List and the Political Economy of the Nation-State', *Review of International Political Economy*. 4 (1), 154-178; D. Levi-Faur (1997): 'Economic Nationalism: From Friedrich List to Robert Reich', in *Review of International Studies*. 23, 359-370. List has definitely gained the status of being the standard reference for college sessions on theories of economic nationalism in any course on International Political Economy.

⁹ Useful older studies on List's system of political economy are A. Sommer (1927): *Friedrich Lists System der politischen Ökonomie*. Jena: Fischer and F. Lenz (1967): *Friedrich List's Staats- und Gesellschaftslehre: Eine Studie zur politischen Soziologie*. Neuwied und Berlin: Luchterhand. Current studies on List's political economy are rather rare. For most of his interpreters List is only of antiquarian interest. See, i.e., the contributions in B. Schefold (ed.) (1990): *Studien zur Entwicklung der ökonomischen Theorie X*. Berlin: Dunker & Humblot, H. Besters (1990): *Die Bedeutung Friedrich List in Vergangenheit und Gegenwart*. Baden-Baden: Nomos and H. C. Recktenwald (ed). (1989): *Friedrich List – Eine moderne Würdigung*. Düsseldorf: Handel und Finanzen. Two exceptions are B. P. Priddat (1998): *Produktive Kraft, sittliche Ordnung und geistige Macht: Denkstile der deutschen Nationalökonomie im 18. und 19. Jahrhundert*. Marburg: Metropolis, 233-259 and K. Tribe (1995): *Strategies of Economic Order: German Economic Discourse, 1750-1950*. Cambridge: CUP, 32-64. My impression is that List should better be interpreted by political theorists since they are much more interested in List's *political* analysis of economic life.

¹⁰ My book will mainly analyze List's influence in political realism, institutional political economy, geo-economics, theories of the development state, and state theories of capitalism.

scribes how List advocates a purely strategic approach to trade policy. In the final section, I attempt to show the relevance of List's Mercantile Realism for the study of International Political Economy.

2 The Struggle for Power and Wealth among Nations – The Concept of Political Economy

The Critique of Liberal Political Economy

Adam Smith and the school of economic liberalism represents List's principal theoretical opponent.¹¹ His central criticism against economic liberalism is that politics does not form an essential part in their understanding of political economy. The main thrust of List's concept of political economy defines the *political* dimension of economic relations. "If ... science is properly called *political economy*, there must be just as much *politics* in it as *economy*, and if there is no *politics* in it, the science has not got the proper name; it is then nothing else but *economy*" (APE, 29)¹². List's whole theory can only be understood from his fundamental claim that Smith and his school of thought have eliminated politics from political economy. In contrast to economic liberalism, he attempts to recover politics from limbo and move it to the center of theoretical concern. However, List considers the rescue of politics not simply as a theoretical problem. He makes clear that any exclusion of politics from economic science will have fatal consequences for nations, namely their decline in national power and wealth.

According to List, the field of political economy is divided into three distinctive spheres: individual economy, cosmopolitical economy, and national economy. Whereas List focuses on the analysis of national economy, Adam Smith and his followers are concerned with the first two spheres of political economy. From List's point of view, *individual* economy analyzes the wealth-creating exchange between private consumers and producers. It only considers the relationship between people as individuals – disregarding the political

¹¹ List's interpretation of Smith's works systematically neglects that it contains to a large extent historical and institutional analyses. In addition, Smith's work also shows traits of political realism, see, i.e., R. Sally (1998): *Classical Liberalism and International Economic Order: Studies in theory and intellectual history*. London and New York: Routledge, 56-60, A. Wyatt-Walter (1996): 'Adam Smith and the liberal tradition in international relations', in *Review of International Studies* 22, 1, January and the classic study of E. M. Earle (1943): 'Adam Smith, Alexander Hamilton, Friedrich List: The Economic Foundation of Military Power', in Ee M. Earle (ed): *Makers of Modern Strategy*. Princeton: Princeton University Press, 117-154. Thus, in some respects, there is no much difference between Smith and List. However, it is an open question how much succeeding generations of economic liberalism have remained in the historical, institutional, and realist paths of Smith.

¹² In this paper I am using the following works of List:

Outlines of American Political Economy (1827/1993). Wiesbaden: Böttiger [APE].

Das Natürliche System der Politischen Ökonomie (1838/1961). Berlin: Akademie-Verlag.

Das Nationale System der Politischen Ökonomie (1841/1950). Jena: Fischer.

The National System of Political Economy (2000). trans. by S.S. Lloyd, Roseville: Dry Bones Press.

and historical setting in which they operate. *Cosmopolitical economy* or economy of mankind, takes the whole world, as united by commerce and international law, as its starting point. To a certain extent this results from the extension of private exchange relations to the global level. "The object ... of cosmopolitical economy is to secure to the whole human race the greatest quantity of the necessities and comforts of life" (APE, 27). From this cosmopolitical perspective, an individual living in a particular nation, viewed solely as a part of mankind, has no particular interest therein that wealth and productive powers should be increased in his own state rather than in any other. "Nor is mankind interested which spot of the earth, or which people excels in industry; it is benefited by every increase of industry, and restrictions are as obnoxious to mankind at large, as restrictions of the free intercourse between the twenty-four United States would be injurious to the wealth and productive powers of this nation" (APE, 27). In List's reading of the *Wealth of Nations*, Smith does not attach any economic role to the nations. The world economy functions as if there were no states and no competing national interests. To put it differently, economic liberalism is impotent when confronted with the phenomenon of a plurality of nations. Its "theory provides neither for particular countries nor for particular people" and it does "not at all recognise the fracture of the human race into nations" (APE, 27).

According to List, Smith's "fundamental error" is that he "confounds cosmopolitical and individual economy with political economy" (APE, 39).¹³ "Economy of individuals and economy of mankind, as treated by Adam Smith, teach by what means an individual creates, increases and consumes wealth in society with other individuals, and how the industry and wealth of mankind influence the industry and wealth of individuals" (APE, 25). In its analysis of economic relations, Smith's political economy only recognizes the individual and the global level. In this respect Smith's system of political economy is a product of the age of cosmopolitism.

Freedom throughout the whole globe, eternal peace, rights of nature, union of the whole human family, etc., were the favourite subjects of the philosophers and philanthropists. Freedom of trade throughout the whole globe was in full harmony with those doctrines. Hence the success of Smith's theory (APE, 51).

Thus Smith's political economy is a direct outcome of the universalism of Enlightenment philosophy, i.e. the age before the discovery of the division of the world into a plurality of nations.

However, List fully acknowledges Smith's great contribution to individual and cosmopolitical economy.

The fundamental principles of the science could only be discovered by his researches in the economy of individuals and of mankind. His error consists in not adding to those general principles the modifications caused by the fraction of the human race into national bodies, and in not adding to the rules the exceptions, or to the extremities the medium member (APE, 23f.).

¹³ List differentiation between a political and cosmopolitical perspective is further developed in his *National System II*, 6-21 and *Das Nationale System der politischen Ökonomie*, pp. 65f. (Introduction).

List is far from rejecting Smith's work entirely, he only restricts its validity to the first two spheres of political economy, namely individual and cosmopolitical economy.¹⁴ Contrarily, List's version of political economy is sandwiched between individual and global economy. "Individual economy is not political economy, and political not cosmopolitical economy" (APE, 139). In his view, if political economy had to confine its research exclusively to these two fields, it would not be complete. Only *national economy* is able to take the *political* dimension of economic activity into account.¹⁵ From List's perspective, Smith and his school are only interested in developing individual and cosmopolitical economy. They neglect "the different state of power, constitution, wants and culture of the different nations" (APE, 21). Smith's book on the *Wealth of Nations* is a mere treatise on the question: "how the economy of individuals and of mankind would stand, if the human race were not separated into nations, but united by a general law and by an equal culture of mind?" (APE, 21). Smith and his followers are practicing political economy as if there were a congruence between the interests of nations and the interests of mankind – as if the world were already united by a political union.

List describes the liberal economic system as philosophical, since it corresponds to the ideal of perpetual peace and the rule of law among nations. The liberal concept of "world economy"¹⁶ assumes "a universal union or confederation of all nations as the guarantee for an everlasting peace" (National System II, 10). Based on this liberal assumption "there would be no reason for separating the interest of a certain space of land, and of a certain number of human beings, from the interests of the whole globe and of the whole race. There would be no national interest, no national law contrary to the freedom of the whole race, no restriction, no war. All would flow its natural current" (APE, 21f.). This philosophical position, argues List, is a "postulate of reason", which is as such unavoidable.¹⁷ It transcends all differences among nations achieving a legal and economic universalism. List is convinced that the philosophical approach to economic relations, aiming at the universal rule of law and commerce, must be the guiding light for all political and economic thinking.

¹⁴ *National System II*, 10.

¹⁵ The accusation that economic liberalism has eliminated the political and national element in favor of the individual and cosmopolitical element of political economy was a recurrent theme in the German historical school of economics, see very forcefully W. Hennis (1988): 'A science of man'. Max Weber and the political economy of the German historical school', in his *Max Weber: Essays in Reconstruction*. London: Allen and Unwin. Whereas the older and younger historical school focused on the ethical and historical dimension of economics, List was preoccupied in emphasizing the *political* dimension of political economy.

¹⁶ Unfortunately, the English translation has omitted List's concept of "world economy".

¹⁷ In his introduction to *Das Nationale System der politischen Ökonomie*, pp. 52-55 List differentiate three dimensions of political economy. In the first, *philosophical* dimension the imperative is to achieve a universal union of all nations under a common law. The second, *political* dimension demands the maintenance and accumulation of power, wealth, and culture of every nation. His third, *historical* dimension mediates between the two other dimensions. It takes as its starting point the plurality and inequalities of nations. But it also attempts to achieve the same political, economic, and cultural situation in every nation as the guiding light of all political action. List makes clear that all regulations and restrictions of free international markets do only have one aim, namely to ensure the same level of political and economic development in each nation. They are means to gain freedom. He explicitly criticizes mercantilism in focusing exclusively on the political or national dimension. In his opinion, mercantilism completely ignored the cosmopolitical or philosophical dimension of political economy (see section four). I think that List stands at the nodal point of two powerful historical epochs, namely the age of liberalism and the age of nationalism, see also W. Röpke *Die Gesellschaftskrisis der Gegenwart*. Erlenbach-Zürich: Eugen Rentsch Verlag, 93-103.

