

**The Power of Nations:
Theoretical Foundations for Economic Nationalism**

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The present thesis has been composed entirely by me and its content is wholly my work.

It has not been submitted for any other degree or professional qualification.

(Takeshi Nakano)

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Preface

This thesis aims to provide a theoretical basis for economic nationalism and to defend this. An interdisciplinary study like this cannot be carried out without the support of others. My greatest debt is to Professor Russell Keat. I am grateful for his overall supervision of my research, but also, beyond the scope of my research, for what I have learned from him, for example, the significance of socialist thought. Special thanks are due to Dr. James Kennedy for his introduction to the study of nationalism, Professor John Ravenhill for his guide to political economy, Professor David Bloor for making me aware of the significance of David Hume's philosophy of social science in his lecture, Dr. Kimberly Hutchings for her insightful comments on Hegel and Hannah Arendt. I gratefully acknowledge helpful discussions with Jane Astbury, Keith Breen, Naoki Yajima and Dr. Susan Carpenter on several points in this thesis. I must also thank Seizaburō Satō for first introducing me to political science and in the last year of his life, encouraging me to study economic nationalism, Professor Susumu Nishibe for his guide to philosophy and many insightful advises, and Mr. Masatoshi Urashima for recommending me to study in Britain.

My research is supported in part by the Japanese Government Long-term Fellowship program (2000-2002). The Ministry of International Trade and Industry (MITI), which employs me, has tolerantly given me leave from office for a year in order to complete this thesis. However, the MITI is not responsible for my views. Indeed, the MITI, which was once notorious for its economic nationalism, has recently changed its official doctrine towards a more economic liberal view. Economic nationalism has been regarded as at best old-fashioned. Nonetheless, I believe

that economic nationalism is more appropriate for the future of my nation. I hope that this thesis proves this.

Finally, I must thank my wife and children for their tolerance of an eccentric husband and father and for their encouragement. Without their support, this thesis would have never been completed.

Abstract

The aim of this work is to provide a systematic theoretical basis for economic nationalism, and to defend this as an appropriate analytical framework for political economy. In the first part of the work, the author reviews relevant literatures on economic nationalism and defines it as *the view that the primary aim of economic policy is to establish, maintain or strengthen the power of an actual or potential nation*. Next, the author examines Friedrich List's political economy and shows that his approach is cultural, historical, institutional, political, dynamic and geographical. The second part of this work examines David Hume's political economy, philosophy of social science and political theory. The author shows that Hume's economic thought significantly shares the characteristics of List's political economy and argues that it is best understood as economic nationalism. Although they have often been misunderstood, Hume's ideas – institutional economics, symbolist theory of social action, interpretive approach to social science, and political conservatism – are argued to provide appropriate philosophical foundations for economic nationalism. The third part shows that key elements of economic nationalism are evident in the political and economic thought of Edmund Burke, Alexander Hamilton and G.W. F. Hegel. Under the ideological dominance of economic liberalism, economic nationalism has been regarded as economic heresy. However, a heresy in economics turns out to be an orthodoxy of the Western intellectual tradition. In the fourth part, the author constructs a general theory for economic nationalism by drawing upon Émile Durkheim's political sociology and recent contributions to the study of nationalism and political economy, and discusses its practical implications for the contemporary world of globalisation. It is argued that economic nationalism is a preferable alternative to economic liberalism.

Introduction: An Underestimated Alternative

The very nature of economics is rooted in nationalism (Joan Robinson).

Economic nationalism, along with economic liberalism, is widely recognised as one of the principal schools of political economy.¹ However, unlike economic liberalism, little attempt has been made to articulate and explore its theoretical rationale. It will be the primary purpose of this thesis to do so.

Economic nationalism certainly runs counter to the mainstream of economic theory and the legitimating doctrines of capitalist regimes. Since World War II, economic liberalism has been the ideological orthodoxy of these regimes. The Bretton-Woods System was established upon the conviction of economic liberalism that any kind of economic nationalism would threaten the international order, just as trade protectionism during the 1930s led to the rise of fascism and wars. In spite of the decline of the Bretton-Woods System after the 1970s, economic liberalism still remains the most influential ideology of political economy. Moreover, with the end of the Cold War and the collapse of the Soviet Union, many commentators and political and business leaders, especially in the United States, became convinced of the triumph not only of capitalism but also of economic liberalism, precisely because economic liberalism is seen as the only theoretical basis for the legitimization of capitalist regimes.

Yet despite this dominance of economic liberalism, we should not forget that since the nineteenth century, economic nationalism has presented significant ideological and practical challenges to the liberal orthodoxy within capitalist regimes. For politicians and policy makers, it has often been an attractive alternative to economic liberalism and is still today a rich source of policy prescriptions. However, neither professional economists, nor social scientists more generally, have taken economic nationalism seriously as a *theoretical* challenge to economic

¹ Needless to say, another principal school of political economy is Marxism. However, as space is limited, this work cannot discuss Marxism.

liberalism. This thesis will attempt to remedy this situation by developing a systematic, theoretical foundation for economic nationalism as an appropriate analytical framework for political economy. For reasons which will be given later in this chapter, a major element in this theoretical project will consist in exploring and (re)interpreting the work of major figures in the history of Western social and political thought, including David Hume.

What has been said so far could seem to imply that economic nationalism is a clearly defined and well understood concept. But this is far from so. In particular, as I will now argue, its conventional understanding displays a number of defects, and these need to be corrected before proceeding any further. To do so it will be convenient to consider the description of economic nationalism provided by Robert Gilpin in *The Political Economy of International Relations*, which is one of the most influential books on international political economy in the last few decades (Gilpin 1987: ch. 2). Gilpin presents an excellent account of the view of economic nationalism that is widely shared by political economists, and also of economic liberalism, and of the key differences between the two. After examining the merit and defects of Gilpin's (conventional) understanding of these rival frameworks for political economy, I shall propose a more adequate conception of economic nationalism as the starting point of my argument.

1. Economic Nationalism and Economic Liberalism: the Conventional View

Let us look first at Gilpin's account of economic liberalism, which is generally regarded as easier to define. Although there are several varieties of economic liberalism, Gilpin argues that all share the belief that the market mechanism is the best means for increasing economic efficiency and improving the economic welfare of individuals. He defines economic liberalism as 'a doctrine and set of principles for organizing and managing a market economy in order to achieve maximum efficiency, economic growth and individual welfare' (Gilpin 1987: 27). Further, economic liberals believe that the market mechanism will achieve a basic harmony of interests in

the long term, and that free trade and economic intercourse will foster peaceful domestic and international economic relations. Economic liberalism basically sees the international economy as a positive-sum game, and emphasises mutual gain brought by free trade.

On the basis of these beliefs, economic liberals propose free markets and minimal state intervention as their main policy prescriptions. They believe that governments should not intervene in the market except in the case of 'market failures' or in order to supply so-called public goods. The primary aim of economic liberal policy is to augment economic efficiency and the economic welfare of individuals: it is with the welfare of individuals that economic liberalism is concerned rather than of nations or any other social groups. As Gilpin points out, 'Although liberals believe that economic activity also enhances the power and security of the state, they argue that the primary objective of economic activity is to benefit individual consumers' (Gilpin 1987: 28).

In support of these beliefs economic liberalism has constructed a systematic science of economics, which has gained a dominant status in economic theory and practice today. Liberal economic theory assumes that the individual is the basis of society. In particular, mainstream economics, i.e., the neo-classical school, attempts to reduce economic phenomena to the behaviour of atomic individuals who act rationally in seeking to maximise their own economic welfare. (In the liberal economic analysis of the international economy, states instead of individuals are assumed as atomic actors rationally pursuing their economic interests). On the basis of this 'methodological individualism', liberal economic theory provides an account of how the market economy, which consists of the self-interested activities of atomic individuals and is considered as a largely distinct and independent sphere, autonomously increases economic efficiency and maximises the economic welfare of individuals, both within states and globally.

With these features of economic liberalism in mind, let us now turn to the conventional view of economic nationalism. Economic nationalism also has several forms, but Gilpin argues that its central idea is that 'economic activities are and should be subordinate to the goal of state

building and the interests of the state' (Gilpin 1987: 31). In terms of policy, whereas economic liberals prefer free markets and minimal state intervention, economic nationalists emphasise the positive role of governments in economic development, and advocate trade protection and industrial policy as key policy prescriptions. The primary objective of such policies is to enhance the power of the state rather than the economic efficiency and utility of individuals. Gilpin also emphasises that, in contrast with economic liberalism, economic nationalists tend to believe that international economic relations constitute a zero-sum game: that is, that one state's gain must be another's loss. They often regard economic interdependence as a source of conflicts rather than mutual benefits among states. Based on this belief, they pursue national self-sufficiency rather than economic interdependence

Economic liberalism sees the economy as an autonomous sphere governed by the market mechanism, and has established a systematic economic theory, independent of other disciplines of social science, in particular, politics. By contrast, economic nationalism stresses the political role of states in the national and international economy. Gilpin argues that they assume and advocate the primacy of politics over economics, while economic liberals assume that politics and economics exist in separate spheres (Gilpin 1987: 26). He also points out that economic nationalists share convictions concerning the mutually reinforcing relationship between wealth and power (Gilpin 1987: 32). However, and very importantly for the purposes of this thesis, Gilpin claims that unlike economic liberalism, economic nationalism has not constructed a systematic theory which supports its beliefs: it is best seen as 'a set of themes or attitudes rather than a coherent and systematic body of economic or political theory' (Gilpin 1987: 31). In particular, there has been no coherent theory of political economy, which provides a systematic explanation of the mutually reinforcing relationship between the political and economic power of the state.

On the basis of Gilpin's account, the conventional view of economic nationalism can now be summarised by a series of contrasts with economic liberalism in respect of four main dimensions: *aim, policy, theory* and *methodology*.

1. Aim

The primary aim of liberal economic policy is economic efficiency and the welfare of individuals. In terms of international relations, economic liberals pursue the mutual gain of national interests brought by international free markets, aiming thereby to promote economic efficiency and welfare across the world: they basically regard the international market as a positive-sum game. By contrast, economic nationalists aim at enhancing the (economic and political) power of the state. They believe that international relations are essentially a zero-sum game, and pursue the relative gain of their own state in the conflictual arena of international economics and politics.

2. Policy

Based on their belief in the beneficial effects of the autonomous market mechanism, economic liberals in principle advocate free markets and minimal state intervention as their key policy prescriptions. By contrast, economic nationalists assume that an active role for the state is required for economic development and propose state intervention in the economy in the form of measures such as trade protection and industrial policy.

3. Theory

Economic liberalism has developed a systematic theory to explain how and why the market mechanism autonomously achieves economic efficiency and the maximisation of economic welfare. In particular, mainstream (neo-classical) economics has established itself as an independent discipline of economic science. By contrast, although the aims and policies of economic nationalism imply the

primacy of politics over economics and a mutually reinforcing relationship between wealth and power, there is no coherent and systematic theoretical basis for these beliefs, or more generally for the policies adopted by economic nationalists, which have been mainly the product of practice rather than (economic or political) theory.

4. Methodology

Liberal economic theory draws upon methodological individualism and reduces economic phenomena to the behaviour of individual actors. In particular, mainstream economics basically includes only atomic individuals rationally pursuing their own interests as endogenous factors in its theoretical models. By contrast, there is no methodological position associated with economic nationalism, a set of attitudes and practices with no theoretical rationale.

2. The Definition of Economic Nationalism

The conventional view of economic nationalism stated by Gilpin certainly includes some important features of economic nationalism, which are helpful in drawing its conceptual boundaries. For example, it is true that economic nationalists regard power and plenty as mutually reinforcing, and that they give a much greater economic role to political factors, including the state, than economic liberals do. Further, Gilpin's account of the conventional view rightly emphasises the contrast between economic liberalism's focus on economic efficiency and welfare, and economic nationalism's concern with both economic and political power. It is also correct in (at least implicitly) regarding their respective *aims* as their primary defining features.

However, I shall challenge two aspects of Gilpin's description of economic nationalism. First, there are some conceptual defects in this conventional account: it wrongly identifies economic *nationalism* with *statism*; with specific policies such as trade protection and industrial policy; and with a zero-sum view of international relations. These defects need to be corrected if

we are to have a clear and accurate picture of the conceptual boundaries of economic nationalism. Second, Gilpin maintains that economic nationalism has no coherent and systematic body of economic and political theory. Against this view, however, this thesis will attempt to provide sophisticated theoretical – and methodological – foundations for economic nationalism. It will argue that key elements of these can be found in the social thought of major figures in intellectual history.

In the following section, a preliminary view of these theoretical and methodological foundations will be provided. In particular, it will be suggested that they might best be constructed by drawing on important aspects of *conservative* thought. But before that the conceptual problems of the conventional view of economic nationalism, which I briefly noted above, need to be addressed.

First of all, the terms (and concepts) ‘nation’ and ‘state’ are conflated. For example, remember Gilpin’s claim that the central idea of economic nationalism is that ‘economic activities are and should be subordinate to the goal of *state* building and the interests of the *state* [my italics]’. Certainly political economists tend not to distinguish between the concepts of the nation and the state. However, the nation and the state are not the same, and recognising the differences between them is crucial in defining economic nationalism, which must be understood as a form of nationalism, not of statism (Mayall 1990: chapt.4 and 5; Crane 1998; Shulman 2000; Abdelal 2001; Helleiner 2002).

Although the concept of the nation has been defined in many different ways,² here I shall adopt Anthony Smith’s influential definition of it as ‘*a named human population sharing an historic territory, common myths and historical memories, a mass, public culture, a common economy and common legal rights and duties for all members*’ (Smith 1991: 14). According to this definition, the nation can be understood as a kind of community, which is united by the pre-political or social idea of membership, based on common historical memories, public culture,

² For different definitions of a nation, see Hutchinson and Smith (1994: 15-46).

language, territory, tradition and suchlike. Nationalism can then be understood as the ideology or sentiment of loyalty to the nation. It is conceived in terms of horizontal ties between fellow-members, sharing the pre-political foundation of community. By contrast, the state is a political and institutional body, which unites the people by various means such as coercion, the rule of law and authority. Statism means the ideology or sentiment of loyalty to the state, thus involving 'vertical' rather than 'horizontal' ties.

