The Foundation of Mercantile Realism

## Friedrich List and the Theory of International Political Economy

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 politicaleconomic

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".

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

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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 describes

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

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.).

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.

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 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 overtrump

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.).

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

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 selfpreservation,

the striving for improvement which is implanted by nature (National System

II, 71).

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.

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

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.

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.

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 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.

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.

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

necessaries 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

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.

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.

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,

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 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.

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 politicaleconomic

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

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.

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 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.

 ***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

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 principles,

 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.

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.

 ***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

has always sought to fight against these defensive walls, directed against her industrialand

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.

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

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 became 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 treasurehouse

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

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.

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).

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:

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".

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 nonabstract.

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.