The highest ultimate aim of rational politics is [...] the uniting of all nations under a common law of right, an object which is only to be attained through the greatest possible equalisation of the most important nations of the earth in civilisation, prosperity, industry, and power, by the conversion of the antipathies and conflicts which now exist between them into sympathy and harmony. But the solution of this problem is a work of immensely long duration" (National System III, 96).

However, as long as there exists a plurality of nations and political- and economic inequalities among them, the philosophical perspective has to be complemented by a specifically *political* aspect.

The Concept of National Political Economy

According to List, Smith has lost sight of what the title of his book, *Wealth of Nations*, proclaimed to analyze. Contrary to Smith's cosmopolitical economy, List strives to include the national principle in the political economy. As long as the world is divided into a plurality of nations with distinct and differing interests, traditions, laws etc., there is still the possibility that nations have to "fear for their independence, power and wealth, from the measures of other nations" (APE, 23).

List's central concept of political economy represents the nation. "I describe *nationality* as the characteristic difference of my system. My whole system is based on the nature of *nationality* as the link between *individuality* and *humanity*".¹⁸ In consequence, "to complete the science [of political economy, E.B.] we must add the principles of national economy" (APE, 29). Political economy as national economy is only possible in an age in which nations are the main political actors. It substitutes "the general and vague term 'society' for the distinct and definite term 'nation'" (National System II, 95).¹⁹ The rise of the nation state and the formation of an economically united nation, constitutes the historical dividing line between Smith and List.

The idea 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 interest, 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 (APE, 30f.).

In recognizing the existence of a plurality of nations with their distinct interests, List modifies economic relations in accordance with these special interests.²⁰ His theory of political economy does not take the individual as the starting point and aim of analysis. In

¹⁸ *Das Nationale System der politischen Ökonomie*, p.40 (author's preface).

¹⁹ According to List, Smith and economic liberalism exclude politics, state power, and the nature of nations from political economy. Everything becomes 'society', i.e. co-existing individuals, *National System III*, 25-27.

²⁰ *National System II*, 9.

conceptualizing political economy in terms of the nation, nation state and national interest, he becomes the first and, at the same time, the most significant, political economist in the age of nationalism. According to List, every national economy is limited and should be autonomous. It is *limited* because every national economy has finite boundaries, beyond which lie other national economies. The world is divided into nations, each with its own history, character, territory and destiny. No national economy is coterminous with mankind. It should be *autonomous* from other national economies, as long it is interested in the maintenance and increase of its national power and wealth, i.e. as long it has an interest in its continued existence.

As long as the division of the human race into independent nations exists, political economy will as often be at variance with cosmopolitical principles, as individual economy is at variance with political economy. In this present state of things, a nation would act unwisely to endeavour to promote the welfare of the whole human race at the expense of its particular strength, welfare and independence. It is a dictate of the law of self-preservation to make its particular advancement in power and strength the first principles of its policy, and the more it is advanced in freedom, civilization, and industry, in comparison with other nations, the more it has to fear by the loss of its independence, the stronger are its inducements to make all possible efforts to increase its political power by increasing its productive powers, and vice versa (APE, 95).

Since the world is still characterized by the plurality of independent nation states, political, i.e. national interests, may come into conflict with the philosophical principle of universalism. Since the nation is the source of all political power, loyalty to the nation overrides all other loyalties and individual interests may in certain situations be subjected to political interests. The "acknowledgement of the true character of a nation [...], and all the consequences of the division of the human race into nations [...] overthrow the whole old system [economic liberalism, E.B.]" (APE, 87). As soon as the nation becomes the center of political economy, liberalism is transcended. From this point of view, the primary aim of politics is the maintenance and increase of national power, wealth, and independence.²¹ This aim becomes the "law of self-preservation" because national power and wealth are relative to that of other nations. States are permanently embroiled in their efforts to over-trump their competitors in the political and economic field.

List's conceptualization of the nation as such, rejects any criticism, which conceives the nation as a pure grammatical construction without any real substance in practice. List quotes from one of his liberal counterparts, Thomas Cooper's *Lectures on the Elements of Political Economy* (1826)²², to expand on his own understanding of the concept of the nation. Cooper argues:

"Hence the moral entity – the grammatical being, called a nation, has been clothed in attributes that have no real existence, except in the imagination of those who metamorphose a word into a thing, and convert a mere grammatical contrivance into an existing and intelligent being. It is of great importance that we should be aware of this mistake, to avoid limitation, description and periphrasis – grammatical contrivances and no more; just as we use the sign's and letters of Algebra to reason with, instead of the more complex number they represent" (APE, 88f.).

²¹ See also *National System* II, 10.

²² Thomas Cooper (1826): *Elements of Political Economy*. Columbia, SC: Sweeny.

Cooper's central claim of the nation as a grammatical construction, existing only in the imagination of those who believe in it, is nothing but one of the central thesis of the current constructivist approaches to the phenomenon of nationalism. Contrary to Cooper, List emphasizes the fundamental difference between a grammatical construction and a moral, or juristic person. A juristic person can be "a chartered society, a plurality of men, possessing common rights and obligations, common interests and institutions" (APE, 89). Indeed, as List explains,

a grammatical being is a mere name, signifying different things or persons, being only united by the use of language. [...] The names bar, yeomanry, mob are such grammatical beings; the persons denoted by this name possess neither social rights nor social obligations; they cannot prosecute a law suit under this name before a court, nor can they be accused.

But the American nation can, as Mr. Cooper may learn from the title of many indictments. A being which elects presidents and representatives, which possesses a navy, land, and debts; which makes war and concludes peace; which has separate interests respecting other nations, and rights as well as obligations respecting its members, is not a mere *grammatical contrivance*; it is not a mere *grammatical being*; it has all the qualities of a *rational being* and real existence. It has a body and real possessions; it has intelligence, and expresses its resolution to the members by laws, and speaks with its enemy – not the language of individuals, but the mouth of cannon (APE, 89).

A nation becomes a rational actor with interests of its own due to its quality as a state. Military power, territory, law, finance, the capacity to wage war and conclude peace, represent the substance of the nation. List views the nation state as an autonomous actor, which cannot be reduced to some summation of private desires. The objectives sought by the state can be called 'national interests'. The nation state cannot be reduced to any individualistic understanding, it transcends the methodological individualism of liberal political economy towards a methodological institutionalism.²³

Apart from the national principle, List emphasizes the role of power in differentiating political economy from cosmopolitical- and individual economy.

The idea of *power* is neither applicable to an individual, nor to the whole human race. If the whole globe were to be united by a general law, it would not be of any consequence to a particular people, as regards its freedom and independence, whether it is strong or weak in population, power and wealth (APE, 27).

[...] because anyone strives only to retain without acquiring he must come to grief, for every nation which makes no forward progress sinks lower and lower, and must ultimately fall (National System I, 12).

Power is neither a concept for designating purely private exchange on the individual, or global level. It is rather a relational concept in which power, wealth and population are seen in relation to other nations. "In the relations, sir, between two rival nations, not to grow in strength and to become weak are synonymous. If England grows twice as powerful as she is, whilst you remain stationary you become twice as weak as England" (APE, 125). In international politics the most decisive feature in the struggle among nations, is the rise

²³ See the following section on List's institutional approach to political economy.

and fall of *relative* power. States are always oriented towards the increase of their own political and economic power in relation to its major competitors. In focusing on the relative power among nations, List's political economy extends towards an *inter-national* political economy.

Whereas Smith and the liberal tradition seek to eliminate the political factor from political economy and economic relations, List advocates its recovery for economic analysis.

National economy teaches by what means a certain nation, in her particular situation, may direct and regulate the economy of individuals, and restrict the economy of mankind, either to prevent foreign restrictions and foreign power, or to increase the productive powers within herself – or, in other words: How to create, in want of a lawful state, within the globe of the earth, a world in itself, in order to grow in power and wealth to be one of the most powerful, wealthy, and perfect nations of the earth, without restricting the economy of individuals and the economy of mankind more than the welfare of the people permits (APE, 25).

List's conceptualization of political economy necessarily becomes international political economy, due to his concept of politics. In his opinion, politics is characterized by anarchy among states, i.e. the absence of a world government. Nations are opposed to each other

in their natural liberty, and consequently can only under the existing conditions of the world maintain self-existence and independence by their own power and resources. [...] An infinite difference exists in the condition and circumstances of the various nations: we observe among them giants and dwarfs, well-formed bodies and cripples, civilised, half-civilised, and barbarous nations; but in all of them [...] exists the impulse of self-preservation, the striving for improvement which is implanted by nature (National System II, 71).²⁴

There is no global law or government, which would be able to unite all nations and to settle all disputes between them. Politics is still ruled by conflicting national interests, and nations attempting to evade the power and influence by other nations. International politics is characterized by hierarchies and inequalities of power, wealth and civilization. A political economy which would attempt to apply seemingly general principles to this situation, would present an entirely inadequate picture of political and economic reality. Equally, policy recommendations based on such general and abstract principles, would definitely ruin national economies.²⁵

In List's theory, the economic policy of states is a direct outcome of the anarchic structure of international politics. The domestic and foreign economic policy of a nation are aimed at the accumulation of wealth and power vis-a-vis competing nations. In relating political economy and economic policy to the anarchic structure of international politics, the novelty and specificity of List's political economy becomes apparent. Political economy and economic policy are less concerned with domestic problems and the coordination of private interests. Rather, they are subject to the necessities of the power and economic position of a nation, in relation to its competitors. The overriding aim of political economy and

²⁴ The English translation is here wrong. It speaks of 'national liberty' whereas the German original uses 'natürliche Freiheit' (natural liberty) as the condition among states.