The conceptual distinction between the nation and the state, and then between nationalism and statism, is, I shall argue, crucial for understanding economic nationalism. Economic nationalism should be regarded as a school or ideology of political economy concerning the nation rather than the state in general. However, this does not mean that the state should be ignored. On the contrary, it too is important for economic nationalism, because the primary actor in making and implementing economic policies to benefit the nation is the state. Therefore, in practice economic nationalism is normally linked to the nation-state. The nation-state is a particular form of the state, the political and legal order of which depends on the pre-political idea of the nation: the pre-political idea of the nation enables the people to accept the authority of the decisions and laws of the state. Put another way, the nation-state consists not only of vertical ties from the people to the authority of the state, but also of horizontal ties between the fellow-members of the nation.

Thus it is reasonable for this thesis on economic nationalism to focus mainly on the nation-state, rather than on the nation 'by itself'. I do not deny that a nation could adopt the aims of economic nationalism without its own state. However, most economic nationalists quite reasonably regard the institutional framework of the state as a necessary means for realising their values and hence believe that an ideal form of polity for them is the nation-state. Nonetheless, it remains true that the primary concern of economic nationalism is not to pursue the interests of the state as such, as political economists have conventionally understood this, but of the nation or the *nation-state*.

Let us turn now to the second conceptual problem of the conventional view, i.e. the place of trade protection and industrial policy in its definition. It is true that these policies have often been associated with economic nationalism, but making these policy prescriptions part of its definition is not really tenable, since economic nationalists may perfectly well abandon trade protection or industrial policy if these are seen to contradict the national interests (Helleiner 2002; Pickel 2003). For example, Friedrich List, who is generally regarded as the most important figure in the history of economic nationalism (see chapter 2 below), advocated trade protection not as a permanent but as a merely temporary policy prescription. He believed that opening up the domestic market would be acceptable and beneficial, if the national economy had sufficiently developed. By the same token, communist China has recently joined the World Trade Organisation for what are arguably nationalist rather than liberal reasons: considering the stage of development, it has judged that opening its domestic market will enhance its national power. Nor is it only the stage of development that may connect economic nationalism with (supposedly) 'liberal' policy. For example, small-scale nation-states may prefer free trade policy to autarky and trade protection as the means of pursuing their nationalist aim, because their domestic market may be too small to survive without access to the world market. Indeed, it can be said that economic nationalists will adopt any kinds of economic policy, including 'liberal' ones, so long as these can contribute to the enhancement of national power.

Finally, according to the conventional view, economic nationalists regard international economic relations as a zero-sum game. Indeed Gilpin argues that this is one of the weak points of economic nationalism, because international markets can in fact bring mutual gains if co-operation occurs, as economic liberalism insists (Gilpin 1987: 47). However, as will be shown in the following two chapters, both Friedrich List and other notable economic nationalists, including Gustav von Schmoller, explicitly rejected the view that the international economy is necessarily a zero-sum game, and accepted the merits of free markets under certain condition as a means of achieving their nationalist aims. In other words, economic nationalists may pursue mutual gain

among nations as long as the power of their own nation is not threatened, and whether this will be so depends on circumstances. Thus, against the conventional view, neither international economic relations as a zero-sum game nor as a positive-sum game is a defining element of economic nationalism.

Having corrected these defects in the conventional view of economic nationalism's aims and policies, we are now in a better position to provide a definition for it. It has been seen that this cannot be given in terms of the distinctive content of its policy prescriptions, since although these have certainly often differed from those of economic liberalism, they may sometimes coincide, and what matters for economic nationalists is what policies will actually be most effective to achieve their aim in particular circumstances. It has also been argued, against the conventional view presented by Gilpin, that the primary concern of economic nationalism is with the nation, and not the state.

Thus I propose now to define economic nationalism as *the view that the primary aim of economic policy is to establish, maintain or strengthen the power of an actual or potential nation.*³ Admittedly, 'power' is itself a difficult term, which has been defined in different ways. But here I intend it to refer broadly to 'the capacity to do something' (cf. Condliffe 1944). More specifically, the political power of a nation means its social capacity to attain, maintain and enhance national unity, solidarity and autonomy, and the economic power of a nation means its social capacity to manage and develop a national economy. Thus 'power' is not understood here in its other main sense, as 'power *over*' something, or 'domination'. Further, for the reasons given above, 'power as capacity to do something' should not be seen as an inherently relative concept, as it is with a zero-sum view of the world, for which the power of one nation is necessarily reduced by the power of another, and vice versa.

³ In his speech of 1931, T.E Gregory defines economic nationalism as 'the point of view that it ought to be the object of statesmanship in economic matters to increase the power rather than the economic well-being of a given society.' (Gregory 1931: 289) In spite of his negative attitude to economic nationalism, this definition would have considerable merit, if 'a given society' referred to an appropriately defined concept of the nation. However, unfortunately, Gregory confuses nation with race (Gregory 1931: 290).

3. Economic Nationalism and Conservative Thought

Let us now turn to the theoretical (and methodological) dimensions of the contrast between economic nationalism and economic liberalism. As Gilpin says, political economists have conventionally believed that unlike economic liberalism, economic nationalism has no sophisticated theoretical basis. In light of the definition of economic nationalism I have proposed above, we can now describe in broad terms what such a theory would need to provide, i.e., a coherent and systematic account of the nature and basis of the power of nations. Amongst its tasks would be to enable economic nationalists – i.e., those who support the defining aim of economic nationalism – to identify which policies would be best suited to achieving their aim in particular circumstances. Also, such a theory would be able to explain the success or failure of policies judged from this standpoint.

It would then seem appropriate to describe this as ‘a theory *for* economic nationalism’, and this is how it will generally be referred to in this thesis.⁴ But it is important to avoid some misleading impressions that might be created by this terminology. In particular, it should not be taken to imply that such a theory could by itself justify economic nationalism. For to support the latter’s defining aim, that the power of the nation should be maintained or enhanced, would require one also to justify distinctively normative claims – for instance, that the nation is of intrinsic moral value – and no attempt will be made to do so in this thesis. Nonetheless, such a theory could be regarded as making this aim for economic policy at least realistic or intelligible, since it would demonstrate and explain something which, as Gilpin emphasises, is normally

⁴ An alternative would be ‘nationalist economic theory’, though this might take attention away from the integration of economic with political and social factors that is so important for our purposes. Another phrase would be ‘theory *of* economic nationalism’, but this might be misleading because it suggests a theory explaining it as a social phenomenon (as with ‘theories of nationalism’).

maintained by economic nationalists, i.e., the mutually reinforcing nature of political and economic power.⁵

This kind of relationship between political and economic power is denied by liberal economic theory. Further, liberal economic theory is not able to understand another important feature of the modern world, which we can expect a theory for economic nationalism to explain: the significance of the nation and of nationalism for modern economics and politics. Many historical and empirical studies within political economy and sociology have shown the significant role of the nation (or nation-state) in the formation and management of national and international economies.⁶ However, liberal economic theory, the orthodoxy of modern political economy, has been established as a systematic theory independent of other disciplines of social science. It sees individuals as the central actors or driving force of the modern economy, and attributes hardly any theoretical significance to the nation and nationalism. It has no theoretical framework for comprehensively understanding the power of nations and its relation to the (national and international) economy. An alternative to liberal economic theory is clearly necessary, and it is the main purpose of this thesis to provide this.

In order to do this, we will have to integrate political, economic and social theories in a systematic way so as to comprehend the political, economic and social aspects of the power of nations and the relationships between these. However, although this might seem a daunting task, I will now suggest that in carrying it out, we can and should draw upon a very rich and helpful intellectual resource, the tradition of *conservative thought*. This will be used to provide a certain 'philosophical backbone' for the substantive theory which will be developed in this thesis. This

⁵ Note that parallel points could be made about the relationship between the theory and the aims of economic liberalism.

⁶ Shulman (2000) and Abdelal (2001) empirically argue for the pivotal role of the nation in the economy. Schmolter ([1984]1902) and Greenfeld (2001) do so by a historical approach. There is a great deal of literature which underscores the centrality of the state, which arguably implies the 'nation-state', in the national and international economy, including Gerschenkron (1962), Katzenstein (1985), Gourevitch (1986) and Weiss(1998). The 'varieties of capitalism' literature, such as Crouch and Streeck (1997) and Hall and Soskice (2001), is also relevant for my argument.

would be like the way that one might regard liberal economic theory as supported by the broader (tradition of) of liberal thought.⁷

What I mean by conservative thought here is not a political ideology which justifies the existing political regime or *status quo*, whatever this might be. Rather it is to be understood as a mode of thought which points the social analysis in certain broad theoretical and methodological directions. Its distinctive theoretical feature is its emphasis on the significance of community and intermediate associations; of customs and conventions, tradition and history; of public culture and sacred symbols, and of political authority and the rule of law. In political terms, conservatives share the view that a stable and civil order requires both vertical ties to the authority of the state and horizontal ties of community, and that the source of the vertical and horizontal ties is pre-political or historical. Thus from the standpoint of conservative thought, the ideal public order is arguably a form of the nation-state: 'a state in which law springs from within, expressing the mutuality and the common allegiance of the people' (Scruton 2001: 176). In economic terms, conservatives generally believe that customs, conventions, intermediate associations, public culture and legal institutions are necessary for sound economic activities. This can be seen to make plausible one of the main claims of economic nationalism, that the political institutions of the nation-state play an important role in the formation and performance of the economy.

Let us turn now to the methodological character of conservative thought. It can be said that its central feature is its opposition to *rationalism* in social enquiry, and in particular to the rational choice theory used by mainstream ('liberal') economics. Conservative thinkers reject this methodological approach, because it greatly exaggerates the role of rational calculation in human action, ignoring the importance of customs, traditions, symbols and other 'non-rational' factors, and also because of its individualistic nature, ignoring the significance of social institutions and public culture. They therefore favour what may be termed an 'interpretive' and

⁷ I do not say that conservative thought is the only possible basis for constructing a theory for economic nationalism, but I believe it is an especially attractive and plausible candidate for this task.

'institutional' approach, which attempts to understand human action in terms of socially established rules and meanings and of the ways in which it is embedded in various kinds of social institutions.⁸

This conservative methodological approach is, I think, highly appropriate for exploring the cultural, symbolic and institutional components of the nation-state in political analysis. It also encourages us to explore the role of social groups, public culture and national institutions in the economy, which the individualistic rationalism of liberal economic methodology leads us to neglect. It thus has much in common with what is often referred to as 'institutional economics'. By this I do not mean the so-called 'new' institutional economics, which Oliver Williamson and his followers have recently developed, and which attempts to explain the role of institutions in the economy within the framework of mainstream neo-classical economics. This is very much at home with economic liberalism, and at odds with conservative thought. Rather, I mean the so-called 'old' institutional economics, and especially the American Institutional Economics, developed by Thorstein Veblen, John Commons, Wesley C. Mitchell and Frank Knight. Against methodological individualism, these economic theorists regarded economic actors as social animals and supported a form of methodological holism, according to which economic systems consist of 'thick', interlocking institutions and economic action can only be understood in terms of these. This is very much in line with conservative economic thought, which also regards economic activity as embedded in socially shared institutions. Further, some institutional economists, such as Commons, proposed a kind of interpretive approach for economic analysis (see chapter 3).

It is hoped that enough has now been said to explain what is meant here by 'conservative thought' and to give some initial plausibility to the idea that this could provide a helpful and appropriate resource to draw upon in constructing a substantive theory for economic nationalism.

⁸ Amongst contemporary philosophers, a representative conservative thinker who advocates the interpretive approach to social enquiry is Hans-Georg Gadamer (Gadamer 1989). I shall argue that this interpretive approach can be found in both Hume's and Hegel's philosophies of social science

Of course, this does not mean that such a theory can be *derived* from conservative thought, or that anyone who supports the latter's various elements – such as its interpretive, institutional approach to social enquiry – must be committed to economic nationalism or its theoretical basis.⁹ But certainly it implies that conservative thought is at least compatible with such a theory. Yet this is a view which may still seem strange, since conservative thought is not often associated with nationalism, and indeed some conservative writers, such as Michael Oakeshott and Kenneth Minogue, explicitly criticise and reject nationalist politics.

However, what they attack is in fact one specific variety of nationalism – the idea that a state should be based upon a culturally, linguistically or racially homogeneous community. This kind of nationalism tends to give rise to demands for revolutionary change and the destruction of existing national and international regimes in order to realise its political ideal. Conservative thinkers certainly oppose this kind of nationalism, allied with revolution. However, I will argue later that there is another form of nationalism which is perfectly compatible with conservative thought, and which I shall term 'conservative nationalism'. This rejects the requirement of homogeneity and regards the kind of national consciousness generated by long-term historical processes as a source of liberty and lawful order.

The theory for economic nationalism which I will develop will be one that is consistent with this 'conservative' nationalism, including its scepticism about the desirability of revolutionary change based on grand projects for the re-design of a society's institutions. This is a feature of conservative thought (and of its rejection of 'rationalism') which I have not so far given attention to, but it can easily be seen to be supported by what has been said already. For example, what was called 'the central idea of institutional economics' implies that it is extremely difficult to predict the results of drastically changing such complicated social systems, and

⁹ For example, some institutional economists may lay more stress on supra-national institutions, such as the European Union or the World Trade Organisation, than on the nation-state; I shall discuss this issue in the final chapter of the thesis. What matters here is that in a theory for economic nationalism which regards the nation-state the primary factor in modern economics and politics, an institutional, interpretive political economy is required to understand this appropriately.

therefore very dangerous to make radical changes on the assumption that this can be done. However, it is important also to emphasise that the theory to be developed in this thesis will not imply that any kind of reform and change is undesirable, a view which has often, but falsely, been associated with conservative thought. For example, Friedrich List radically challenged the existing international regime of nineteenth century Europe, but, as chapter 2 will show, his political economy can be seen to display many features of conservative social thought.