²⁵ See section four.

economic policy is to contribute to the political strength and economic wealth of a particular nation, in comparison to its competitors. However, this political aim does not mean to strangle all private initiative, or to cut off all international economic exchange. List is fully aware that without them, the accumulation of national power and wealth, would be impossible. Yet, the question whether private initiatives within states and global economic relations are compatible with national wealth, is decided, in the final analysis, by the national interest of each state. Therefore, the choice between an interventionist, or a liberal economic policy is not a matter of principle, but a *strategic* question. It is dependent on the particular situation of a nation, i.e. its degree of political power and stage of economic development²⁶. List's primacy of politics over economics similarly constitutes the dominance of objective factors, such as the international power position of a nation and its stage of economic development, over private political or economic interests. Thus to a certain extent, List formulates a structural-realist theory of international political economy.

Power and Wealth

It should be clear at this stage that List regards the nation or nation state, as his starting point of economic analysis. Since nations only exist in plurality, his political economy interprets economic relations in light of the hierarchies and inequalities among nations. From the outset, political economy is *inter-national* political economy. Every nation attempts to preserve its integrity and defends its national interest vis-a-vis other nations. Increasing external security and internal wealth become the main objectives of the state. In contrast to economic liberalism, List argues that political economy should not only be devoted to the problem of how nations may gain wealth, but also how they may achieve, keep and extend power. Wealth and power form an inseparable unity.

The object of the economy of this body is not only wealth as in individual and cosmopolitical economy, but power and wealth, because national wealth is increased and secured by national power, as national power is increased and secured by national wealth. Its leading principles are therefore not only economic, but political too. The individuals may be very wealthy; but if the nation possesses no power to protect them, it and they may lose in one day the wealth they gathered during ages, and their rights, freedom, and independence too (APE, 31).

The analysis of the interrelationship between national power and national wealth stands in the center of List's political economy: power secures wealth and wealth increases power. From this perspective, wealth is a source of power and power, since it preserves accumulated wealth, is a source of wealth. Power and wealth are simply two sides of the same coin.²⁷ However, in the final analysis, List defends the primacy of power over wealth, i.e., of politics over economics.

²⁶ List's theory of the stages of economic development, see below

²⁷ In emphasizing the close relationship between national power and economic strength, R. Gilpin (1981): *War and Change in World Politics*. Cambridge: CUP and P. Kennedy (1987): *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000*. New York: Random House follow Listian, i.e. Mercantile Realist, ideas. In contrast to both, J. J. Mearsheimer's treatment of wealth and power is a clear case of traditional realism with an exclusive focus on military issues, see J. J. Mearsheimer (2001): *The Tragedy of Great Power Politics*. New York and London: W.W. Norton, 55-82.

Power is more important than wealth. [...] Simply because national power is a dynamic force by which new productive resources are opened out, and because the forces of production are the tree on which wealth grows, and because the tree which bears the fruit is of greater value than the fruit itself. Power is more important than wealth because a nation, by means of power, is enabled not only to open new productive sources, but to maintain itself in possession of former and of recently acquired wealth, and because the reverse of power – namely feebleness – leads to the relinquishment of all that we possess, not of acquired wealth alone, but of powers of production, of our civilization, of our freedom, nay, even of our national independence, into the hands of those who surpass us in might [...] (National System I, 59).

List recognizes that Smith in his discussion of the Navigation Act also advocates the primacy of security over opulence.²⁸ However, Smith's discovery has no systematic significance for his political economy. Beyond this systematic critique, List also accuses Smith of formulating his theory without considering the central role of national power in the historical development of English greatness and wealth. "England by the policy which she pursued acquired power, and by her political power gained productive power, and by her productive power gained wealth. [...] as a result of this policy, power has been added to power, and productive forces to productive forces" (National System, 59).²⁹ List's theory of political economy centers precisely on the interrelationship between national power, productive forces and wealth.³⁰

Consequently, political economy has to include economic *and* political analysis. It is the study of the logic of wealth creation and of the logic of power accumulation. There is no doubt that also Smith emphasizes the close relationship between power, security and wealth. Yet, neither power, nations or the structure of international politics, have any systematic place in his political economy. The historical difference between Smith's and List's systems of political economy, lies in the rise of the nation state after the French Revolution. Whereas Smith represents the culmination of the age of liberalism in the field of political economy, List stands for the rising age of nationalism and the ascendancy of the nation state.

Summary

In analyzing the economic relations in light of the national principle and the anarchic state system, List defends a power and conflict-centered, or realist approach to political economy. His main target is what he calls the 'cosmopolitical economy' of Adam Smith and his followers. List describes their approach as a typically philosophical perspective, since it assumes a globally unified society, in which nation states are finally eliminated. In the liberal approach to economic life, commerce and capital create a bond of union and friendship of mankind, aiming at a universal confederation of states, perpetual peace, harmony of

²⁸ "The act of navigation is not favourable to foreign commerce, or to the growth of that opulence which can arise from it. ... As defence, however, is of much more importance than opulence, the act of navigation is, perhaps, the wisest of all the commercial regulations of England." A. Smith (1776): *The Wealth of Nations*, IV, ii, 30.

²⁹ List's defence of the primacy of power over wealth in light of English history is also developed in *National System* II, 83.

³⁰ List's theory of productive power, see next section.

interests and universal rule of law. In Smith's political economy, as List argues, the world appears as a political and economic unity integrated by law, morality and free trade. The world economy in Smith's theory only knows the world society and the individuals. It cannot purport to say anything about the main political and economic actors, the nation states and their respective national interests.

In sharp contrast to the thesis of a world economy, List defends his political or national perspective. The world is still divided in competing nation states with conflicting national and security interests. A variety of national systems of political economy and a plurality of nations, with different stages of economic development and often diverging trade systems, characterize the shape of international relations.

3 The Political Constitution of Markets – The Institutional Approach to Political Economy

In the previous section I have discussed List's strict dichotomy between Smith's *cosmopolitical* economy and his own *political* economy. List uses a further dichotomy to differentiate his approach from that of economic liberalism. Whereas the latter mainly argues from an *individualist* perspective, List formulates his approach as an *institutional* political economy.

The Theory of Productive Powers or Institutions as the Immaterial Capital

Like Adam Smith before him, List is interested in the sources of the wealth of nations, i.e. economic growth. According to List, however, Smith and his followers identify the accumulation of material- or exchange value ("capital of matter") as the basis of the prosperity of nations. Their focus is to "gain matter, in exchanging matter for matter (APE, 57). In focusing on the material wealth, they forget entirely to take the causes of this material wealth into account.

Adam Smith's celebrated work is entitled, 'Nature and Causes of the Wealth of Nations'. The founder of the prevailing economic school has therein indicated the double point of view from which the economy of nations [...] should be regarded. The causes of wealth are something totally different from wealth itself. 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; if he, however, possesses the power of producing a larger amount of valuable articles than he consumes, he becomes rich.

The power of producing wealth is therefore infinitely more important than wealth itself (National System II, 22).

As Smith and his school confound cosmopolitical principles with political principles, they necessarily misunderstand the decisive sources of wealth. In contrast to their "materialism", as List classifies the liberal approach, he conceptualizes the "capital of mind", or the

"productive powers", as the non-material preconditions of economic development and growth. From List's perspective, there are two different and autonomous theories involved in the analysis of economic phenomena. The liberal approach formulates a cosmopolitical economy with its corresponding theory of exchange values. In contrast to this approach, List's own system develops a political economy with its theory of productive powers.

[...] political economy is not, in our opinion, that science which teaches only how values in exchange are produced by individuals, distributed among them, and consumed by them; [...] a statesman will know and must know, over and above that, how the productive powers of a whole nation can be awakened, increased, and protected, and how on the other hand they are weakened, laid to sleep, or utterly destroyed; and how by means of those national productive powers the national resources can be utilised in the wisest and best manner so as to produce national existence, national independence, national prosperity, national strength, national culture, and a national future" (*National System* III, 34f.).

The productive powers and the causes of their rise and fall within a nation should be the principle object of any political-economic inquiry. Yet, what are these productive powers, as the real source of the wealth of nations? For List, they include liberal political institutions, rule of law, public jurisdiction and legislation, public control of government administration, morality, security of life and property, political freedom and liberties, internal security, peace, national unity and power, autonomy on the local level, infrastructure, knowledge and education, and above all, the state as the provider of the framework of markets.³¹

The industry of a people is, according to them [Smith and Say, E.B.] restricted to the amount of capital, or stock of produced matter; they did not consider that the productiveness of this capital depends upon [...] the intellectual and social conditions of a nation (APE, 57).

It is not true that the productive power of a nation is restricted by its capital of matter. Say and Smith having only in view the exchange of matter for matter, to gain matter, ascribe to the matter an omnipotent effect which it has not. Greater part of the productive power consists in the intellectual and social conditions of the individuals, which I call capital of mind (APE, 63).

Thus, whereas Smith and his followers identify capital with the accumulation of goods and money, List understands capital as an intellectual and institutional capacity, or precondition to create wealth. The productivity and economic growth of a nation depends on the education and training of the people and the institutional quality of the political and legal framework of markets. "So can a nation with the same existing matter improve its productive power tenfold in improving its social and intellectual conditions" (APE, 63). For this reason, List, in contrast to Smith, says that lawyers, physicians, preachers, judges, lawgivers, administrators, literary men, writers, instructors, musicians and players may increase the productive powers of a nation.

³¹ See, e.g., *Das Nationale System*, 66; *National System* I, 132f. List also discusses Smith's discovery of the division of labor as the source of national wealth. List's final position is that both the material and the productive powers have to be seen in their interrelation. It is the task of policy to integrate both of them (*National System* II, 65, 41-56).

Lawyers, lawgivers, administrators, judges, improve the public condition; preachers, instructors, writers, printers, improve the mind and morality of the people; and even those men who only produce honest pleasures to the people, are beneficial in begetting enjoyment and recreation for those who need to acquire new strength for new exertions (APE, 81).

But, as List argues, these professions can only contribute to the productive power of a nation as long they are part of a liberal political and legal system, like in the United States. Contrarily, in Spain the lawyers, preachers, judges etc., were only interested in keeping down the people, its social condition and morale. They only reflect the despotic form of government. "However industrious, thrifty, inventive, and intelligent, individual citizens might be, they could not make up for the lack of free institutions. History also teaches that individuals derive the greater part of their productive powers from the social institutions and conditions under which they are placed" (National System I, 132f.). In the final analysis, it is the institutional quality and the individual behavior developing within an institutional framework, which are responsible for the wealth and power of nations.

There exists in the United States a degree of industry, of instruction, of emulation, of enterprising spirit, of perseverance, of unrestricted intercourse in the interior, an absence of all hindrances of industry, a security of property, a market and consumption of necessities and comforts of life, and a freedom, such as are not to be found in any other country. If the government of Spain could not by any arrangements whatever raise in a hundred years ten prosperous manufacturing establishments, and if raised could never protect them, this country can raise in a few years a hundred, and give them every kind of protection (APE, 65).

Spain must first get rid of her superstition, her absolute power, and her cloisters. There must exist first a certain stock of freedom, of security, of instruction, etc. to foster manufactories, a stock wherewith the United States are amply provided (APE, 77).

In discussing the historical cases of Venice, the Hanseatic cities, Holland, England, France, and America, List concludes that the material and ideal forms of capital may develop a mutually self-enforcing dynamic. In these cities and nations,

we find the powers of production, and consequently the wealth of individuals, growing in proportion to the liberties enjoyed, to the degree of perfection of political and social institutions, while these, on the other hand, derive stimulus for their further improvement from the increase of the material wealth and of the productive power of individuals (National System I, 132).

Manufacturers and factories are simultaneously the basis *and* the result of civil liberties, enlightenment, science and arts.³² In List's opinion, in historical practice, the material, moral, social and individual factors responsible for producing continuous economic growth and national power, form an inseparable unity.

In emphasizing the necessity of free political and legal institutions and social conditions for economic growth, it becomes evident that List builds upon the liberal tradition of Smith and Hume. However, in contrast to both theorists, List promotes an instrumental view of liberal institutions and liberal economic policy. In so far as liberal institutions and liberal

³² See *National System I*, 7f, 63; *II*, 31.

economic policy guarantee national power and wealth, they can be accepted without hesitation. But as soon as they are in danger of leading to a decrease in national strength and prosperity, liberal institutions and liberal economic policy should be restricted by government intervention and regulation.³³

In List's political economy, the wealth of nations ultimately depends on the productive powers, or the quality of institutions. "Although laws and public institutions do not produce immediate values, they nevertheless produce productive powers, and [Jean-Baptiste] Say is mistaken if he maintains that nations have been enabled to become wealthy under all forms of government and that by means of laws no wealth can be created" (National System II, 233). List emphasizes that only those forms of government and public administration which correspond to the material and moral situation of nations, may be seen as the best forms of government. Despite this historical relativity, he makes clear that only free and stable institutions provide the necessary framework for wealth.

For in a state of highly advanced civilisation, it is not so important that the administration should be good for a certain period, but that it should be continuously and comfortably good; that the next administration should not destroy the good work of the former one. [...] Nations have made some progress under all forms of government. But a high degree of economic development has only be attained in those nations whose form of government has been such as to secure to them a degree of freedom and power, of steadiness of laws and of policy, and efficient institutions" (National System III, 10f.).

In spite of his polemic against economic liberalism, there is no significant difference between List and Smith. In emphasizing the importance of liberal institutions as the precondition of economic growth, both theorists may be seen as forerunners of institutional and constitutional political economy.³⁴

However, in List's conceptualization, the potential conflict between the material- and immaterial side of wealth, is addressed. "The nation must sacrifice and give up a measure of material property in order to gain intellectual or social forces; it must sacrifice some present advantages in order to insure to itself future ones" (National System II, 34f.). As a consequence, List justifies state intervention in markets and government regulation of the economy, even when they tend to decrease the material gain of a nation. As long as state intervention and regulation guarantee long-term national interests, such as independence,

³³ See fourth section

³⁴ List's view of political institutions as immaterial capital is similar to that of H. de Soto (2000): *The Mystery of Capital: Why Capitalism triumphs in the West and fails everywhere else*. New York: Basic Books. However, in contrast to current institutional economics (see, i.e., D.C. North (1990): *Institutions, Institutional Change and Economic Performance*. Cambridge: CUP) and constitutional political economy (see, i.e., James M. Buchanan (2000): *The Reason of Rules: Constitutional Political Economy. The Collected Works. Vol. 10*. Indianapolis: Liberty Fund), List and the Historical School of Economics advocate a methodological collectivism in which the state functions as the central guarantee of functioning markets. In their view, the state is autonomous from the interests and private exchange of individuals. It has ends other than those of its individual members and is a separate decision-making unit. State decisions are, in the final analysis, independent from individual decisions. Ultimately, the difference between Listian institutional political economy and liberal or neo-classic institutional economics is based on a different concept of the state. H. Peukert (1993): *Die neue Institutionenökonomik und die jüngere historische Schule: Zwei Wege zu einer neuen wirtschaftswissenschaftlichen Theorie der Institutionen*. Ms. shows convincingly that both forms of institutional economics are complementary.

power and a sufficient base of national key industries, they are justified; no matter how expensive it will be to defend them. In other words, the maintenance and development of the institutional- and political setting of a nation – its productive powers, or immaterial capital – always overtrumps purely materialistic calculations, since they are the real base of national wealth and power.

According to List's perspective economic growth always necessitates the development of the productive powers of a nation. Yet, he believes that there is no single path to achieving economic success, since this depends primarily on the institutional and historical circumstances of every nation.

In national economy, the effect of measures and of events, of the condition and of the arts of individuals, is as different as the circumstances are in which the different nations are existing; and all that in general can be said is this, that if they are promoting the productive powers of the nation, they are beneficial; if not – not. Every nation must follow its own course in developing its productive powers; or in other words, every nation has its particular *Political Economy* (APR, 75; 83).

List's central thesis of the plurality and difference of nations must necessarily come to the conclusion that every nation has its particular political economy, due its specific historical path of development and institutional setting. There are no generalizations deducible from abstract economic assumptions. What can be done to improve the economic performance of a nation, is dependent on its prevailing historical and institutional legacy. Yet, it remains important that the nation *has* to improve its productive powers, it cannot solely rely on the market and the private initiative of the individuals or industries.

Governing the Market – The Role of the State in the National Economy

List's arguments to justify government intervention in the market are based on the gap of knowledge between individuals and states.³⁵ Individuals, either as consumers or producers, lack the long-term and general perspective for the development of productive powers of their nation. There is no doubt that individuals know best what should be purchased, invested, or saved in order to satisfy their needs, or to accumulate their wealth. According to List, it is equally beyond any doubt that "the private interest of every individual is better able than State regulations to incite to production and accumulation of wealth" (National System II, 64f.). However, as List argues, this individualist or particularistic perspective is far from being identical with the national perspective: He is far from believing that the unrestricted pursuit of private gain will ultimately lead to national wealth. In his view, the 'invisible hand' always needs compensation by the 'visible hand' of the state, since the accumulation of wealth ('material capital') does not automatically lead to the preservation and

³⁵ List's argument can be contrasted with that of Friedrich August von Hayek. Hayek claims that because no government is able to concentrate all socially dispersed knowledge in its hands, it has to confine its role to setting the framework of free markets. Only 'competition as a discovery procedure' will solve the central problem of every modern society, namely to coordinate social knowledge effectively and to adopt to changing circumstances, see F. A. Hayek (1979): *Law, Legislation and Liberty. Vol 3: The Political Order of a Free People*. Chicago: University of Chicago Press, 67-77.

aggregation of productive powers ('capital of mind').³⁶ The increase of material wealth should accordingly best be left to the individuals and the free play of the market forces. However, as soon as the maintenance and extension of productive power is concerned, the state must step in. If necessary, the state has to sacrifice material wealth to gain or retain the productive powers of the nation.

An individual only provides for his personal and family purposes, he rarely cares for others or for posterity; his means and views are restricted, rarely transgressing the circle of his private business; his industry is confined by the state of society in which he lives. A nation provides for the social wants of the majority of its members, as far as the individuals cannot satisfy these wants by their private exertions; it provides not only for the present, but for future generations; not only for peace but for war; its views are extended not only over the whole space of land it possesses, but over the whole globe (APE, 85).

According to List's theory, the nation state is mainly concerned with those issues to which individuals, in their efforts to accumulate private wealth, are consistently blind. The center of international, future, military, and societal responsibility, lies with the nation state. These issues have to be considered by the state, since they represent the non-material preconditions of economic growth and individual prosperity. The state is the embodiment of the productive powers, or intellectual capital of a nation. In the event of conflict between national and individual interests, the nation state should attain primacy over private interests.

An individual, in promoting his own interest, may injure the public interest; a nation, in promoting the general welfare, may check the interest of a part of its members. But the general welfare must restrict and regulate the exertions of the individuals, as the individuals must derive a supply of their strength from social power. Individuals without the regulations of a community are savages; and the principle of letting every individual alone is the most flourishing amongst the Indians (APE, 85).

State intervention may curb or even damage the interests of particular individuals, yet, it promotes and protects the general welfare of all. Individuals do not attain maximum advantage from the state of natural liberty, in which the government has only a minimal role and the free forces of the market regulate everything. On the contrary, governmental rules, regulations and restrictions turn 'savages' in individuals. The state and its interventions into the economy are the institutional preconditions of private wealth and individual personality. The liberal formula of 'minimal state and free markets' would destroy both. Yet, List is far from promoting the image of a 'benevolent despot' model of government³⁷, in which individual freedom is completely eliminated.

Here, too, the truth lies in the middle. 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; but it is no less bad policy to let those things alone which can only be promoted by interfering social power.

³⁶ See also *National System* III, 26f.

³⁷ The 'benevolent despot' model of government, see J. M. Buchanan (1999): *The Logical Foundations of Constitutional Liberty. The Collected Works. Vol. 1.* Indianapolis: Liberty Fund, 15f., 72-74, 456 and his (2000): *The Reason of Rules: Constitutional Political Economy. The Collected Works. Vol. 10.* Indianapolis: Liberty Fund, 38-52.

Look around, and you see everywhere the exertions and acts of individuals restricted, regulated, or promoted, on the principle of the common welfare. The commonplace of *laissez faire et laissez passer*, invented by a merchant can therefore only be alleged sincerely by these merchants (APE, 85).