4. Economic Nationalism and Economic Liberalism: the New Perspective

At the end of the first section of this Introduction, I summarised the conventional view of economic nationalism by a series of contrasts with economic liberalism in terms of their respective aims, policies, theories and methodologies. I will now summarise the different conception of economic nationalism for which I have argued in the last two sections by presenting a significantly revised version of those contrasts, with the changed claims about economic nationalism in italics:

1. Aim

The primary aim of liberal economic policy is economic efficiency and the welfare of individuals. In terms of international relations, economic liberals pursue the mutual gain of national interests brought by international free markets, aiming thereby to promote economic efficiency and welfare across the world: they basically regard the international market as a positive-sum game. By contrast, *economic nationalists aim at establishing, maintaining and enhancing the (economic and political) power of the nation. They do not believe that international relations are essentially a zero-sum game; for them, both the positive-sum and zero-sum views are one-sided.*

2. Policy

Based on their belief in the beneficial effects of the autonomous market mechanism, economic liberals in principle advocate free markets and minimal state intervention as their key policy prescriptions. By contrast, *although economic nationalists believe that an active role for the state may well be required for economic development, they will in principle adopt any kinds of policy, including 'liberal' ones, so long as these can contribute to enhancing the power of the nation.*

3. Theory

Economic liberalism has developed a systematic theory to explain how and why the market mechanism autonomously achieves economic efficiency and the maximisation of economic welfare. In particular, mainstream (neo-classical) economics has established itself as an independent discipline of economic science. *Drawing on conservative thought, economic nationalism can likewise have a systematic theory, which integrates political, economic and social analyses so as to provide a coherent account of the nature and basis of the political and economic power of the nation.*

4. Methodology

Liberal economic theory draws upon methodological individualism and reduces economic phenomena to the behaviour of individual actors. In particular, mainstream economics basically includes only atomic individuals rationally pursuing their own interests as endogenous factors in its theoretical models. By contrast, *a theory for economic nationalism will rely on a non-rationalist, interpretive and institutional approach to social enquiry, through which it can explore how the components of the nation, such as its public culture, legal institutions and conventions, shape the landscape of economic systems.*

It will be the aim of this thesis to justify the assertions about economic nationalism made in points 3 and 4 above, working with the understanding of its aims and policies set out in points 1

and 2. In the next section I will explain the way in which I will try to carry out this task, and will outline the structure and contents of the thesis. But first I will make some further comments about these contrasts between economic nationalism and liberalism.

Whereas a theory for economic nationalism is expected to put the nation or the nation-state at the centre of political economy, liberal economic theory does not consider it as a major variable. However, this does not mean that economic liberalism has no *practical* relation to the nation-state. Firstly, many who regard themselves as economic liberals and advocate 'liberal' economic policies may in fact be motivated, tacitly or explicitly, by their belief that these policies will enhance the political and economic power of their nation. They should thus be properly regarded as economic nationalists. For example, Richard Cobden, a champion of economic liberalism in nineteenth century Britain, advocated free trade because he believed that it contributed to the enhancement of British national power (Helleiner 2002). However, without the analytical concepts of political power and the nation in its theoretical models, liberal economic theory cannot provide a coherent justification for this kind of belief.

Secondly, as Joan Robinson points out, in so far as political and economic theories significantly influence the choice and implementation of policy, the nation-state cannot be treated as irrelevant, because 'policy means nothing unless there is an authority to carry it out and authorities are national' (Robinson 1964: 117). The power of the nation-state is actually necessary for economic liberal policy, even though liberal economic theory does not take it seriously. Domestically, for example, a centralised power is required to remove customs, privileges and intermediate associations and to introduce uniform standards for economic transactions, in order to realise the necessary conditions for a market economy. Internationally, a hegemonic power, such as Britain in the nineteenth century and the United States in the twentieth century, is required to get rid of tariff and non-tariff barriers and to achieve global political and economic stability, in order to integrate the world market. In short, economic liberals need to make use of the power generated by nationalism and the nation-state to realise their ideals. This

is why, for example, the Thatcher and Reagan administrations centralised governmental power and appealed to nationalistic rhetoric, despite strongly advocating small government, individualism and *laissez-faire* liberalism.

To sum up, many who support supposedly liberal economic policies and regard themselves as economic liberals are not in practice free from economic nationalism. Rather they may actually be motivated by nationalist aims or rely upon economic nationalist assumptions about the power of the nation-state in the measures they adopt to achieve their objectives. However, liberal economic theory and its methodological individualism cannot explain the role of nationalism and the power of the nation-state in the economy. Thus a theory for economic nationalism is arguably required in order to understand and justify policies and practices adopted in the name of economic liberalism, as well as those adopted by economic nationalists. Put another way, such a theory could be expected to provide a far more general account of the modern national and international economy than can be provided by liberal economic theory.

5. An Outline of the Thesis

The overall aim of this thesis is to develop a coherent and systematic theory for economic nationalism, one which appropriately integrates political, economic and social elements. To do this I will draw on the theoretical and methodological insights of conservative thought, including its focus on the combination of the political elements of the state with the social elements of the nation, the role of history in lawful order, the embeddedness of economic activities in social institutions, and the anti-rationalist, interpretive approach to social inquiry.

However, in order to understand the structure and content of the thesis, which will be described soon, it is important to point out that it will not be 'conservative thought in the abstract' that will be drawn upon, but primarily the work of particular figures in the history of conservative thought. Amongst these, the most extensive and detailed attention will be given to David Hume;

the others will be Edmund Burke, Alexander Hamilton (a recognised economic nationalist), G. W. F. Hegel, and Émile Durkheim. The last of these will be used directly as a basis for articulating the theory in a systematic form that is appropriate to the contemporary world.

So my response to the conventional view that economic nationalism *has* no coherent theoretical foundations is twofold. On the one hand, I shall attempt actually to provide one, of a distinctively conservative nature. This will be done mainly in Part IV of the thesis. But on the other hand, I shall argue that important elements and aspects of such a theory are already available in the thought of these historical figures. In other words, I will argue that we can find in the work of these writers not just ‘conservative thought’, but key elements of a theory for economic nationalism. To show this will require a good deal of careful interpretation of their writings, since they are not usually understood in this way. This will be done in Parts II and III of the thesis.

Proceeding in this way has an important implication, which this thesis also aims to justify. Economic liberalism is conventionally seen as differing from economic nationalism not only in having a systematic theoretical basis, but also in having a distinguished intellectual ancestry for this, including the work of founding figures such as Adam Smith and David Ricardo.¹⁰ Economic nationalism’s intellectual ancestry is usually traced back no further than Friedrich List (or perhaps to Hamilton, before him), whose work has anyway not yet been fully recognised as a sophisticated system of economic and social thought. However, once a theory for economic nationalism is understood in conservative terms, it becomes possible to see it as having a distinguished intellectual ancestry in the work of central figures in the tradition of conservative thought.

Before presenting an outline of the various chapters in the thesis, there is one other issue to discuss. To present Hume, Burke and Hegel as *conservative* thinkers – despite their many

¹⁰ However, Donald Winch argues against the conventional view that Adam Smith is a founding father of economic liberalism (Winch 1978, 1983, 1992).

differences from one another – need no special justification, since this is a quite normal way of viewing them. But to argue that we can identify in their work theoretical foundations for economic *nationalism* may at first seem much less plausible. The case for this will be made in the relevant chapters, but there are two issues which it will be useful to discuss now.

First, conservative writers, and Hume and Burke in particular, have often been regarded as economic liberals, because they argue for free trade and against mercantile policy and state intervention. However, as has been noted already, economic nationalism should not be defined in terms of specific policy prescriptions. It is true that Hume and Burke oppose excessive state intervention, but their claims are based on conservative prudence and on an institutionalist view of the economy, which is different from liberal economic theory. They would also reject methodological individualism: like List, they see human beings as social animals and believe that economic systems consist of interlocking institutions, customs, intermediate associations and the historically shaped culture of the nation.

Second, as part of my argument that Hume, Burke and Hegel can be seen as contributing to a theory for economic nationalism, I shall discuss their *political* thought. In particular, I shall argue that they attribute considerable significance to the nation and nationalism in their political theory, since they believe that national consciousness and public culture, historically generated by the legal and political framework of the state, provide a crucial basis for political loyalty and civil order. But their support for this theoretical claim must, of course, be distinguished from their own senses of national attachment. For example, someone might argue that Hume and Hegel could never be described as ‘nationalists’, politically, since Hume personally loved France, while Hegel admired Napoleon and rejoiced at the Prussian defeat at Jena. But this would confuse personal attachments with theoretical claims. However, this does not mean that their political theory has no practical implications. For example, I shall show how Hume’s understanding of the nation leads him to criticise a political form of nationalism which is not based on properly conservative ideas.

I can now present an outline of the thesis. Part I will look at some key literatures on economic nationalism that are relevant to my task, including contributions both by writers who are themselves economic nationalists and by others who have tried to analyse its character. In chapter 1 I shall review a wide range of discussions of economic nationalism in the fields of history, economics and sociology from the late nineteenth century onwards. I shall argue that although some significant aspects of economic nationalism have been identified in these, they do not manage to provide it with a coherent theoretical basis. Chapter 2 will examine the economic thought of Friedrich List, generally regarded as the most important proponent of economic nationalism. List's political economy has been largely underestimated, especially by professional economists. I shall argue that his analytical framework is much more sophisticated than is usually recognised, and is based on his rejection of economic liberalism's methodological individualism. List in effect uses the concept of the nation methodologically so as to explain the dynamics of the national and international economy through the interplay of nation and economy.

In Part II, I shall focus upon Hume. Hume is especially important for the argument of this thesis since his work can be seen to provide the full range of elements required by a theory for economic nationalism, and it does so in a way that is clearly rooted in a philosophically sophisticated form of conservative thought. Chapter 3 will examine Hume's political economy. It will be shown that Hume adopts a cultural, historical and institutional approach in exploring the sources of the economic power of nations, thereby developing essential features of nationalist economic thought, and displaying many significant affinities with List's political economy. Chapter 4 will look at his philosophy of social science and show that his conception of social enquiry is best understood as holistic and interpretive. I shall also argue that his methodology of social enquiry, when applied to his political economy, supports what can properly be called an 'institutional economics'. In Chapter 5, I will examine Hume's political thought and argue that it is best understood as presenting a distinctively conservative political theory of nationalism, which

explains how the loyalty to the nation generated by the historical continuity of the territorial framework of the state provides a foundation for stable order.

Part III will turn to Burke (chapter 6), Hamilton (chapter 7) and Hegel (chapter 8), and will likewise argue that their work can be understood as presenting theoretical foundations for economic nationalism. Chapter 6 will show that Burke regards the customs and traditions of a nation as an important source of economic development, and his conception of a nation echoes that of Hume; the parallels between his criticisms of abstract, 'speculative' rationality in politics and his criticisms of financial speculation will also be explored. In chapter 7, it will be demonstrated that Hamilton, who is well known as a proponent of economic nationalism, drew significantly on his understanding of Hume's political and economic thought, and that his nationalist practice and policy preferences had a Humean theoretical rationale. Chapter 8 will explore the ways in which Hegel's economic thought is based on an interpretive, institutionalist approach to social science, and connects with his political theory to provide an understanding of the significance of the nation and nationalism which is distinctively conservative rather than romantic. His views are also contrasted favourably with the rationalist nature of Fichte's economic nationalism.

Thus in Parts II and III it will be shown how economic nationalism can have sophisticated theoretical and methodological foundations, ones which are very much in line with the views of List as depicted in chapter 2. Professional economists tend to see List as a heretic. However, this heresy in economics will be shown to be based on what is an orthodoxy for major figures in Western intellectual history: by the most important philosopher in the Anglo-Saxon tradition, by the most ardent defender of the British constitution, by one of the founding fathers of the United States and by the intellectual giant of German philosophy.

Part IV will bring us back to the contemporary world. Despite the major contributions to a theory for economic nationalism made by these eighteenth and nineteenth century figures, we still need to develop this in a more systematic manner and also in a way that will enable it to deal

with the issues raised by economic and political phenomena and practices such as Keynesian fiscal and financial policy, technology policy, social protection and globalisation. In chapter 9, using the sociological framework of Émile Durkheim, who is another important figure in the tradition of conservative thought, and drawing also on recent achievements in political economy and the study of nationalism, I shall construct such an updated theory for economic nationalism. On the basis of this theory, in the final chapter I will then discuss the practical implications of economic nationalism in an era of globalisation, and commend it as the best contemporary alternative to economic liberalism.

To conclude this Introduction I will identify four conventional wisdoms of political economy that will be challenged by this thesis. First, it is commonly believed that economic nationalism has no coherent theoretical rationale. However, I shall argue that economic nationalism can have a systematic body of substantive theory as well as methodology, which are built upon sophisticated intellectual foundations. Second, few political economists have considered the nation as one of the primary factors which shape the landscape of the modern economy. In particular, economic liberals have not taken seriously the role of the nation-state in the economy. By contrast, I shall suggest that a crucial source of the dynamic character of modern economies is the nation-state: this is a central proposition asserted and explained by the theory I will be presenting. Third, it has often been thought that economic nationalism is at odds with conservatism, since the political economy of conservatism has often been associated with economic liberalism. However, I shall locate the main elements of the theoretical foundations for economic nationalism within the tradition of conservative thought. Finally, from the hegemonic standpoint of economic liberalism, economic nationalism has been regarded as a heresy. However, I shall show that key tenets and concepts of a theory for economic nationalism can be found in the political, economic and social thought of major figures in Western intellectual history.