In List's opinion, the difference between a liberal and an interventionist economic policy is not a matter of principle, but rather a practical question concerning the concrete circumstances. The classical liberal battle cry of free markets and limited government is only in the interest of merchants. Common welfare or general interest may demand state intervention and restriction of private initiative. What List distinguishes from liberal political economy is his rejection of the liberal principle that private interests, if left unfettered by government intervention, would necessarily coincide with the public welfare.

This principle would be only true if individual and national interests were never in opposition. But this is not the case. A country may possess many extremely rich men, but the country is the poorer, because there is no equal distribution of property. Slavery may be a public calamity for a country, nevertheless some people may do very well in carrying on slave trade and in holding slaves. Notwithstanding an absence of liberal institutions may be extremely injurious to a full development of the productive powers of a nation, some classes may find their reckoning in this bad state of things. The nation may suffer from an absence of manufacturing industry, but some people may flourish in selling foreign manufactures (APE, 85f.).

List believes that this divergence between private and national interests justifies the existence of a specific national political economy as an academic discipline. Economic exchange among individuals is analyzed and evaluated from a specifically national perspective. The same holds true for the economic exchange among nations. Promoting the welfare of the whole world does not automatically mean the increase of welfare in every nation.

Conditions, events, etc., may be profitable in individual economy for some persons, and injurious to the community; or, on the contrary, they may be injurious to individuals, and prove highly beneficial to the community: *Individual economy is not political economy*.

So – measures, principles can be beneficial to mankind, if followed by all nations, and yet prove injurious to some particular countries, and vice versa. *Political economy is not cosmopolitical economy* (APE, 74).

List rejects the idea of a harmony of interests. There may be such a convergence among individual-, national- and universal aims, but only in a world-state, or a federation of all states. But as long as the world is divided into nations, it would be fatal for any policy to function as if such a final unified world were already in existence. If a nation state is interested in its continued existence, it has to violate individual and universal interests in favor of its own national interest.

Equally disastrous for List would be the withdrawal of the state from any intervention in market and society, and the complete reliance on the self-regulating forces of individuals and groups.

Without interference of national power there is no security, no faith in coined money, in measures and weights, no security for the health of seaports, no security for commerce at sea by the aid of a navy, no interference for the citizens in foreign seaports and countries by Consuls and Ministers, no titles to land, no patents, no copyright, no canals and railroads, no national road. Industry entirely left to itself, would soon fall to ruin, and a nation letting every thing alone would commit suicide (APE, 87).

Government [...] has not only the right, but it its duty, to promote every thing which may increase the wealth and power of the nation, if this object cannot be effected by individuals (APE, 33).

Providing internal and external security, enforcing national standards, maintaining infrastructure, guaranteeing and enforcing property rights are the preconditions for economic growth. In this respect there is no difference between List and Smith. Yet, in the last instance, List believes, it is the state which decides when the individuals and market are no longer able to provide for the power and wealth of the nation. If the spontaneous forces of markets should fail in creating a harmonious situation, then the state is obliged to step in. "Government has a right to restrict individual industry in order to bring to harmony the three component parts of national industry [agriculture, commerce, and manufacture, E.B.]. [...] Government [...] has it in its power to produce this harmony by laws and restrictions (APE, 31f.). Whereas Smith is skeptical about government in favor of the self-organizing forces of private interests, List is skeptical about markets and the private interests. List would immediately concede that governments which intervene in markets, may fail. But this also applies to individuals and private interests. Decisive for him is a prudent mixture of government regulation, promotion and protection on the one hand, and reliance on the spontaneous order of the market, on the other. Everything depends on the political-economic prudence of political leaders in their attempt to govern the market in order to achieve national wealth and strength.

Summary

According to List, economic action or exchange is always embedded in political, legal and social institutions. In his view, political economy cannot be reduced to a pure theory of abstract models and laws of exchange. It has to analyze the institutional architecture of markets. Furthermore, it should not make the individual or the individual property holder as its starting- and end point of analysis, but rather institutions should be at the center of political-economic research. As against the individualist perspective of liberal political economy, List contrasts his own institutional perspective. The productivity of individuals and of industry (economic growth) is only possible under particular institutional frameworks. But institutions are only productive powers when they are based on the freedom of the individual and of the industry. Institutions as such, do not guarantee economic growth – only liberal frameworks can fulfill this role.

List's theory of productive powers attempts to reconcile the principle of liberty with the view of the importance of institutions for economic growth. Yet, in the final analysis, institutions have primacy over individuals (consumers or producers), since only institutions guarantee individual freedom, private property and economic growth. Institutions tran-

scend the short-term, narrow, private interests of individuals and introduce the long-term and general perspective into a national economy. In the event of conflict, private gains have to be sacrificed in favor of national wealth, since institutions are the ultimate precondition of liberty and wealth.

We have seen that the central concern of List's political economy is the increase of wealth and power of a nation. Power and wealth form an inseparable unity. National power is increased and secured by national wealth, as national wealth is increased and secured by national power. But, ultimately, List advocates the primacy of national power and security, since only a powerful state is able to defend the accumulated wealth of a nation against its external and internal opponents. In a nutshell, the state turns out to be the incarnation of the productive powers of the nation, it is the immaterial dimension of capital. The state represents the institutional precondition of economic growth.

4 Economic Power Politics – State Strategies to National Wealth

Economic Statecraft

Whereas the classical literature on the 'reason of state' is mainly interested in the preservation and expansion of the military might of the polity³⁸, in List's political economy the maintenance or increase of national power against other states, always means the growth of national wealth. Consequently, the path to political power should be pursued by creating and promoting industrial and commercial strength. "A nation is independent and powerful in the degree as its industry is independent and its productive powers are developed" (APE, 59).³⁹ Without a manufacturing industry and productive powers a nation becomes dependent and will lose its position of power in the world. Moreover, from List's perspective, industries, civilization and increased freedom belong intrinsically together.

According to List, particularly the state should protect and install those key industries, which are responsible for the future wealth and power of the nation.⁴⁰ From his angle, the

³⁸ F. Meinecke (1957): *Machiavellianism: The Doctrine of Raison d'État and its Place in History*. London: Routledge and Kegan Paul; G. Ritter (1952): *The Corrupting Influence of Power*. Hadleigh: Tower Bridge Publications; J. Haslam: *No Virtue like Necessity*, 17-88; M. Viroli (1994): *From Politics to Reason of State: The Acquisition and Transformation of the Language of Politics*. Cambridge: CUP.

³⁹ See also, *National System* II, 35; III, 83.

⁴⁰ For the key industry argument, see *National System* II, 75f. This aspect of List's Mercantile Realism finds its modern followers among the so-called geo-economists in the 1990s. Their common ground represents the thesis of industrial and technological strength as essential for national power and security vis-a-vis actual and possible competitors. Geo-Economics analyzes economic relations from a power and conflict approach in which the state plays a central role in creating competitive advantages in key industries and technologies, see i.e., J. E. Garten (1992): *A Cold Peace: America, Japan, Germany, and the Struggle for Supremacy*. New York: Fund Books; E. Luttwak (1990): 'From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce', in *The National Interest*. Summer, 17-23; E. Luttwak (1993): *The Endangered American Dream*:

individual producers and the self-regulating mechanism of the market are only concerned with the immediate satisfaction of consumer interests. However, they completely ignore the state's general and long-term interests. At this point, only the state can work towards the realization of national interests. List's living example of active government policy to achieve economic strength and political power, is England.

In the first place, population, capital, and productive skill, have by their nature, the tendency to extend themselves over the whole globe, without the aid and interposition of political power and national interests. [...] English capital of mind and matter is [...] formed by English political power and separate national interests into one mass – effecting the elevation of that island above the whole globe, and changing its natural tendency into the suppression of the manufacturing power of all other nations (APE, 61f.).

He [Adam Smith] falsely maintains that these manufactures have originated in the natural course of things and of their own accord; notwithstanding that in every nation the political power interferes to give to this so-called natural course an artificial direction for the nation's own special advantage (National System II, 132).

Instead of leaving everything to the free play of market forces, England could only gain national power and economic strength through state intervention exercised in the name of national interests. Consequently, in order to counter the English political and economic threat, weaker nations, such as the United States, cannot rely on the principle of free markets.

[English capital, E.B.] cannot be prevented by the skill and industry of the individuals of other nations; a single individual is as unable to overcome the united force of the capital and skill of a whole nation by his individual strength, as an American merchant would be unable to defend his single ship by his own strength against the aggression of the English navy, without the aid of an American navy (APE, 63)

In the international struggle for power and wealth, states have to support, protect, and promote their domestic manufacturers and industries, as their foreign competitors also enjoy the full support of their own governments. To rely on free markets and free trade in such a situation would be tantamount to national suicide.

How to stop the United States from Becoming a Third World Country and how to win the Geo-Economic Struggle for Industrial Supremacy. New York: Simon & Schuster; C. V. Prestowitz (ed.) (1991): *Powernomics: Economics and Strategy after the Cold War.* Washington: Economic Strategy Institute; W. Sandholtz et al. (eds) (1992): *The Highest Stakes: The Economic Foundations of the Next Security System.* New York and Oxford: OUP. L. C. Thurow (1992): *Head to Head: The Coming Economic Battle among Japan, Europe, and America.* New York: Morrow; L. D'Andrea Tyson (1992): *Who's Bashing Whom? Trade Conflict in High-Technology Industries.* Washington: Institute for International Economics. A similar German contribution to Geo-economics is K. Seitz (1992): *Die japanisch-amerikanische Herausforderung.* Frankfurt a.M., Berlin: Ullstein; K. Seitz (1995): 'Die neue Welt der Geo-Ökonomie: Das globale Ringen um die technologische Vorherrschaft', in K. Kaiser and H. P. Schwarz (eds): *Die neue Weltpolitik.* Baden-Baden: Nomos, 247-264. K. Seitz (1998): *Wettlauf ins 21. Jahrhundert: Die Zukunft Europas zwischen Amerika und Asien.* Berlin: Siedler. For a harsh critique of Geo-Economics, see P. Krugman (1996): *Pop Internationalism.* Cambridge: MIT Press. A theoretically refined version of Geo-Economics can also be found in R. Gilpin (2001): *Global Political Economy: Understanding the International Economic Order.* Princeton: Princeton University Press, 129-147; 180-183. R. Gilpin (1968): *France in the Age of the Scientific State.* Princeton: Princeton University Press gives a detailed description how economic, technological, and scientific questions in France moved to the centre of national security questions.