Part I
Nation, Economy and Politics

1. Understanding Economic Nationalism

In this chapter I shall review key literatures on economic nationalism in the fields of history, economics and sociology, from the late nineteenth century to the present. By comparison with both economic liberalism and Marxism, economic nationalism has received very little serious academic attention. However, some important insights can be gleaned from these contributions, and their discussion will also serve to substantiate and elaborate the claims made about economic nationalism in the Introduction to this thesis, which were necessarily presented in a brief and schematic way. I shall argue that although some significant aspects of economic nationalism have been identified by the writers I shall discuss, they do not manage to provide it with a coherent theoretical basis.

The literature which I will review includes contributions both by writers who are themselves economic nationalists, such as Gustav Schmoller and Max Weber, and by others who are not, including some who explicitly oppose its normative aims, yet nonetheless recognise its significance and correctly identify and defend some of its key analytical claims. However, I shall defer discussion of the best known and most influential proponent of economic nationalism, Friedrich List, until the next chapter; separate consideration will also be given to the work of Alexander Hamilton in chapter 7.

1. History

My review starts with Gustav Schmoller, who was a champion of the German Historical School and well known as an economic nationalist. The German Historical School was dominant in the political economy of late nineteenth century Germany, and Schmoller was one of its most influential members. After World War II, both the School and economic nationalism lost their dominance in Germany.

Schmoller's work on economic nationalism, *The Mercantile System and its Historical Significance*, was published in 1884. Against the economic liberal view that individual actions driven by individual needs form the basis of a market economy, Schmoller argues that it was the state that politically created the modern economy. To do so, he describes the historical processes through which the territorial state in sixteenth and seventeenth century Europe transformed the economic arena from independent, local communities, such as guilds, towns and cities, to the large-scale, territorial market, by the exercise of political power and the imposition of regulations such as a uniform standard and currency.

Schmoller's argument is valuable for understanding the nature of economic nationalism in four respects. First of all, he distinguishes between the state, the nation and the nation-state. He sees the nation as a 'psychological and social concert' (Schmoller [1884]1902: 61) and a product of the territorial state. Anticipating Ernest Gellner's theory of nationalism, Schmoller suggests that the high levels of mobility and communication in modern economic society, encouraged by the state, contributed significantly to national consciousness¹:

¹ Gellner associates the birth of the nation with industrial society: industrialisation requires

The new postal services created an altogether new system of communication. Bills of exchange, and the large exchange operations at certain fairs, together with the banks which were now making their appearance, produced an enormous and far-reaching machinery of credit. The rise of the press gave birth to a new kind of public opinion, and to a crowd of newspapers which coöperated with the postal service in transforming the means of communication. Moreover, there now took place in the several countries a geographical division of labour, which broke up the old many-sidedness of town industry...

These forces all converging impelled society to some large economic reorganisation on a broader basis, and pointed to the creation of national states with a corresponding policy. (Schmoller [1884]1902: 46-7)

Secondly, Schmoller points out the interplay between politics and the economy. Modern political economies 'treat national power and national wealth as sisters' (Schmoller [1884]1902: 64). More specifically, the relationship between nation- or nation-state-building and national market-making is mutual:

Questions of political power were at issue, which were, at the same time, questions of economic organisation. What was at stake was the creation of real *political* economies as unified organisms, the centre of which should be, not merely a state policy reaching out in all directions, but rather the living heartbeat of a united sentiment. (Schmoller [1884]1902: 50)

Thirdly, Schmoller, as an economic nationalist, argues against the liberal view of the harmony of national interests in the world market. However, he would also reject so-called 'neo-realism' in international relations theory, the view of international relations as zero-sum games, which has often been associated with economic nationalism (Gilpin 1987: 47). For him, both views are one-sided: 'The doctrine of the natural harmony of the economic interests of all states is just as

interchangeability, mobility and state-supervised education so as to generate national consciousness (Gellner 1983). However, as many commentators point out, nations emerged before industrialisation. Modifying Gellner's argument, Michael Mann insists that the growth in the media of discursive communication in the eighteenth century, rather than industrialisation, contributed to the rise of national consciousness (Mann 1992).

false as the opinion then entertained that an advantage to one state is always a disadvantage to another' (Schmoller [1884]1902: 63).

Finally, Schmoller points out the necessity of a macroscopic or holist perspective for analysing the dynamics of political economies: 'All economic and political life rests upon psychical mass movements, mass-sentiments, and mass-conceptions, gravitating around certain centres' (Schmoller [1884]1902:61). Against the economic liberal view that economic phenomena could be reduced to individual, egoistic actions, he suggests that the 'real psychical motives' which operate as the driving force of capitalism are national sentiments (Schmoller [1884]1902: 80). He sees nationalism as the source of the dynamics of the modern political economy.

However, although there are many important insights in Schmoller's work, he does not offer a systematic theoretical basis for economic nationalism. His work is descriptive and historical rather than theoretical, whilst claiming that what he describes is a 'universal tendency' (Schmoller [1884]1902: 60). He believes that a sufficient description of social phenomena could lead by itself to the uncovering of historical laws and to the formulation of a general explanation. But it can reasonably be argued that the mere description of particular facts, however detailed, is not an adequate basis for theoretical explanation, and that Schmoller fails to specify an appropriate method of theory-construction (Hodgson 2001: 113-7).

In contrast with the German tradition, historians who deal with economic nationalism have been rare in the Anglo-Saxon tradition. However, some economic historians, such as Jacob Viner, D. C. Coleman and Charles Wilson, have studied mercantilism, and their work is not without value for an understanding of economic nationalism (Coleman 1969). An important

article is Viner's 'Power versus Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries'.² Because he does not distinguish between state and nation, and hence between mercantilism and economic nationalism, Viner makes certain errors. For example, in criticising Schmoller's view for being parochial, Viner insists that 'The economic unification of the nation-state appears mostly to have occurred before the advent of mercantilism, as in England, or after its decay, as in France, Spain, Russia, Switzerland, Italy, the United States, or the British Dominions, if the national unification of tariffs or other significant criteria are applied' (Viner 1969: 62n1). But this is wrong: mercantilism predated the rise of the nation-state (Mayall 1990: 72). Unlike Schmoller, Viner fails to distinguish between the state and the nation.: what he means by 'nation-state' and 'national' in the quotation above should be replaced respectively by 'territorial state' and 'territorial.'

Nonetheless, it is worthwhile considering Viner's analysis of mercantilism, since there are elements of this which can implicitly contribute to an understanding of economic nationalism, and whereas Schmoller mainly focuses upon the economic history of Prussia, Viner surveys many other countries, providing a better basis for generalisation. The strength of Viner's work is to throw light upon the respective roles of power and plenty as ends of national policy, thereby illuminating an important feature of economic nationalist thought. He summarises his conclusions as follows:

I believe that practically all mercantilists, whatever the period, country, or status of the particular individual, would have subscribed to all of the following propositions: (1) wealth is an absolutely essential means to power, whether for security or for aggression; (2) power is essential or valuable as a means to the acquisition or retention of wealth; (3)

² Viner himself seems critical of economic nationalism. In 'International Relations between State-Controlled National Economies,' he defends economic liberalism and attacks economic nationalism, though he identifies economic nationalism with socialism on a national basis (Viner 1944).

wealth and power are each proper ultimate ends of national policy; (4) there is long-run harmony between these ends, although in particular circumstances it may be necessary for a time to make economic sacrifices in the interest of military security and therefore also of long-run prosperity. (Viner 1969: 71)

Thus both Schmoller and Viner identify a key proposition associated with economic nationalism, that the political and economic power of the nation-state are interdependent. As was noted earlier in the Introduction, one of the goals of a theory for economic nationalism is to offer a proper explanation of the mutually reinforcing relationship between political and economic power.

Another historian in the Anglo-Saxon tradition who deals with economic nationalism is E. H. Carr. Carr's concern in his *Nationalism and After* (Carr 1945) is with nationalism in general, and his discussion of economic nationalism is set in this broader context. As will be seen, like Schmoller and Viner, Carr recognises the interdependence of political and economic power as a pivotal element of economic nationalism.

Carr regards the modern history of international relations as the rise and change of the idea of the nation, and divides this history into four, partly overlapping, periods. The first period begins with the gradual dissolution of the mediaeval unity of empire and the establishment of the nation-state, and is terminated by the French Revolution and the Napoleonic wars. The second period is from the French Revolution to 1914. In this period, politically, nationalism became more dominant and what he calls 'the democratisation of the nation' developed, while economically, national economies were being integrated into a single world economy. Carr describes the international political and economic order in this period as 'a compromise between the popular and democratic appeal of political nationalism and the esoteric

and autocratic management of the international economic mechanism.’ (Carr 1945: 7) He sees the crisis of international politics since 1914 as the collapse of this compromise. The third period is from 1870 to 1939, characterised by the transition from liberal democracy of the middle-class to mass democracy. In this period, what he calls ‘the socialisation of the nation’ emerged: the primary aim of national policy turns from maintaining law and order to managing the welfare of the people positively. Finally, the fourth period is that of his own time.

There are three important points in Carr’s overall argument. First of all, he rightly indicates that the nation is neither a natural or biological group, nor a voluntary association, but a ‘historical group’ (Carr 1945: 39). Secondly, in the international relations literature, economic nationalism and mercantilism have often been conflated, while both economic liberalism and socialism have been distinguished from economic nationalism. However, in Carr’s view, mercantilism, economic liberalism and socialism can all be seen as kinds of economic nationalism, occurring respectively in the first, second and third periods identified above:

Modern policies of economic nationalism, since they represent a breach with the international order of *laissez-faire* and are in some respects identical with practices current before the rise of *laissez-faire*, have sometimes been dubbed “neo-mercantilist”. This designation is, however, misleading. From the standpoint of nationalism they constitute not a return to the past, but a further stage in a continuous process of the extension of the nation from the aristocracy to the middle class and from the middle class to the masses.’ (Carr 1945: 22n1)

Finally, against the economic liberal view that economic systems could operate independently of politics, Carr argues that political and economic powers are inseparable. In particular, the formation of a single world economy during the second period was not the product of the principle of free trade but of British economic power bound up with her political power. Thus a

supposedly single world market was in fact the expanded British free market, supported by the uncontested supremacy of British political power. However, according to Carr, since this fact was overlooked, with the dominance of economic liberal beliefs, there was little resentment among other nations. The international economic order in this period was founded upon the economic liberal fiction of a world market entirely free from politics. But the growth of nationalism broke this economic liberal illusion and caused 'the *visible* union of economic with political power' (Carr 1945: 18; italics added).

Carr is critical of the economic nationalism of this third period. He argues that the 'socialised nation' without any modification contradicts the development of international order. However, he is also critical of the economic liberalism of the second period. In a similar vein to Karl Polanyi, he argues that the socialisation of the nation is a movement of self-defence against the devastating consequences of unbounded free competition in a world market (Carr 1945: 45-6). Further, he does not think that the nation-state and economic nationalism will disappear. Thus his solution to the problem of international order is 'a reinforcement of national by multi-national and international planning.' (Carr 1945: 47)

For Carr, the ideal international order in the fourth period is 'a balanced structure of international or multi-national groupings both for the maintenance of security and for the planned development of the economies of geographical areas and groups of nations.' (Carr 1945: 70) He expects that an international system of overlapping and interlocking loyalties and diverse authorities would prevent intolerable and selfish nationalism. Needless to say, the Cold War prevented the realisation of his preferred form of internationalism. However, his ideas are

important today, in the age of globalisation after the end of the Cold War, and I shall discuss the question of economic nationalism and international order in the final chapter.

2. Economics³

Among economists, I turn first to Ludwig von Mises. One might expect to find in his work an entirely negative view of economic nationalism, since he is a leading figure of the Austrian School, the rival of the German Historical School, and a champion of economic liberalism⁴. However, profoundly impressed by German and Austrian history after the revolutions of 1848, Mises takes seriously the nation and nationalism and their relation to the economy, and also tries to come to some accommodation with economic nationalist aims. Here I will consider his book, *Nation, State and Economy* (Mises [1919]2000), and his speech in 1943, 'Economic Nationalism and Peaceful Economic Cooperation' (Mises 1943). The former presents his diagnosis of, and prescription for, the international crisis associated with World War I, the latter likewise for World War II.

Mises appropriately distinguishes the nation from the state and the race, but defines it as a 'speech community': a community based upon common language. This definition is problematic, since there are multi-lingual nations such as Belgium and Switzerland, and it leads

³ For a more extensive survey of economic literatures on economic nationalism, see Kofman (1990), though Kofman confuses nationalism with statism. On the influence of nationalism on economic theory, see Moffat (1928).

⁴ It is important to note that Mises's approach, which he calls 'praxeology', is different from that of mainstream economics, even though he is regarded as an economic liberal. Praxeology rejects the assumption of atomic individuals and sheds light on the subjectivity of human actions (Mises 1996). It is quite similar to the interpretive approach.

him to make the rather odd claim that 'In truth, the English and Americans are a single nation.' (Mises [1919]2000: 44) Nonetheless, his conception of the nation includes some insights relevant to contemporary debates in the study of nationalism. First, Mises thinks that nations, like languages, are not unchangeable but in constant flux (Mises [1919]2000: 38). Second, anticipating Ernest Gellner (Gellner 1983), he argues that a standard language, spread by the educational system of the state, promotes social intercourse and the development of a large-scale society beyond local communities in the form of a nation (Mises [1919]2000: 46-56).⁵ Finally, he suggests that although the nation is a modern product, it has an ethnic origin. 'Community of language is at first the consequence of an ethnic or social community; independently of its origin; however, it itself now becomes a new bond that creates definite social relations.' (Mises [1919]2000: 38; cf. Smith (1991))

Mises divides nationalism into two types: liberal, or pacific nationalism, and militant, or imperialistic nationalism. He does not think that the idea of liberal democracy is at odds with that of nationalism. Rather, the idea of freedom from the oppressor is associated with that of national self-determination. The unity of the nation-state is necessary, because it generates political and economic power strong enough to overcome the alliance of the oppressors. Liberal nationalism is pacific, since its enemy is not other nations but tyrants.⁶ Thus liberalism is both national and cosmopolitan. However, Mises argues that there are reasons why liberal nationalism may turn into militant nationalism. First, economic liberalism, which demands the

⁵ Consider the similar background of Mises and Gellner: both were born in the ethnically and linguistically polychromatic area of the former Austro-Hungarian empire.