In List's political economy, economic questions (trade and industry) are essential for the relative power position, or even supremacy of a state over other states.⁴¹ Therefore, the market and the manufactories have to be evaluated from a political point of view. The state has to use economic policy as an instrument of national power. Since national power can be increased through economic policy, trade and industry are the continuation of policy by other means. Economic statecraft becomes a central part of politics. List formulates a theory of the economic reason of state.⁴² This becomes particularly visible in his critique of the indiscriminate liberal defence of free trade. List is far from rejecting free trade altogether. Yet, he believes that trade policies have to be adopted and changed according to the prevailing political and economic circumstances.

If the whole globe were united by a union like the 24 States of North America, free trade would indeed be quite as natural and beneficial as it is now in the Union. There would be no reason for separating the interest of a certain space of land, and of a certain number of human beings, from the interests of the whole globe and of the whole race. There would be no national interest, no national law contrary to the freedom of the whole race, no restriction, no war. All would flow its natural current. [...] No nation would have to fear for their independence, power and wealth, from the measures of other nations.

This state of things may be very desirable – it may do honour to the heart of a philosopher to wish for it – it may even lie in great plan of Providence to accomplish it in after ages. But sir, it is not the state of the actual world. Adam Smith's system, in the world's present condition, goes therefore along with the good Abbé St. Pierre's dreams of eternal peace, and with the systems of those who fancy laws of nations. I myself believe it indeed to be a postulate of reason, that nations should settle their differences by law as now the United States do amongst themselves. War is nothing but a duel between nations, and restrictions of free trade are nothing but a war between the powers of industry of different nations. But what would you think, sir, of a Secretary of War, who, embracing the doctrine of the Friends [i.e., the Quakers, E.B.], should refuse to build fortresses and men of war, and to supply military academies, because mankind would be happier if there were no war on earth? And yet, sir, the conduct of this secretary of war would be just as wise as the conduct of those who, embracing the system of Adam Smith in its present imperfection, leave their national interests to the direction of foreign nations and foreign laws, because in a more perfect but entirely imaginary state of the human race, free trade would be beneficial to mankind (APE, 21f.).

From a purely philosophical viewpoint, free trade and free markets are a postulate of reason. In a politically and legally united world, the free exchange of goods and capital would

⁴¹ See also *Das Nationale System*, 63; National System II, 110.

⁴² List's Mercantile Realism defends a power-political approach to economic affairs. A similar position can be found in E. H. Carr (1964/1939): *The Twenty Years Crisis, 1919-1939: An Introduction to the Study of International Relations*. New York: Harper & Row, 41-62, 113-132; R. G. Hawtrey (1950/1930): *Economic Aspects of Sovereignty*. London et al.: Longmans, 1-103; A. O. Hirschman (1945): *National Power and the Structure of Foreign Trade*. Berkeley and Los Angeles: University of California Press, 3-81; S. Krasner (1976): 'State Power and the Structure of International Trade', in *World Politics* 28, April, 317-347; S. Krasner (1978): *Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy*. Princeton: Princeton University Press. See also the following works by R. Gilpin (1968): *France in the Age of the Scientific State*; R. Gilpin (1975): *U.S. Power and the Multinational Corporation*; R. Gilpin (1977): 'Economic Interdependence and National Security in Historical Perspective', in K. Knorr and F. N. Trager (eds.): *Economic Issues and National Security*. Kansas: Regents Press, 19-66; R. Gilpin (1981): *War and Change in World Politics*; R. Gilpin (2001): *Global Political Economy*.

be advantageous for all nations. There would be no conflict of national interests, national differences would converge towards a global unity and trade would be based, and would lead to, a universal harmony of interests. Yet, as long as the world is divided into nations and national territories, national interests still play a major role in economic relations. In addition, as long as there are differences in power and in the stage of economic development among nations, international economic relations will continue to be characterized by the struggle for national independence, power and wealth. International trade is far from being a neutral, or non-political sphere. Rather it is the battleground of conflicting national interests and the pursuit of industrial supremacy among nations. Practicing free trade in the face of economic warfare would ultimately lead to the surrender of national industry to the foreign competitor.

As the commerce of a nation wants protection against foreign aggressions, even at the great expense of the country, and even at the risk of a war, so the manufacturing and agricultural interest must be promoted and protected even by sacrifices of the majority of the individuals, if it can be proved that the nation would never acquire the necessary perfection, or could never secure to itself an acquired perfection without such protective measures (APE, 97).

From List's perspective, protective measures are a clear case in which short-term and material interests have to be sacrificed in favor of future gains, such as productive power, national strength, and wealth. A manufacturing power of a nation can only be attained by concerted effort and the continuous protection against foreign competitors. This holds especially true for infant industries, which are plagued by great losses due to want of experience, skill and sufficient investment.⁴³

The Strategic Approach to International Trade

In contrast to the general wisdom prevailing in current international political economy, List cannot be seen as the defender of a pure economic nationalism in matters of international trade.⁴⁴ In his opinion the question of free trade or protectionism, should not be considered as a matter of principle, but rather of strategic importance. In history, great powers have dealt with this question only in reference to their relative power position in the international system and their stage of economic development. In this respect, List defends a strategic approach to political economy. Again he refers to England. According to List, in using free trade and promoting free markets, England had at no time "the intention to sacrifice national views and national interests for promoting cosmopolitical views and interests" (APE, 121). She has only changed the means of reaching national aims according to present circumstances. She changed her trade policies whenever it suited her interests. Therefore, what appears to be a contradiction in trade policy, turns out to be conformity to the national interest.

In promoting the idea of free trade in European states, England is looking for allies on the continent. It is in England's national interest to open the European market for British goods

⁴³ List develops the infant industry argument also in *National System II*, 75, 226-234; III, 52f.; *Das Nationale System* 70-76.

⁴⁴ See above fn. 8.

and to strengthen British manufacturing power. In respect to the United States, argues List, England

has not to fear a present manufacturing power but a rising one, which menaces the interest of the English manufacturing power in a threefold way: in the first place in depriving the English manufacturers of our interior market, secondly, in sharing with them the South American market, and thirdly, in increasing our internal and external shipping immensely, which is the basis of the future ascendancy of our naval power (APE, 123f.).

List sees an unique opportunity for the United States for raising its manufacturing power and "taking an equal standing in power and wealth with England by developing our internal productive powers and extending our foreign commerce and our internal and external shipping" (APE, 125). This opportunity can only be exploited by erecting an American system of political economy. Its central task would be to develop, promote, and protect the key industries in order to achieve American industrial power.⁴⁵

Thus, to counter the English challenge, List suggests that the US has to build up its own industrial power, which has to be protected against English competition; it has to conquer foreign markets for its own products, and it has to develop a naval power. According to List, this national strategy to achieve world power and wealth, necessarily requires strong government intervention in markets. Contrarily, pursuing liberal principles in trade and economic policy would only prolong British political- and economic superiority. Thus, free trade cannot be in the national interest of the USA. List believes that it is indisputable that in practicing active government intervention in markets, the USA is merely following the historical example of England.

From List's point of view, England's road to world hegemony was only possible by a prudent application of either protective measures, or free trade principles, depending on the political and economic situation. England's reliance on free trade is nothing more than an expression of the fact that it has achieved a level of economic development, from which its products no longer have to fear foreign competitors. In contrast, it seeks to gain influence and power over other nations by demanding open markets from them. The British promotion of free trade "did not originate in disinterested love of freedom and humanity, but in a desire [...] to open for England immense markets" (APE, 119). The national aim behind all trade principles

consists in raising her manufacturing, commercial, and naval power beyond the competition of all other nations.

For reaching this we see her support at home liberal principles – play the conqueror in Asia, and the use and support there despotic powers – whilst contenting herself in the West India islands and in Canada with a paternal government, mixed and sweetened with some rights and some free institutions. [...] When we judge this conduct by princi-

⁴⁵ The current advocates of 'strategic trade' have their roots in Listian political economy. This becomes obvious in R. Gilpin (2001): *Global Political Economy*, 122-127; 214-217. The classical reference for strategic trade theory is, P. Krugman (ed.) (1996): *Strategic Trade Policy and the New International Economics*. Cambridge: MIT Press.

ples, there is nothing but contradiction; but when we look at the aim of the country, there is nothing but conformity

Her aim was always and ever to raise her manufactories and commerce and thereby her navy and political power, beyond all competition of other nations, and always she accommodated her conduct to circumstances – using at one time and in one place liberal principles, at another, power or money – either to raise freedom or to depress it, as it suited her (APE, 119f.).

Thus, the decision between a liberal or a nationalist trade policy is a strategic choice⁴⁶, depending on the stage of economic development of the whole economy, or some important sectors of it, and of the respective definition of national security, autonomy and interest relative to other states. "[...] History teaches us how nations [...] may and must modify their [trade] systems according to the measure of their own progress" (National System I, 141). Similarly, the question whether the development of national key industries should be completely left to the market, or rather promoted and protected by the state, remains a strategic question depending on the international power position of the state, and the stage of historical development of the nation. In a nutshell, trade policy becomes an essential part of a national security strategy, since the international exchange of goods affects the relative power position of the nation vis-a-vis its competitors in the long run.⁴⁷

List also reveals that economic strength can be used as a weapon to achieve and maintain political supremacy in the world.

English national economy has for its object to manufacture for the whole world, to monopolize all manufacturing power, even at the expense of the lives of the citizens, to keep the world and especially her colonies in a state of infancy and vassalage by political management as well as by the superiority of her capital, skill and her navy (APE, 37).

Great powers do no longer need to conquer a country by military means, they can completely rely on economic methods and free markets, to penetrate other nations and to achieve global dominance. In the case of the economically advanced nations, the cosmopolitical- and the political principle are identical, since these nations are able to extend their industrial supremacy and advance their national interests by free trade and free markets.⁴⁸ In other words, free trade and free markets are the national strategies of the economic powerful nations. They do not have to fear international competitors, which would eventually eliminate national core industries. According to List, international differences in industrial power do not disappear through free trade. But rather the free exchange of goods gives these nations which are able to export highly value-added industrial products a dominant position.⁴⁹

⁴⁶ See also H. Wergo (1928): *Freihandel und Schutzzoll als Mittel staatlicher Machtentfaltung: Untersuchungen zur Problematik der Handelspolitik*. Jena: Fischer.