⁶ I think this view too naïve, considering the connection of the liberal democratic ideal with belligerent nationalism in the French Revolution.

unification of law and free trade not only within a nation-state but also among nation-states in order to create a borderless market, conflicts with the political reality of national diversity. Second, in multi-ethnic states, democracy tends to involve the oppression of minority groups by a majority group. In addition, migration in a free world labour-market makes the ethnic problems of multi-ethnic states more difficult. These problems are likely to direct nationalist movements towards state-destruction or state-creation and cause wars.

Mises's solution for preventing militant nationalism is to persuade the world to understand the positive-sum merits of free trade. In his talk given in 1943, he rejects the Wilsonian ideal of liberal democracy as the basis for international peace. This ideal was appropriate only in a world of perfect free trade. However, 'Ours is not an age of *laissez faire*, *laissez passer*, but an age of economic nationalism. All governments are eager to promote the well-being of their citizens or of some groups of their citizens by inflicting harm upon foreigners.' (Mises 1943: 3) Instead of this unrealistic Wilsonian prescription, Mises argues that 'we must first try to change this mentality.' (Mises 1943: 5). He proposes that a small group of economists should enlighten their contemporaries to understand that the free mobility of capital, labour and products is best for national interests when these are correctly understood. Thus he tries to show that the policies associated with economic liberalism are ones which should nonetheless be adopted by those who support economic nationalist aims.

However, Mises's idea of what may be called 'liberally enlightened economic nationalism' is arguably rather naïve, considering that a free world market threatens national communities, as E. H. Carr, and later Karl Polanyi, emphasise. Indeed, it is Mises himself who points out the possibility that the free mobility of labour will threaten the nationality principle as

the foundation of liberal democracy and transform liberal nationalism into militant nationalism. It is also doubtful whether a free world market could be realised only by economists' persuasion, without the political power of a hegemonic nation-state such as nineteenth century Britain and twentieth century America.

John Maynard Keynes's early writing on economic nationalism also deserves consideration. It is true that whether Keynes was consistently an economic nationalist is controversial, yet he certainly criticised economic liberalism and at times explicitly supported key elements of economic nationalism, for example in 'National Self-Sufficiency' (Keynes 1933). The reasons given are threefold. The first is political. Economic liberals believe that international free trade could achieve peace and concord between nations. But Keynes insists that the negative impact of international economies on domestic politics and economic life prevents such an ideal being realised (Keynes 1933: 757-8). The second is economic. Economic liberals believe that the international division of labour could maximise the world's economic welfare. However, Keynes worries that specialisation reduces the diversity of industrial products supplied within the domestic economy, though he admits the merits of specialisation to some extent (Keynes 1933: 760). The third and most important reason is social and cultural. Keynes attacks the economic liberal view of a uniform world economy and defends the diversity of national economic systems:

It is my central contention that there is no prospect for the next generation of a uniformity of economic system through the world, such as existed, broadly speaking, during the nineteenth century; that we all need to be as free as possible of interference from economic changes elsewhere, in order to make our own favourite experiments towards the ideal social republic of the future; and that a deliberate movement towards greater national self-sufficiency and economic isolation will make our task easier, in so far as it can be accomplished without excessive economic cost. (Keynes 1933: 763)

He thus prioritises social and cultural values over economic values, and argues for national self-sufficiency in order to fulfil the nation's cultural and social ideals. The role of the state is emphasised in achieving this: 'It is the state, rather than the individual, which needs to change its criterion.' (Keynes 1933: 765)

There are three important features of Keynes's economic nationalism. Firstly, he conceives of national self-sufficiency as a movement towards national autonomy rather than perfect autarky or isolation.⁷ Secondly, he distinguishes economic nationalism from 'straightforward protectionism of the old-fashioned type' as adopted by Italy, Russia and Germany in the 1930s (Keynes 1933: 766). Finally, Keynes proposes a gradual transition towards greater national self-sufficiency rather than a radical revolution (Keynes 1933: 767-8). However, what exactly Keynes means by national self-sufficiency is not clear. As he himself admits, 'the new economic modes, towards which we are blundering, are, in the essence of their nature, experiments. We have no clear idea laid up in our minds beforehand of exactly what we want.' (Keynes 1933: 768) It is nonetheless important to note that his argument implies that economic nationalism prioritises non-economic values, in particular national autonomy, over economic values.

Let us turn now to Frank Knight's essay, 'Economic Theory and Nationalism' (Knight 1935a). This is an important work which raises some complex issues about economic nationalism. Knight was an American institutional economist, influenced by the later German

⁷ Examining Alexander Hamilton's and Friedrich List's economic nationalism, Christine Harlen argues that autarky is not necessarily a defining element of economic nationalism (Harlen 1999).

Historical School (Hodgson 2001: 157-161).⁸ In this essay, Knight identifies three types of economic system: economic individualism (economic liberalism), economic democracy or socialism, and fascist-nationalism (economic nationalism). He sees the world of his time as in a period of transition from the first to the third of these.⁹ He regards this transition as more or less inevitable, but as a political liberal, he very much regrets this historical development. We will return to this issue later, having considered another important element in his essay, the methodological critique of mainstream economics.

Knight argues that orthodox economic theory has serious problems in understanding economic and social reality, and argues for a holist or institutionalist approach to social action as an alternative. There are three main targets of his criticisms: positivism, methodological individualism and instrumental rationalism. Firstly, mainstream economics, following the model of natural science, treats economic behaviour in quantitative terms. However, economic behaviour is essentially subjective, and therefore not quantifiable. Secondly, mainstream economics represents human beings as atomistic individuals. However, human beings are social animals, and economic action in reality is inter-subjective and inter-active. Finally, mainstream economics sees individual liberty as instrumental for maximising individual utility. However, Knight argues that the value of liberty is non-instrumental; it is a moral ideal, and was such in the period of economic individualism in the nineteenth century.

⁸ Other 'American institutionalists' included Thorstein Veblen, John Commons and Wesley C. Mitchell. However, in the essay, Knight uses the term 'institutionalism' to refer to Marxian economic determinism.

⁹ Roughly speaking, the systems of economic individualism and fascist-nationalism correspond respectively to the second and the third periods in Carr's classification; the system of economic democracy seems to belong to the early stage of the third period.

Knight's discussion of methodology also shows that he sees a close connection between the institutional approach and aspects of conservative thought. He argues that human behaviour is influenced not only by deliberation but also by habits and unconscious motives, and that tradition, faith and authority are important for social integration and order. For Knight, this view leads to a conservative and anti-rationalist attitude¹⁰:

This brings us to the observation that in determining one's general attitude toward social problems, there are very weighty presumptions in favour of a generally "conservative" position. One of the evils which has resulted from carrying the natural science conceptions over into the field of social discussion is the common delusion that by the happy discovery of some formula, it may be possible to change the character and constitution of society in a way comparable to the modern development of technology through science. The two problems are utterly different, and the natural consequence of any such a belief is to create a danger of social disintegration and the destruction of culture and of life.

All reflection on the problem of a society changing itself tends to emphasize the necessity of "gradualness." (Knight 1935a: 348)

However, Knight's concerns about social integration and order, and his views about what is required to maintain these, give rise to certain tensions in his attitudes towards economic nationalism and economic liberalism. He argues that 'social order cannot be maintained, especially on the scale demanded by modern technology, in the absence of a *social* religion, in contrast with one of individual "freedom" and "self-expression".' Thus any kind of society needs its sacred foundation: political or ethical doctrine alone cannot integrate society. But this view generates a two-fold problem for Knight.

On the one hand, his discussion of societies based on the system of economic individualism – whose political values he supports – does not indicate how they satisfied this

¹⁰ One of the main elements of conservative thought is its anti-rationalism. See Oakeshott (1991).

requirement for social order. It seems that they are integrated by the doctrine of economic individualism, without any 'social religion', so that the necessary element of the sacred is missing in his analysis of liberal society. On the other hand, as he acknowledges, this requirement for 'a social religion' is clearly satisfied by societies with 'fascist-nationalist' economic systems, despite the undesirability of their political values:

Furthermore, speaking as one perhaps second to one in hatred of nationalistic dictatorship, I must still confess to seeing in the nationalistic philosophy a central core of profound truth. Social-moral motivation must rest on more than pure, abstract ethical idealism. It has a quality properly called religious. (Knight 1935a: 321)¹¹

However, these difficulties for Knight are arguably due to the fact that he identifies economic nationalism with fascism. Yet fascism is only *one* type of economic nationalism. As Carr and Mises point out, there is also a liberal form of nationalism. Indeed, this could perhaps be proposed as the 'social religion' required as a basis for social order and integration in his 'economically individualist' societies. This might then enable Knight's institutional approach to be applied consistently in the form of an economic nationalist alternative to liberal economic theory and methodology, but without threatening his liberal values. However, this would require the development of a substantive theory for economic nationalism, of the kind which this thesis will attempt to provide.

After the 1930s, American institutional economics declined, replaced by the positivist and behaviourist economics of the neo-classical school, with very little attention being given to economic nationalism by professional economists. An important exception among economists in

¹¹ Knight's view of nationalism as a 'social religion' and hence a potential source of the unity and power of modern society is arguably the key to an understanding of nationalism. For example, influenced by Émile Durkheim's sociology of religion, Anthony Smith has recently argued for the sacred foundation of national identity (Smith 1991 and 2003).

the Anglo-Saxon tradition is the work of Harry G. Johnson. Johnson develops a theoretical model which is intended to explain how nationalism is connected with the adoption of certain economic policies (Johnson 1967). He recognises that in order to do this it is necessary to combine economics with political science. The way he does this is to make use of Gary S. Becker's and Anthony Downs's application of rational choice theory to political phenomena. He thus attempts to understand economic nationalism in terms of a rational choice approach to political economy.

As one of the implications of his model, Johnson says that 'nationalist economic policy will tend to foster activities selected for their symbolic value in terms of concepts of national identity and the economic content of nationhood' (Johnson 1967: 13). This statement seems plausible and important. However, the problem is that rational choice theory cannot explain this phenomenon properly. First of all, Johnson's model treats nationalism as a given 'bias' directing economic policy along certain specific lines, yet does not explain where nationalism itself comes from (Boudon 1998: 820-1). Secondly, since Johnson's rational choice model does not and cannot internalise non-instrumental and non-economic values, its ability to explain the non-economic aspects of economic nationalist policies is seriously limited. For example, Johnson argues that nationalism will tend to redistribute material income from the lower class toward the middle class. However, he himself admits that his rational choice model cannot explain why nationalists prefer this redistribution, and suggests that history, sociology and political science will be required to answer this question (Johnson 1967: 16).

Finally, in this review of the economic literature, attention should be given to Simon Kuznets's work, *Modern Economic Growth*. Although Kuznets does not address economic

nationalism as such, he nevertheless introduces the concepts of the nation-state and nationalism into economics. Kuznets's great contribution to economics is to establish the modern national product and national income accounts as the foundation for the study of economic growth. He proposes that the proper unit of research is the nation-state., thereby establishing the common starting point of economic growth studies. Further, although his own work on economic growth is primarily historical and descriptive (Abramovitz 1989: 12-3), an important contribution to the theoretical understanding of economic growth can be seen in his argument.

Kuznets argues that it is the 'extended application of science to problems of economic production' (Kuznets 1966: 5) which distinguishes the modern economic epoch from the premodern one. However, he rejects the simple view that modern scientific knowledge alone created the modern economy. Rather he emphasises the 'interrelations of technological, social, and spiritual change', because the application of science to economic technology could not have taken place without changes in social institutions and attitudes (Kuznets 1966: 12). Kuznets identifies three social values associated with the modern economic epoch: secularism, egalitarianism and nationalism. Secularism means 'concentration on life on earth, with a scale of priorities that assigns a high rank to economic attainment within an accepted framework of social institutions', and egalitarianism means 'a denial of any inborn differences among human beings, unless and except as they manifest themselves in human activity'(Kuznets 1966: 13). Kuznets argues that the connection is obvious between secularism, egalitarianism, and the successful exploitation of science by human activities. But it is his view of nationalism which is important for our discussion.

Kuznets properly defines nationalism as 'the claim of community of feeling, grounded in a common historical past and its cultural heritage – in its extreme form, an overriding claim of allegiance of the members to the larger community and sovereignty vis-à-vis all groups beyond the national unit' (Kuznets 1966: 14). He suggests that nationalism, which discriminates between the members of a nation and those who are not, severely limits egalitarianism. However, he does not see nationalism as a necessarily negative factor for economic growth. Rather, nationalism significantly shapes the landscape of the growth-oriented economy, and it is therefore justifiable to take the nation-state as the unit to be studied:

a nation-state can operate as a sovereign entity largely because its common historical and cultural heritage results in a community of feeling, in a sense of belonging together and apart from others: and this in turn gives rise to an interest in, and concern about, the past, present, and prospective progress of the nation-state. (Kuznets 1966: 16)

In addition, 'the nation-state has governmental agencies capable of making many long-term decisions that either promote or impede economic growth' through executive, legislative and judicial powers (Kuznets 1966: 17). In short, 'growth accounting,' the foundation of modern economics, is underpinned by the idea that the nation-state is a primary actor in the modern economy and significantly affects the course of economic growth, with which all economic nationalists are centrally concerned.

Kuznets argues for the significance of nationalism and the nation-state in modern economies in order to establish and justify the general framework of economic growth studies, and does not develop further a theory concerning the relationship between the nation-state and the modern economy. However, in the postscript to *Modern Economic Growth* he makes an important observation. He suggests that inequality in growth rates among nation-states may

have rapidly changed the international relations of political and economic power, and caused international strains. Moreover, rapid economic growth, accompanied by the weakening of family, religious and local ties, may have encouraged vigorous nationalism as the condition for international conflicts (Kuznets 1966: 500).¹²

3. Sociology

Among sociologists, I turn first to Max Weber.¹³ Like Schmoller, he himself was an economic nationalist. In his inaugural lecture titled 'The Nation State and Economic Policy', Weber develops his view of political economy, which conforms to the conception of economic nationalism described by Schmoller: 'processes of economic development are power struggles too, and the ultimate and decisive interests which economic policy must serve are the interests of national *power*, whenever these interests are in question' (Weber [1895]1994: 16).

For Weber, it is politics which generates the dynamics of national and international economies. He calls the process of economic development a '*process of selection*,' meaning by this that 'the victorious nationality is the one possessing the greater ability to adapt itself to the given economic and social conditions of life' (Weber [1895]1994: 10). His view is certainly

¹² Although implicitly indebted to Kuznets's understanding of the importance of the nation-state, professional economists have generally ignored the pivotal role of nationalism and the nation-state in economic growth. In recent years, however, Moses Abramovitz and others have paid attention to what they call 'social capability', a country's ability to make use of technology for productivity growth (Abramovitz 1989); this approach is more open to recognising the significance of the nation.

¹³ Another important figure for my task among classical sociologists is Émile Durkheim, but I shall defer consideration of his work until chapter 9 below, where I draw upon it to provide systematic theoretical foundations for economic nationalism.

evolutionary. Yet he thinks that unlike the natural law of the survival of the fittest, political processes of selection do not always operate in favour of the most developed national economy (Weber [1895]1994: 11).

In this lecture, Weber refers to 'physical and psychological racial differences between nationalities' (Weber [1895]1994: 2). It appears that here he comes close to identifying nation with race. However, Weber defines the concept of the nation more properly elsewhere: 'a nation is a community of sentiment which would adequately manifest itself in a state of its own' (Weber 1948a: 179). Here he does not confuse nation, race, ethnicity and state (Conner 1994: 102-3).

Weber strongly attacks Marxism for its reduction of politics to economics. He insists that it is politics which creates economic development, and that the basis of politics is subjective value judgments. In his view, the ultimate core of these judgements, namely *ideals*, are derived from nationality (Weber [1895]1994: 18-29). In other words, it is nationalism which drives economic development and determines its direction. Thus Weber argues that 'The economic policy of a German state, and, equally, the criterion of value used by a German economic theorist, can therefore only be a German policy or criterion' (Weber [1895]1994: 15). Weber also attacks the economic liberal view of the world economy. For him, not only the national but also the international economy is created by political struggles for existence among nation-states. However, interestingly enough, Weber argues that the expansion of the world economy, or 'globalisation' in contemporary terms, which is generated by the expansion of struggles among nation-states, will turn back to destroy national communities:

Equally, the expanded economic community is just another form of the struggle of the nations with each other, one which has not eased the struggle

to defend one's own culture but summons material interests within the body of the nation to ally themselves with it in the fight against the future of the nation. (Weber [1895]1994: 16)

There are two important implications of Weber's views for my purposes. First of all, as a social scientist, he suggests that if one is to understand the economy, one should not neglect politics: 'The science of political economy is a *political* science' (Weber [1895]1994: 16). Both economic liberalism and Marxism, which underestimate the role of politics in the economy, are inappropriate. Secondly, as an economic nationalist, Weber prioritises national unity over economic prosperity. He worries that excessive economic development would enlarge the gap between the rich and the poor, and undermine national solidarity:

The deepest core of the *socio-political* problem is not the question of the *economic* situation of the *ruled* but of the *political* qualifications of the *ruling and rising* classes. The aim of our socio-political activity is not to make everybody happy but the *social unification* of the nation, which has been split apart by modern economic development, and to prepare it for the strenuous struggles of the future [Weber's italics]. (Weber [1895]1994:26-7)

Thus the supreme goal of economic nationalists is not the augmentation of economic welfare but the unity, identity and solidarity of the nation. As Weber recognises, economic nationalism is nationalism, not industrialism. Economic nationalism is (normatively) a political and social doctrine rather than an economic one in the narrow sense, and its theoretical foundations must combine economic with political and social analysis.

However, it is unclear just how Weber's nationalist view of political economy, as articulated in this lecture, is located in his overall system of sociology. In particular, what is the relationship between capitalism as a process of political struggle among nationalities, and capitalism as a process of rationalisation, the main focus of Weber's economic sociology?

Normatively, Weber clearly prefers nationalism to rationalism. However, analytically, he does not explain the relationship between the roles of nationalism and rationalism in a capitalist political economy.

After Weber, for many years few sociologists addressed the issue of economic nationalism. However, over the past two decades, the sociology of nationalism has developed strikingly, and within this field of inquiry a number of studies have been conducted of the relationship between the economy and nationalism (for example, Gellner 1983). Yet even here, the task of examining economic nationalism itself has still received strangely little attention. An important exception is Liah Greenfeld's recent book, *The Spirit of Capitalism: Nationalism and Economic Growth* (Greenfield 2001). In her previous book, *Nationalism: Five Roads to Modernity*, she argued that the emergence of nationalism predated industrialisation in England, France, Russia, Germany and the United States. Against Gellner's materialism, she maintained that nationalism arose in response to more contingent, political factors (Greenfeld 1992). In *The Spirit of Capitalism*, she develops her argument about nationalism into a study of economic nationalism.

The main aim of her work is to identify the causes of capitalism as a growth-oriented economy. Economists and economic historians, such as Simon Kuznets, W.W. Rostow and David Landes, have identified the *conditions* for a growth-oriented economy, such as growth of population, the development of financial institutions, market expansion, scientific and technological progress and so forth. However, Greenfeld argues that a condition is not a cause: without the human will to utilise these conditions, the economy would be inert. Therefore, one should search for the real cause of capitalism in a history of consciousness, just as Max Weber

did in *The Protestant Ethic and the Spirit of Capitalism*.¹⁴ Inspired by Weber's famous study in historical sociology, as the title of her book shows, Greenfeld traces a history of economic consciousness, and boldly concludes that the spirit of capitalism is not Protestantism but economic nationalism. Economic nationalism created the growth-oriented economy by driving people to an endless race for national prestige in the world economy.

Greenfeld's argument that economic nationalism has been a driving force in the transformation to a growth-oriented economy is persuasive, though it may be 'only one side of the causal chain' in the birth of capitalism, as Weber says about the Protestant ethic (Weber [1930]1992: 27). However, her argument does not address the question of the possible theoretical basis upon which nationalists might select certain specific policies as preferable for the conditions of economic growth; she deals with economic nationalism as a motivational basis for economic activities, but not with its theoretical foundations in political economy. It is true that most economic nationalists have derived their policy prescriptions from practice rather than a systematic theory. However, these policies, such as trade protection and industrial policy, are usually rejected by orthodox economics, and if Greenfeld is right, economic nationalists not only intervened in the economy against the dictates of this academic orthodoxy, but also succeeded in encouraging economic growth by doing so, and there should therefore be some (non-orthodox) explanation for this success.

Admittedly, economic nationalist policies have not always succeeded in achieving their objective, but it seems reasonable to assume that there is some theoretical basis for the policies to promote economic growth which have (often successfully) been adopted by economic

¹⁴ Greenfeld does not refer to Kuznets's argument about nationalism.

nationalists. For this purpose, not only a sociological understanding of nationalism, but also the insights of political economy about economic development will be required. Yet political economists have conventionally conflated the nation with the state, and scarcely considered the cultural aspects of the nation in their analyses.

In the last few years, however, a new and more promising approach has been proposed in the field of international political economy (Mayall 1990: chapt. 4 and 5; Crane 1998; Shulman 2000; Abdelal 2001; Helleiner 2002). The distinctive nature of this new approach is twofold. First, it correctly specifies the meaning of economic nationalism in terms of the 'nation' rather than the 'state', referring to recent achievements in the sociology of nationalism. Second, it defines this ideology in terms of its nationalist aims and content rather than its specific policy prescriptions (Helleiner 2002). By 'bringing the nation back in' (to use George Crane's phrase) to political economy, this approach has thrown new light upon the study of economic nationalism. However, it does not take us very far in articulating a theoretical basis for this ideology, one that would explain why the nation is a crucial factor in political economy,¹⁵ and that would also provide a theoretical rationale for the adoption of various policies to achieve the economic nationalist's goals. More generally, as Schmoller, Viner and others indicate, economic nationalists believe that there is a mutually reinforcing relationship between the political and

¹⁵ Andreas Pickel has recently made an important contribution to the theorising of economic nationalism in this respect (Pickel 2003). He presents a functionalist model of economic nationalism, according to which nationalism performs a fundamental role in both the integration and disintegration of national and international political economies and societies. In so arguing, he proposes that 'economic nationalism is better understood as a generic phenomenon that can accommodate almost any doctrinal content, including economic liberalism' (Pickel 2003: 112). This work will have much in common with his argument.

economic power of the nation-state. What is needed is a secure theoretical foundation for this belief.

5. Conclusion

I will conclude by bringing together the main contributions to an understanding of economic nationalism which have emerged from this review of the literature, relating these to key claims that were made in the preceding chapter.

Firstly, the nation is to be clearly distinguished from the state, and thus economic nationalism from mercantilism. The nation is itself variously defined as a kind of community integrated by non-political symbols such as territory (Schmoller), history (Carr), common language (Mises), the sacred (Knight) and cultural heritage (Kuznets).

Secondly, some of the ways in which economic nationalism and economic liberalism have conventionally been defined and distinguished from one another should be revised. Schmoller, as an economic nationalist, rejects the zero-sum game view of the international economy, which has usually been attributed to economic nationalism. Moreover, Carr points out that the liberal economic order of the nineteenth century was formed by British political power rather than free trade. Mises, as an economic liberal, argues for an accommodation with economic nationalism through acceptance of the belief that free trade is best for national interests. Both Carr's and Mises's arguments imply that economic liberalism and economic nationalism cannot be distinguished in terms of specific policy prescriptions.

Thirdly, Viner argues that the central idea of economic nationalism is its emphasis on the mutually reinforcing relationship between the political power and economic power of the nation-state, a view which Schmoller and Keynes, as economic nationalists, clearly endorse. Carr, Knight, Kuznets, Weber and Greenfeld also support the claim that nationalism and the nation-state play a pivotal role in the modern economy, a view which is crucial to any theoretical rationale for economic nationalism. Finally, the methodological inadequacies of liberal economic theory – well illustrated by the failings of Johnson's rational choice model – are criticised by Knight, whose alternative institutional and interpretive approach is better equipped to understand the roles of politics, history, culture and institutions in the economy. However, the application of this approach to the construction of substantive theoretical foundations for economic nationalism remains to be done. The next chapter will show that the work of Friedrich List may be seen as an important contribution to this task.

2. Methodological Nationalism

As has been seen, the provision of a theoretical basis for economic nationalism requires an integration of political, economic and social theory. This chapter will show how Friedrich List, the most important proponent of economic nationalism, contributes to this task. It will do so by focusing upon his methodology in his *National System of Political Economy*, published in 1840.¹

Under the dominance of economic liberalism, professional economists have tended to regard List's economic nationalism as lacking any systematic analytic framework. In recent years, however, there has been renewal of interest in List in the field of political economy, and some commentators have noted that List criticises the methodology of classical economics (its methodological individualism) and bases his political economy upon the nation or nation-state (Sporluk 1991; Levi-Faur 1997a, 1997b; Winch 1998; Harlen 1999; Helleiner 2002). However, the distinctive characters of his own methodology have not been fully examined. The present analysis will show that List not only introduces the concept of the nation into economic analysis, but also uses it methodologically to provide a consistent account of the interdependence between political and economic powers and to elucidate the dynamics of the modern economy. In the earlier sections of this chapter, I shall examine the main elements of his methodology. In the final section, its contribution to modern political economy will be discussed.

¹ Abbreviations of the *National System* (three volumes) are: NSPE I (List [1840]1999a); NSPE II (List

1. Nation as Methodology

List's strategy for fighting against the dominance of the classical school is to target what he perceives as its methodological difficulties. His critique of the classical school or economic liberalism is as follows:

Firstly, from boundless cosmopolitanism, which neither recognises the principle of nationality, nor takes into consideration the satisfaction of its interests; secondly, from a dead materialism, which everywhere regards chiefly the mere exchangeable value of things without taking into consideration the mental and political, the present and the future interests, and the productive powers of the nation; thirdly, from a disorganising particularism and individualism, which, ignoring the nature and character of social labour and the operation of the union of powers in their higher consequences, considers private industry only as it would develop itself under a state of free interchange with society (i.e. with the whole human race) were that race not divided into separate national societies. (NSPE II: 70)

List identifies three defects – cosmopolitanism, materialism and individualism. However of these, the first two are derivative from the third, individualism. The classical school reduces the economy to the self-interest seeking activities of atomised individuals and has no theoretical conception of the nation as a cultural entity. By contrast, List brings the nation back in political economy, to use George Crane's phrase (Crane 1998).

List defines the nation in the following manner:

Between each individual and entire humanity, however, stands THE NATION, with its special language and literature, with its peculiar origin and history, with its special manners and customs, laws and institutions, with the claims of all these for existence, independence, perfection, and continuance for the future, and with its separate territory: a society which, united by a thousand ties of mind and of interests, combines itself into one independent whole, which recognises the law of right for and within itself, and in its united character is still opposed to other societies of a similar kind in their national

[1840]1999b); NSPE III (List [1840]1999c).

liberty, and consequently can only under the existing conditions of the world maintain self-existence and independence by its own power and resources (NSPE II: 70)

It is true that List argues against individualism, which was characteristic of political economy in the Anglo-Saxon world of the time, and stresses the significance of the nation. However, as Roman Szporluk points out, he would reject the primordialist view of the nation developed by the German Romantics: that the nation is an organic and natural entity of fixed character. He sees the nation as a modern product (Szporluk 1991: 99-109, 116-7).² Without the bias of German Romanticism, we can see that List's conception of the nation in the above quotation differs little from that of one of the leading contemporary theorists of nationalism, Anthony Smith: *a named human population sharing an historic territory, common myths and historical memories, a mass, public culture, a common economy and common legal rights and duties for all members* (Smith 1991: 14).