⁴⁷ See also *Das Nationale System*, 49-52.

⁴⁸ See *Das Nationale System*, 73.

⁴⁹ See *National System I*, 55, 83, 107; *II*, 119f.

Economic Doctrines as Weapons of Power

A major role in this economic struggle for world supremacy is played by economic doctrines. England's adherence to free trade appears in List's perspective as a mere strategic maneuver to gain dominance. British politicians "with cosmopolitical principles on their lips, design to persuade all other powers to cede their political power in order to render English productive and political power omnipotent" (APE, 47).

It is indeed strange to see [...] the present Ministry of England [...] profess a cosmopolitical theory, which, if carried into effect, would deprive the English nation of the monopoly hitherto enjoyed, and yet jealously watch to prevent every progress of other rival nations, particularly of the United States. There must be – everybody feels it – some difference between sayings and doings (APE, 117).

Thus, England only pays lip service to economic liberalism. "By profession they [the English, E.B.] were always cosmopolites and philanthropists, while in their aims and endeavours they were always monopolists" (National System I, 79).⁵⁰ In practice, England has always been guided by the aim to maintain and increase its industrial and trade supremacy and disarm all other states of their economic means of defense.

The great men of England [...] being unwilling to let things go as they would, and to let every thing alone: those men intended to raise their country in wealth and power by their political measures, beyond all reach of competition by other nations.

And if in our days the great men of England affect to embrace the system of Adam Smith (by parliamentary speeches only, not by facts) they do nothing else than Napoleon would have done, if he, in the midst of his glory and of his power, should have proposed to the nations of the earth the disbanding of their armies and the dismantling of their fleets, in order to live in general peace together as brothers and friends, who could have no interest in slaying and murdering each other, and in injuring the general welfare, by keeping up, at a heavy expense, the means of war (APE, 53).

Consequently, the economic doctrine of free trade turns out to be a highly useful weapon for an economic strong nation to dominate other nations. From this follows, that protective measures function as instruments of economic weak nations to defend themselves against great economic powers.

Thus history shows that restrictions are not so much the inventions of mere speculative minds, as the natural consequences of the diversity of interests, and of the strivings of nations after independence or overpowering ascendancy, and thus of national emulation and war, and therefore that they cannot be dispensed with until this conflict of interests shall cease, in other words until all nations can be united under one and the same system of law" (National System I, 140).

Restrictions of international trade are nothing more than the means by which nations try to maintain their independence and to build up their own industrial power position.⁵¹ England

⁵⁰ See also *National System I*, 157; III, 52.

⁵¹ *National System II*, 77f.

has always sought to fight against these defensive walls, directed against her industrial- and commercial strength.

According to List, if nations have not achieved yet the highest stage of economic development, the adoption of completely free trade would be destructive for its independence and productive powers. He describes his conversion from a proponent of free trade, to that of a Mercantile Realist as follows:

My eyes being not sharp enough to discover at a glance the errors of a system [Adam Smith's system, E.B.] so ingeniously built up and supported by so many valuable truths, I judged the tree by its fruit. I conceived that, as a theory in medicine, however ingeniously invented, and however supported by brilliant truths, must be fundamentally erroneous, if it destroys the life of its followers, so a system of political economy must be wrong if it effects just the contrary of that which every man of common sense must be supposed to expect from it. In consequence of this conviction I came out openly against the followers of this theory [...]" (APE, 43).

National wealth and industry can be increased by trade restrictions and active promotion of the manufacturing interests. Yet, everything depends on the level of economic development of a nation.⁵² "In regard to the expediency of protecting measures, I observe that it depends entirely on the condition of a nation whether they are efficacious or not. Nations are as different in their conditions, as individuals are" (APE, 33). It would therefore be mistaken to apply general rules to distinct nations. In List's opinion, the extent to which national economies need active state intervention, depends on various factors such as the kind of government, the structure of society, the distribution of property, the level of education, power and industry. But ultimately, the aim of every nation in applying different economic and trade policies should be the increase of national power and wealth. In sum, List does not defend protectionism as a means for defending partial or private economic interests of a certain social group. Rather, he considers it as a legitimate political lever, as long as it corresponds to "the principle of the industrial development of the nation" (National System II, 238).⁵³ "The system of protection can be justified solely and only for the purpose of the industrial development of the nation" (National System II, 85f.). In order to reach this aim, a nation has to accept the losses incurred by protective tariffs. What it gains instead, are productive powers namely independence, power, and the foundation of future wealth. "The nation must sacrifice and give up a measure of material property in order to gain intellectual or social forces; it must sacrifice some present advantages in order to insure to itself future ones" (National System II, 34f.). Thus, List believes that a protective trade system represents the natural consequence of the nations' pursuit of the maintenance of prosperity and superior power.⁵⁴

⁵² List develops his theory of the stages of economic development extensively in his *The Natural System of Political Economy*, but also in *National System II*, 74; *Nationales System*, 63f.

⁵³ Protectionism as a means for the industrial development of the nation, see *Das Nationale System*, 70-76; *National System II*, 85f.

⁵⁴ *Das Nationale System*, 65. List's Mercantile Realism is also the godfather of all theories of the development state, see, i.e., H.-J. Chang (2002): *Kicking Away the Ladder: Development Strategy in Historical Perspective*. Anthem Press: London; C. Johnson (1982): *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*. Stanford: Stanford University Press. J. Fallows (1993): 'How the World Works', in *The Atlantic Monthly*, December; J. Fallows (1994): *Looking at the Sun: The Rise of the New East Asian Economy and Political System*. New York: Pantheon Books; R. Wade (1990): *Governing the Market: Eco-*

Therefore, List formulates a clear limit to protectionism. In light of the fact that the establishment of a national trade system should help to create and develop national industrial power, trade restrictions only represent a means to achieve the same level of power and wealth like other, more advanced nations. Consequently, protectionism does not work as a generally applicable measure. It may only be regarded as an instrument for infant industries, or less advanced nations to catch up with industrially more advanced nations. It can work as a means of industrial development to achieve an equal basis on which every nation would profit from free trade. "The system of protection regarded from this point of view appears to be the most efficient means of furthering the final union of nations, and hence also of promoting true freedom of trade" (National System II, 15). List explicitly criticizes classical mercantilism, which was exclusively national and political, without any cosmopolitical tendencies. He considers protective measures only as an instrument to achieve the universal republic of free trade and the federation of states united by a common law.⁵⁵ Thus, protectionism and the primacy of national interests should only be the guiding light for a period of transition, until all nations have achieved the same level of economic development. Yet, List has never asked whether this aim is realistic. It is for him a philosophical principle transcending all political and strategic considerations.

In his attempt to reveal the political edge of economic doctrines, he applies a political reading of the liberal and nationalist trade policies. According to him, the theory of free trade is not an abstract and universal economic principle, but the political imperative, or weapon of an industrially and economically advanced nation or great power to maintain, extend or justify its dominant position. England became a great and hegemonic power only by active state intervention in markets, and not by free trade, or a minimal role of the state in the national economy. She kept her industrial supremacy by systematically preventing the rise of any possible industrial competitors.

In Adam Smith's time, a new governmental maxim was for the first time added [...] to conceal the true policy of England under the cosmopolitical expressions and arguments which Adam Smith had discovered, in order to induce foreign nations not to imitate that policy.

It is a very common clever device that when anyone has attained the summit of greatness, he kicks away the ladder by which he has climbed up, in order to deprive others of the means of climbing after him. In this lies the secret of the cosmopolitical doctrine of Adam Smith [...].

Any nation which by means of protective duties and restrictions on navigation has raised her manufacturing power and her navigation to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than throw away these ladders of her greatness, to preach to other nations the benefits of free trade, and to declare in penitent tones that she has hitherto wandered in the paths of error, and has now for the first time succeeded in discovering the truth (National System II, 46f.)

As soon as England had reached her dominant political and economic position in the world, she attempted to prevent other nations to imitate her own path to power and

nomic Theory and the Role of the Government in East Asian Industrialization. Princeton: Princeton University Press. M. Woo-Cumings (1998) (ed.): *The Developmental State*. Cornell: Cornell University Press; The Role of economic nationalism for economic growth is also analyzed in D. Seers (1983): *The Political Economy of Nationalism*. Oxford: OUP and J. Mayall (1990): *Nationalism and International Society*. Cambridge: CUP, 70-152.

⁵⁵ *Das Nationale System*, 53; *National System III*, 18f.

wealth.⁵⁶ Now, having achieved her international power position, she could rely on the doctrine of free trade to guarantee the universal access to foreign markets for her products. On her home and foreign markets, her industry has become highly competitive.

In sum, in List's political economy, economic doctrines are not innocent and abstract theories, only relevant for scholars. Rather, they are instruments of power in the rivalry of nations to gain, defend or expand their power and wealth. List's economic power politics attempts to combine economic liberalism with economic nationalism. In his opinion, only a combination of these two economic doctrines is sufficient to understand the structure and functioning of the world market economy, which is always embedded in an anarchic international political system. According to List, states, at every stage of their economic development, must balance 'national' interests and the logic of state power with 'cosmopolitan' interests and the logic of the market. An exclusively nationalist, or a purely liberal economic policy would necessarily lead to a loss of national power and wealth. Everything depends on the economic strategy of the state to apply those economic doctrines, which promise the increase of power and wealth.

Hegemony or Balance

According to List's Mercantile Realism, free trade is an utopia as long as inequality exists in the international distribution of power, and differences in the stages of economic development prevail. In the state system, composed of nations with various levels of economic prosperity, economic liberalism is "merely another instrument used especially by a hegemonic state to protect itself by undermining its political and economic competitors".⁵⁷ "Under the existing conditions of the world, the result of general free trade would not be a universal republic, but, on the contrary, a universal subjection of the less advanced nations to the supremacy of the predominant manufacturing, commercial, and naval power [...]" (National System II, 14).

List's economic power politics, or Mercantile Realism interprets economic relations among states on the basis of the classical realist dichotomy of hegemony, or balance of power. In his opinion "in all ages, nations and powers have striven to attain to the dominion of the world, but hitherto not one of them has erected its power on so broad a foundation" than England (National System III, 43). England's universal supremacy does not so much rest on her military power, as on her industrial strength. Her trade and industrial dominance initiates a new epoch, in which economic questions move to the center of national interest and security. She strives to become the world center of industry, arts, and science: "a world's metropolis which supplies all nations with manufactured goods [...], a treasure-house of all great capital – a banking establishment for all nations, which controls the circulating medium of the whole world, and by loans and the receipt of interest on them

⁵⁶ H.-J. Chang (2002): *Kicking Away the Ladder: Development Strategy in Historical Perspective* follows List in dismantling the common belief that the U.S. and Great Britain have gained their economic strength by free trade. He brilliantly shows how they reached power and wealth through protectionism and industrial policy. He also makes clear that free trade is protectionism used by industrially advanced nations.

⁵⁷ D. N. Balaam and M. Veseth (1996): *Introduction to International Political Economy*. Upper Saddle River: Prentice Hall, 35.

makes all the people of the earth her tributaries" (National System III, 43f.). List acknowledges that the productive power of the world has increased immensely under English supremacy.⁵⁸ "Who can tell how far behind the world might yet remain if no England had ever existed? And if she now ceased to exist, who can estimate how far the human race might retrograde? [...] But ought we on that account also to wish that she may erect a universal dominion on the ruins of the other nationalities?" (National System III, 44). In order to prevent the universal domination of English industrial and political power, List reminds us of an old political wisdom: to form alliances as a counterweight to the hegemonic power.⁵⁹

It has always been felt that the ultimate aim of politics must be the equalisation of the nations. That which people call the European balance of power has always nothing else than the endeavours of the less powerful to impose a check on the encroachments of the more powerful. Yet politics have not seldom confounded their proximate object with their ultimate one, and vice versa.

The proximate task of politics always consists in clearly perceiving in what respect the alliance and equalisation of the different interests is at the moment most pressing, and to strive that until this equalisation is attained all other questions may be suspended and kept in background" (National System III, 98).

List's clear advice to the continental nations is to pool their naval power in order to counterbalance the naval power of England. Similarly, in the economic sphere, they should liberate their home markets from internal restrictions, yet simultaneously erect a common tariff against English manufacturing power. The continental nations should stop waging wars against each other, as only England will benefit from this rivalry. These defensive aims against English supremacy can only be achieved by a unification of all continental powers, striving for a continental system based on alliances.

That the idea of this Continental system will ever recur, that the necessity of realising it will the more forcibly impress itself on the Continental nations in a proportion as the preponderance of England in industry, wealth, and power further increases, is already very clear, and will continually become more evident. [...]

An effective Continental system can only originate from the free union of the Continental powers, and can succeed only in case it has for its object (and also effect) an equal participation in the advantages which result from it" (National System III, 110).

By means of cooperation and mutual concession in all political, economic and cultural affairs, the unified continent will master the English challenge. List goes even one step further in predicting that in the next century, the United States will increase its power, industry and wealth. It will replace England as the universal dominant power.

Thus in a not very distant future the natural necessity which now imposes on the French and the Germans the necessity of establishing a Continental alliance against the British supremacy, will impose on the British the necessity of establishing a European coalition against the supremacy of America. Then will Great Britain be compelled to seek and to find in the hegemony of the united powers of Europe protection, security, and compensation against the predominance of America, and an equivalent for her lost supremacy (National System III, 111).

⁵⁸ *National System II*, 245.

⁵⁹ *National System III*, 96-112; *Nationales System*, 68.

In List's theory, politics and history are characterized by the recurrent rise and decline of dominant powers. Economic affairs are interpreted against this background. To prevent the emergence of political and economic competitors, supreme powers rely on their industrial strength to penetrate foreign markets and territory. Under the battle cry of free markets and the struggle against protection of foreign markets, supreme powers always seek to exclude the formation of rivaling industrial powers. In the long run, however, every hegemonic power will be balanced by an alliance of counter powers.

5 Conclusion: The Relevance of Mercantile Realism

List's Mercantile Realism advocates an institutional, political, and historical approach to economic action. Economic life and economic theories have to be considered in their particular historical- and political contexts. Since markets depend on political institutions for their proper functioning, they are political constructs, which have a history. In their origin and maintenance, they further depend on political action, which varies across time and place. Above all, the state stands out as the ultimate institutional guarantee of markets. Therefore, according to Listian political economy, it does not make sense to choose between state or market. In the final analysis, the state is the precondition of markets. It also determines the degree of freedom or restriction of trade of its national economy, and the free play of the economic forces or government regulation of economic life. From this perspective, List reveals the existence of a variety of national systems of political economy, as the primary fact of economic life. To speak of a 'world economy' only makes sense, when we focus on the interaction of the national economic systems. In Mercantile Realism there is no such a thing as a pure market logic, since the market is always embedded in the internal logic of politics and state power. Economic forces are in fact political forces and economics is a part of politics. In this way, Mercantile Realism facilitates the understanding of the enduring importance of the state, in the seemingly global political economy. The nation state and different systems of national political economy do not disappear with the emergence of the world market.

Against the classical liberal assumption that all economies are competing on a level with each other, List focuses on the hierarchies and inequalities between states in the economic field. He introduces the classic realist image of international politics – the struggle between hegemony and balance of power – into the economic domain. In List's Mercantile Realism, national economies are embedded in the international distribution of power among states. The supremacy of the most powerful nation ultimately determines the form of the international economic system. National economies are not separated from politics, but rather, they are part and parcel of the struggle for maintaining, influencing or changing the relative power positions of states. Classical political realism has always exclusively considered military matters as belonging to the sphere of 'high politics'. At the same time, economic issues have been seen as belonging to the domain of 'low politics'. In contrast to this tradition, List's Mercantile Realism elevates economic matters to the sphere of vital, national security problems. Economic wealth and manufacturing power become the central base of

state power and the playing field of rivaling national interests. His political economy is nothing but a realist perspective on economic action.⁶⁰

List's Mercantile Realism does not accept the liberal separation between economics and politics as distinct domains. In his view, economics and economic terms must be interpreted *politically*, i.e. in terms of power and struggle. To speak of economic relations means to speak of political relations. Theories of economic policies are products of nations and their respective positions in the international distribution of power and their current stage of economic development. List reveals that the opinion of the anti- or non-political character of economic relations is itself a political position, namely of those hegemonic powers that can rely on economic, instead of military means, to conquer or penetrate territories. In other words, the liberal separation thesis itself, is a means of power to avoid the discussion of the political form, or political content of economic relations. In addition, whereas mainstream economics is politically, historically and institutionally blind, Mercantile Realism politicizes economics. It brings the political factor back into economic studies.

In contrast to the methodological individualism of liberal political economy, List's Mercantile realism implicitly underlies a methodological institutionalism. The emphasis is not on individual behavior leading to institutions, but on the effects of institutions in moulding individual behavior. In this top-down perspective, the focus is on the internal logic of the state, which constraints individual behavior. In addition, Mercantile Realism conceptualizes the state as an independent variable, which cannot be reduced to the interests of groups or individuals. The state represents the precondition of markets and the immaterial capital, i.e. as an essential factor in creating national wealth. The autonomy of the state in opposition to private interests directly results from its position in the international struggle for power and wealth. Finally, by virtue of its interest in self-preservation and its responsibility for national wealth, no state can be completely non-interventionist. Either it has to influence the framework of the market-process, or it has to intervene therein. In Mercantile Realism, every state has to pursue both policies. The decision between a liberal or interventionist policy becomes a strategic problem, not one of principle. In the final analysis, the question concerning how much the state should manipulate the economy, depends on its present power position in the international environment and the stage of national economic development.

In sum, what is Mercantile Realism? Max Weber in his inaugural lecture "The Nation State and Economic Policy" (1895) summarized it forcefully as:

⁶⁰ However, for List this realist approach to economic matters is only valuable for a period of transition until all nations have achieved the same level of economic development and degree of national power. He makes clear that we cannot fall behind the achievements of the enlightenment. In the final analysis, statesmen and economic policy should aim at the confederation of states and at the world republic of universal commerce. In this respect, List's political economy tries to preserve the mercantilist primacy of state power and at the same time the liberal believe in a republic of a federation of states and in a universal commercial republic. Although List clearly argues in favor of the ideal of a world republic, it does not play any systematic role in his theory. It only remains a postulate without any theoretical and practical consequences.

The science of political economy is a *political* science. It is a servant of politics, not the day-to-day politics of the persons and classes who happen to be ruling at any given time, but the enduring power-political interests of the nation. For us the *nation state* [...] is the worldly organisation of the nation's power. In this nation state the ultimate criterion for economic policy, as for all others, is in our view '*reason of state*'. [...] In using this slogan of 'reason of state' we wish to present the demand that the economic and political power-interests of our nation [...] should have the final and decisive say in all questions of German economic policy, including the questions of whether, and how far, the state should intervene in economic life, or of whether and when it is better for it to free the economic forces of the nation from their fetters and to tear down the barriers in the way of their autonomous development".⁶¹

Mercantile Realism represents a specifically *political* approach to political economy. It is interested in how nation states succeed or fail in maintaining and improving its power, wealth and productive forces in the light of its stage of economic development, and its relative power position in the international sphere. It mainly argues that the economy cannot be allowed to run its natural course; if it tends to contradict the national interests (either defined in terms of power, security or wealth) of the state. In including economic policy problems in national strategy, it appears to be an autonomous form of political economy. The focus of international economic relations is on the behavior of states, their power *and* wealth being the highest priority of political and economic life. List was the first theorist who *systematically* introduced the notions of power, national interest and security into the world of commerce. His Mercantile Realism advocates the primacy of politics over economics. He shows that in history, economics has very often been the continuation of politics by other means. In this respect, he formulates a clear alternative to economic liberalism. Neo-classical and liberal economists may reject List's theory, as non-formal and non-abstract. But what appears to be a shortcoming for a depoliticized discipline, in fact represents a valuable starting point for a politically sensitive approach to economic relations.

⁶¹ Max Weber (1994): *Political Writings*, ed. by Peter Lassman and Ronald Speiers, Cambridge: CUP, 16f.