It is important to note that List makes a conceptual distinction between the state and the nation. The state means an institutional and political body, while the nation means a particular group of people and the social, cultural and psychological bonds between them. The state existed before the modern era, while the nation is a modern product. List bases his political economy upon the nation or the nation-state rather than the state (Szporluk 1991: 12). He announces that his political economy, which he sometimes calls national economy, is different from 'financial economy of the State' or 'State administration' (NSPE II: 94-5), i.e., the cameralism of the German tradition – administrative economics for feudal lords.

In his definition, List identifies the key features of the nation: language and literature, a common history, legal and customary institutions, political independence, continuity and territory.

² On primordialism, see Smith (1998: chapt.7)

These elements of the nation are considered as conceptual variables in his political economy. Within the analytical framework of the nation, political economy must consider culture, history, institution, politics, dynamics and geography.

2. Culture

List criticises materialism and introduces culture into political economy. To put it more precisely, he takes both the material and the cultural into account. Material and cultural factors are reciprocally interrelated, and both contribute to economic development (NSPE I: 64; NSPE II: 53, 133). In List's terms, the former is called 'the instrumental power' or 'material capital', the latter 'manufacturing power' or 'mental capital' (NSPE II: chapt. 19). List's concept of 'capital' is more sociological than in mainstream economics: 'It clearly ought, therefore, to specify wherever it speaks of capital, whether the material capital, the material instruments of production, or the mental capital, the moral and physical powers which are inherent in individuals, or which individuals derive from social, municipal, and political conditions, are meant.' (NSPE II: 128-9) In particular, 'mental capital' can be understood to include 'social capital' in Robert Putnam's terms (Putnam 2000).

List remarks that both material and mental capital should be considered, but his stress obviously falls upon the latter:

However, most depends in all these respects on the condition of the society in which the individual has been brought up, and turns upon this, whether science and arts flourish, and public institutions and laws tend to promote religious character, morality and intelligence, security for person and for property, freedom and justice...

Adam Smith has on the whole recognised the nature of these powers so little,

that he does not even assign a productive character to the mental labours of those who maintain laws and order, and cultivate and promote instruction, religion, science, and art. (NSPE II: 26) ³

List's cultural approach illuminates labour as the driving force of production from a perspective alien to the classical school. As Adam Smith's famous example of the pin factory shows, the classical school emphasises the utility of the division of labour. However, List focuses upon how individuals or different talents in the division of labour are reintegrated into the production process. 'The cause of the productiveness of these operations is not merely that division, but essentially this union' (NSPE II: 42). He attributes the nature of production to collective action which the methodological individualism of the classical school neglects.

List thinks that collective action cannot operate between atomised individuals. It is the mental (social) capital or culture shared among individuals which makes collective action possible. 'In order to create such a result, the different individuals must co-operate bodily as well as mentally, and work together' (NSPE II: 42). Moreover, List expands his argument for the role of collective action in production to the macro-level of a national economy. Just as the detail division of labour in production is reintegrated in co-operation to become a productive force, the social division of labour is reintegrated into the unity of national economy to generate national power (NSPE II: 43). The social division of labour is reunited through the shared mental capital of the nation. List, in other words, is a typical holist: 'the aggregate of the productive powers of the nation is not synonymous with the aggregate of the productive powers of all individuals' (NSPE II: 65). For an economy, the unity of the nation is pivotal: it helps to augment productivity and promote economic

³ List's criticism of Smith is at best exaggerated. Recent scholars have shown that Smith as well as other intellectuals of the Scottish Enlightenment recognised the importance of non-economic factors in the economy. For example, see Winch(1978).

growth.

Productivity, especially that of manufacture and of a national economy, depends upon mental capital or culture. In addition, economic development improves culture. Firstly, the social co-operation of labour generates the 'organic solidarity' of the nation in Durkheim's terms (NSPE II: 45).⁴ Secondly, manufactures cultivate science and the arts (NSPE II: 100-101). Thirdly, industrial development promotes economic and social intercourse, because the complex process of manufacture relies upon the social division and union of labour, commerce and communication. List draws a significant contrast between manufacture and agriculture. While agriculture depends more upon nature, manufacture is the product of society:

The nature of manufactures is fundamentally different from that of agriculture. Drawn towards one another by their business, manufacturers live only in society, and consequently only in commercial intercourse and by means of that intercourse. The manufacturer procures from the market all that he requires of the necessaries of life and raw materials, and only the smallest part of his own products is destined for his own consumption. If the agriculturist expects a blessing on his exertions chiefly from nature, the prosperity and existence of the manufacturer mainly depend on his commercial intercourse. (NSPE II: 97)

Finally, economic and social intercourse develops the public sphere and expands the opportunity for public recognition (NSPE II: 105). List is much closer to the Enlightenment, especially Montesquieu and Hume, than to the Romantics, in that he believes economic progress will improve culture. 'The more industry and agriculture flourish, the less can the human mind be held in chains, and the more are we compelled to give way to the spirit of toleration, and to put real morality and religious influence in the place of compulsion of conscience' (NSPE II: 109). For

⁴ It is true that unlike Durkheim, List does not lay a great emphasis on social problems, the negative consequence of industrial development. However, he does not always neglect them (Henderson 1981). See also Winch (1998: 312-4).

him, industrialisation means adopting 'a new method of culture' (NSPE II: 123).

List's cultural approach, the idea that economic development is cultural development, and his concept of mental capital, underpin his project of the *Zollverein*, the 'customary union.' The creation of a common arena for economic intercourse spurs on economic development and a common culture and, consequently, helps build a nation. The same rationale impelled List's enthusiasm for railway construction. List's project of railway construction has been assessed from an economic and military viewpoint. Clive Trebilcock is sceptical about the economic impact of the *Zollverein*, but admits the role of railway construction in the 'take-off' of the German economy (Trebilcock 1981: 39). On the military aspect to List's enthusiasm for railway construction, Edward Mead Earle comments that 'his understanding of the strategic implications to Germany of steam transportation is surprising and by any objective standards quite remarkable' (Earle 1986: 254-5). However, in addition to the effects upon material or instrumental capitals, to use List's terms, we should notice the cultural aspect of the *Zollverein*. List expects that transportation will promote intercourse and generate the unity and solidarity of the nation (cf. Gellner (1983)).

List supports his cultural theory of a national economy by referring to the economic history of Europe (NSPE I: 29). So, let us next examine his historical perspective.

3. History

One major Listian contribution to economics is his introduction of a historical and comparative perspective. The history of economic thought records List as a pioneer of economic history and a forerunner of the German Historical School. From this perspective, an economic theory failing to

incorporate history is seriously deficient. Accordingly, he devotes the first book of the *National System* to the comparative study of economic history.

It is true that before List, economic history and economic development were the great concern of the Enlightenment, as is attested to by Montesquieu, Hume, Adam Smith and Adam Ferguson. However, the scope of their economic history is much grander than List's. They range from antiquity to the eighteenth century, from barbarism and feudalism to capitalism. The main subject of their historical studies is the transition from Medieval to modern civilisation. They are the predecessor of Marx, in a sense. By contrast, List refers to this grand narrative of the developmental stages of civilisation just briefly in Book II, *The Theory*, not in Book I, *The History* (NSPE II: 74). Book I focuses on the sixteenth to the early nineteenth century in nine major regions or countries of the West: Italy, the Hanseatic League, Netherlands, England, Spain and Portugal, France, Germany, Russia and North America. Thus, in contrast to Enlightenment thinkers, List's study is not a 'general' but a 'particular' economic history. He focuses upon the birth of the modern, growth-oriented economy in order to elucidate its nature.

List's economic history seems very close to David Landes's *The Unbound Prometheus*, or more recently, Charles Kindleberger's *World Economic Primacy: 1500-1990*. Like these modern historians who explore the nature of the modern economy and industrialisation from the historical viewpoint, List identifies political stability, modern legal institutions, liberty, the spirit of enterprise, and science and technology, as significant conditions of economic development. However, Liah Greenfeld points out that these modern economic historians succeed in identifying only the 'condition' rather than the 'cause' of industrialisation, which she attributes to nationalism (Greenfeld 2001). As an economic historian and theorist, List insisted long before her that

nationalism and nations play a crucial role in the formation of the modern, growth-oriented economy.

The model of the modern economy for List is the English (more precisely, British) economy. List compares the British model with other countries and attributes its success to the establishment of the nation. For example, he argues that Italian city-states possessed almost all conditions for the 'take-off' into sustainable growth, but 'One thing alone was wanting to Italy to enable her to become what England has become in our days, and because that one thing was wanting to her, every other element of prosperity passed away from her; she lacked national union and the power which springs from it' (NSPE I: 9).

Mosaic Germany faced precisely the same problems endured by the Italian republics. Pre-unification commercial cities in Germany certainly enjoyed liberty, but liberty is not sufficient for economic success. Co-operation between cities, moreover national unity, is required for industrial development. However, the conflicts between independent and selfish cities prevented their co-operation. The Hanseatic League was just a collection of cities and its bonds were too weak to form the national unity requisite for industrialisation. By contrast:

All these faults had been avoided by England. Her merchant shipping and her foreign commerce rested on the solid basis of her native agriculture and native industry; her internal trade developed itself in just proportion to her foreign trade, and *individual freedom grew up without prejudice to national unity or to national power*: in her case the interests of the Crown, the aristocracy, and the people became consolidated and united in the happiest manner [my italics.]. (NSPE I: 31)

Seventeenth century Holland provided further evidence of the truth that liberty and small political and economic units without national unity fail to 'take-off'. List contends that the national consciousness of economic competitiveness first emerged in seventeenth century England. It was

this English economic nationalism that initially resented and then crushed Dutch economic supremacy, thereafter becoming the driving force of economic development (NSPE I: 42-3; cf. Greenfeld 2001: chapt. 1).

Another model used is the national economy of North America. 'The history of the trade and industry of North America is more instructive for our subject than any other can be' (NSPE I: 117). As is well known, List was deeply influenced by Alexander Hamilton and the promoters of the 'American System', who advocated high tariffs and state intervention for economic development. Moreover, List also came to an understanding of the actual process of industrialisation in America through personal experience (Snyder 1978: 24-30). However, List was not only impressed by Hamiltonian nationalist economic policies and the peculiar conditions advantageous for industrialisation in America. He also notes that the 'take-off' of the American economy started after the establishment of a federal constitution and the building of a united nation. Interestingly enough, Roman Szporluk suggests that List's admiration for the United States as a model of national economy hinges upon his conception of the nation. 'Had he been a nationalist of the German Romantic School, List would not have accepted the United States as a nation. Of what history could that society of immigrants and refugees boast? Where were *America's* medieval castles and legends? Where was its feeling of *Gemeinschaft*? Where was the common language, the folklore, the *Geist*?' (Szporluk 1991: 109)

The American economy falsifies the *laissez-faire* doctrine of the classical school and strongly supports List's theory: the nation requires manufacture for its independence and interest, and industrialisation needs not only state intervention but also national unity as its basis. List prophetically concludes that the United States 'will perhaps in the time of our grandchildren exalt

itself to the rank of the first naval and commercial power in the world' (NSPE I: 117).

4. Institutions

As regards early modern England, modern economic historians insist that the legal and political institutions for liberty and the absence of the absolute power contributed to economic prosperity

(Landes 1972: 12-20; Rosenberg and Birdzell 1986: 119-123). List would agree with them:

In England – the rise of cities, progress in agriculture, commerce, and manufactures; subjection of the aristocracy to the law of the land, and hence a preponderating participation by the nobility in the work of legislation, in the administration of the State and of the law, as also in the advantages of industry. (NSPE I: 65)

However industrious, thrifty, inventive, and intelligent, individual citizens might be, they could not make up for the lack of free institutions. History teaches that individuals derive the greater part of their productive powers from the social institutions and conditions under which they are placed. (NSPE I: 132-3)

List celebrates the freedom of the British constitution. It is true that he deserves to be called a liberal for this reason (Szporluk 1991: 143). 'However, his liberalism differs from the economic liberalism of the classical school in that he advocates free institutions in terms of 'productive powers' rather than the efficiency of resource allocation through exchange. 'Although laws and public institutions do not produce immediate values, they nevertheless produce productive powers' (NSPE II: 34). Institutions enable collective productive actions. 'The greater part of the productive powers of individuals are derived from the political constitution of the government and from the power of the nation' (NSPE I: 45). Free political institutions not only emancipate individuals, but also reintegrate them through co-operation to generate productive powers. Unlike

economic liberalism, the concept of freedom for List is not negative freedom, but freedom ‘without prejudice to national unity or to national power’ (NSPE I: 31) or ‘national freedom’ (NSPE I: 132). In short, List’s idea of freedom is Hegelian: a human being is free when he consciously identifies himself with the institutions of national community to which he belongs (see chapter 9).

List’s conception of national freedom is linked with his protectionism. Against the conventional wisdom of economic liberalism, he argues that freedom is not incompatible with protectionism. Rather, protectionism is the conclusion of List’s political philosophy of freedom. Freedom is attained within the institutions of a national community and, therefore, to protect a national community is to protect freedom. List distinguishes internal from international trade. Internal freedom of trade is freedom within a national community. However, international freedom of trade is ‘the misuse of the term “freedom”’, which means merely negative freedom. ‘For while restrictions on the internal trade of a state are compatible in only very few cases with the liberty of individual citizens, in the case of international trade the highest degree of individual liberty may consist with a high degree of protective policy’ (NSPE I: 15).

Not only productive powers are generated by free institutions. List also pays attention to the ‘demand’ side. He argues that consumption is also secured by civil institutions. ‘Among the most potent stimulants are those afforded by the civil and political institutions of the country’ (NSPE II: 224). List understands the economy institutionally. Both supply and demand depend upon institutions. ‘Every law, every public regulation, has a strengthening or weakening effect on production or on consumption or on the productive forces’ (NSPE II: 224). This notion implies that public regulation or policy can affect economic conditions by changing the institutions upon which demand and supply rely.

More fundamentally, a human being is constrained by the institutional framework of the nation-state. Based upon the assumption of atomised and unencumbered individuals, the classical school analytically regards individuals as mere producers or consumers. By contrast, in List's political economy, individuals are defined as citizens or members of nations (NSPE II: 68). A given citizen is inseparably a producer and a consumer. Regarding it as unrealistic to assume a producer who would not also consume anything, the producer-consumer distinction has little salience in List's analytical framework. His political economy is macroscopic and synthetic.

5. Politics

List not only shifts the object of study from the state or the individual to the nation or the nation-state. His focus upon the nation leads him to distinguish political economy from cameralism on the ground that cameralism fails to take politics seriously. According to Tomas Riha, 'Cameralists portrayed the relationship between the state and an individual as a functional inter-relationship among bodily organs, where the rule of the heart or of the brain belonged to the absolute ruler while the citizens moved and lived as the limbs' (Riha 1985: 12).

List insists that the natural, law-like account of economy and society is wrong, because it ignores the role of politics in the economy. In cameralism, 'politics must necessarily remain excluded from economy, here can one only take account of the natural laws of social economy, as these would develop and shape themselves if no large united nationality or national economy existed anywhere' (NSPE II: 95). By the same token, he criticises the classical school for ignoring politics (NSPE II: 66), and emphasises that 'It is the task of politics to civilise the

barbarous nationalities, to make the small and weak ones great and strong, but, above all, to secure to them existence and continuance' (NSPE II: 71). Productive power is certainly the product of institutions, but institutions are created or reformed by politics. In particular, the nation-state as the basis of economic activities is maintained by politics. Then List believes that economics should be subordinated to political science (Szporluk 1991: 117; cf. Weber [1895]1994: 16).

List's politics-centric view rejects liberal idealism. Liberal idealists believe that free trade would promote the economic prosperity of the world and drive states and peoples to political integration and perpetual peace. By contrast, List insists that political integration has to precede economic integration, not *vice versa*. This is proven by history. 'All examples which history can show are those in which the political union has led the way, and the commercial union has followed' (NSPE II: 14). Both Britain and the United States, the models of national economy, attained a united national market by political revolution. A national economy was not the product of spontaneous order – it was created by politics. The most impressive example of integration for List is probably the Continental System formed by Napoleon. After his conquest, Napoleon removed the obstacles to economic modernisation such as the restrictive guild system, feudal relics and customs barriers, introduced a modern legal and political system, and protected the continental market from Britain. Consequently, states under the Continental System attained an economic prosperity and modernisation (NSPE I: 90-3) prerequisite for the 'take-off' (Trebilcock 1981: 30). It is obviously Napoleon's political ambition and action which built the Continental System. Politics achieved economic integration and promoted economic development.

Some commentators emphasise that List unexpectedly aspires to the progression of the world toward universal free trade and political harmony (Levi-Faur 1997b: 366-7; Harlen 1999:

740-1). However, considering his historical perspective and politics-centric approach, I agree with Szporluk that 'There are no grounds for supposing that List expected all nations, or even only the major nations, to achieve equality and thus the world to attain a state of equilibrium' (Szporluk 1991: 118).

6. Dynamics

Contrasting with the classical orthodoxy of a 'theory of values', List calls his own theory a 'theory of productive power'. A 'theory of values' deals with the allocation of wealth in a stationary condition, while a 'theory of productive power' focuses upon the causes and process of producing wealth in a temporal context. In Frank Knight's terms, a theory of values and a theory of productive power are respectively 'economic statics' and 'economic dynamics' (Knight 1935). List insists that political economy should be dynamic, because 'The power of producing wealth is therefore infinitely more important than wealth itself' (NSPE II: 22).

Economic dynamics methodologically needs to consider not only economic activities but also non-economic factors such as culture, ethics, history and institutions (Knight 1935: 184-5). In Clifford Geertz's phrase, it requires 'thick descriptions' (Geertz 1971). Since productive power is the product of thick culture and institutions, the dynamic theory of productive power needs to grasp thick culture and institutions. List criticises the 'thin descriptions' of the classical school, which considers nothing but the economic activities of individuals, because thin descriptions fail to grasp the nature of acting for the future, action in the long-term.

Certainly those who fatten pigs or prepare pills are productive, but instructors of youths and of adults, virtuosos, musicians, physicians, judges, and

administrators, are productive in a much higher degree. The former produce values of exchange, and the latter productive powers, some by enabling the future generation to become producers, others by furthering the morality and religious character of the present generation, a third by ennobling and raising the powers of the human mind, a fourth by preserving the productive powers of his patients, a fifth by rendering human rights and justice secure, a sixth by constituting and protecting public security, a seventh by his art and by the enjoyment which it occasions fitting men the better to produce values of exchange. (NSPE II: 33-4)

Institutions enable not only collective action, but also continuous action in the long-term (Levi-Faur 1997a: 169-170). In particular, manufacture is indebted to thick institutions, because it needs collective and continuous action in a higher degree. From the standpoint of economic dynamics, List makes much of the utility of public debts. Public debts are a sort of long-term investment. 'State debts are bills which the present generation draws on future ones' (NSPE II: 213). They are especially significant for transport construction (NSPE II: 213).

List's cultural and institutional economics is interrelated with his economic dynamics. He suggests that institutions play the role of transmitters of skills, knowledge and culture from generation to generation. 'Guilds and trade societies also have partly originated from this consideration. For the maintenance and bringing to perfection of the arts and sciences, and their transfer from one generation to another, we are in great measure indebted to the priestly castes of ancient nations, to the monasteries and universities' (NSPE II: 212).

The nation constitutes thick and historically continuous culture and institutions. In other words, the nation is the most important institution which connects the past, present and future generations. 'The present state of the nations is the result of the accumulation of all discoveries, inventions, improvements, perfections, and exertions of all generations which have lived before us' (NSPE II: 29-30). Dynamism of industrial development is dependent upon the nation as a stock

of thick institutions. More fundamentally, List's assumption of individuals as members of nations in political economy implies a dynamic perspective. The atomised and isolated individuals which the classical school presupposes are assumed to behave only for their own self-interest and not to care for their descendents. By contrast, national citizens realise the continuity between the past, the present and the future, and act consciously with the future of their own nations in mind (NSPE II: 68). List's political economy assumes the dynamic action of individuals.

Two implications for economic policy can be derived from thick institutions and the dynamic perspective. Firstly, since industry is generated by continuous investment and historical, thick institutions, developed economies can enjoy the vested interest of the predecessor. 'We see everywhere old business establishments that have lasted for a series of generations worked with greater profits than new ones. We observe that it is more difficult to set a new business going in proportion as fewer branches of industry of a similar character already exist in a nation' (NSPE II: 210). Therefore, it is justifiable that infant industries or late-comer economies are protected and fostered by state intervention in order to overcome their initial disadvantages. However, we should note that List thinks that the protection and promotion of industry by the state ought to be temporary and limited to infant and strategic industries (NSPE II: 75, 234).

Secondly, economic development requires stable institutions and consistent policies, which reduce uncertainty and make continuous economic activities possible (NSPE II: 214). Unlike the first implication, this policy implication is not limited to infant industries or developing countries, but is a universal claim. In chapter 23 of the *National System*, List carefully attends to the instability of the global economy. He argues that financial fluctuations caused by the instability and uncertainty of the world political economy will undermine national economies and

disturb their development. From a realist viewpoint, List rejects the cosmopolitan argument that a single system could govern the global economy:

But as long as separate national interests exist, a wise State policy will advise every great nation to guard itself by its commercial system against extraordinary money fluctuations and revolutions in prices which overturn its whole internal economy, and it will attain this purpose only by placing its internal manufacturing production in a position of proper equality with its internal agricultural production and its imports with its exports. (NSPE II: 197)

List proposes protectionist policies and the establishment of largely independent national systems in order to guard national economies against the fluctuations of the international economy. Indeed, only highly autonomous national economies can stabilise the international economic system.

7. Geography

List considers the issue of geographical location into political economy. Geographical locations affect the endowment of natural resources, the modes of production and transportation, and international relations. For example, Britain enjoys the advantages of an insular country. Its geography renders it easy to defend against invasion, to keep the cost of standing armies reasonable, and to develop a peculiarly liberal constitution, all of which are preferable for economic prosperity (NSPE I: 66-7). Also, Britain's size is an advantage. States limited by small territories cannot enjoy resources plentiful enough for political and economic independence and industrialisation (NSPE I: 136).

However, List rejects geographical determinism, because politics may change the borders and comparative advantages of nations. He identifies four policies for overcoming territorial

deficiencies: hereditary succession, purchase, conquests and ‘the union of the interests of various States by means of free conventions’ (NSPE II: 72-3), that is, the *Zollverein*. He argues that the *Zollverein* is the best option, because it is more just and peaceful than conquest and less accidental than hereditary succession. However, he does not believe that the *Zollverein* can be formed by nations, since his realism implies that co-operation between different nations is weaker than that in a nation (NSPE II: 54-5). He thinks that the *Zollverein* can be built by states or regions sharing a certain cultural background, which possibly might develop into nationality. In the case of Germany, List includes ‘from the mouth of the Rhine to the frontier of Poland, including Holland and Denmark’ (NSPE II: 73) in the possible German nation. It cannot be denied that this boundary of the *Zollverein* is drawn by his subjective judgement. However, what is analytically important is his idea that culture should be considered in the question of regional integration.

8. List’s Contribution to Contemporary Political Economy

Although it follows the methodological defects of the classical school which List criticises, mainstream economics is still the dominant form of economic thinking. However, increasing dissatisfaction with mainstream economics’ inability to adequately analyse the political and economic dynamics of the world has recently driven a number of economists and political economists to develop new analytical frameworks. Among them, I will pick up strategic trade theory in economics and state-centric realism in international political economy so as to draw comparisons with List’s approach, which I shall call methodological nationalism. Departing from conventional trade theory, which is derived from mainstream economics, strategic trade theory

shows that trade protection and industrial policy in principle can increase the wealth of nations. State-centric realism, proposed by Robert Gilpin, emphasises that states still remain the primary actor in international affairs in spite of globalisation. A theory of trade protectionism and the state-centric view of the international economy have been associated with List's economic nationalism. Therefore, comparisons between strategic trade theory, state-centric realism and List's political economy will help to clarify the distinctive features of methodological nationalism and its contributions to modern political economy.

Strategic Trade Theory

According to Paul Krugman, the increased importance of trade and the growing significance of technology in trade patterns in recent years have driven new thinking in trade theory, which is called 'strategic trade theory'. The conventional model of comparative advantage, which is based upon the neoclassical assumption of perfect competition, fails to analyse trade patterns and the positive role of states in international trade. Strategic trade theory introduces new tools for the analysis of imperfect or oligopolistic competition, economies of scale, the advantages of cumulative experience, and the role of innovation and external economies, and tries to explain the dynamics of the international economy (Krugman 1986).

One of the significant differences between conventional and strategic trade theory concerns the role of government. Conventional trade theory concludes that free trade with a minimum of state intervention can achieve the most efficient allocation of resources among states through the market mechanism. By contrast, strategic trade theory implies that the government can behave strategically by utilising imperfect competition or external economies in order to

increase national welfare or shift profits from foreign firms or economies to national firms or economies. For example, governments may protect or promote particular industries which can earn exceptionally high rates of return or which can generate valuable technological spill-over effects to the rest of a national economy.

List might initially appear to be a predecessor of more recent strategic trade theory. Both List's political economy and strategic trade theory consider the importance of innovation, the spill-over effects of technology, the dynamic process of economic development and the positive role of state intervention. Both of them theoretically justify trade protectionism and industrial policy as means for increasing national welfare. However, they are significantly different in terms of methodology, since strategic trade policy remains dependent upon the analytical framework of mainstream economics. Strategic trade policy applies new approaches coming from the field of industrial organisations and game theory to trade theory (Krugman 1986: 8-10), but, just as with equilibrium analysis, these new approaches are based upon formal, mathematical models and methodological individualism: states or firms are assumed to behave in the international economy as if they were self-interest seeking individuals behaving rationally. Technology, organisation, cumulative experience, and spill-over effects are considered merely as external factors affecting atomised actors' maximization of their economic interests. Strategic trade theorists are interested in the consequences of innovation, monopolistic competition, large-scale organisation, and state intervention, but not in the social dynamics that contribute to economic development. In short, strategic trade theory merely modifies neoclassical economics and follows the unrealistic assumptions of methodological individualism.

From List's perspective, strategic trade theory cannot explain the source of economic

development so long as it remains bound to methodological individualism. For, as he argues, production and innovation are the product of collective action, something which methodological individualism cannot adequately analyse (cf. Barnes 1995: 27-31). List's focus is on 'the power of producing wealth' rather than 'wealth itself'. Instead of the 'thin descriptions' of mathematical economic models, methodological nationalism introduces 'thick descriptions' of culture and institutions in order to explain collective action as the source of technological progress and economic development.

In spite of being one of the founders of strategic trade theory, Krugman himself is sceptical about its applications to trade policies, because it is difficult for the government to appropriately target strategic industries which will promise high rates of return or to shift profits from foreign to national economies. He is worried that strategic trade theory gives an excuse for interest groups to advocate policies which are likely to benefit them rather than the nation as a whole (Krugman 1986:19). He criticises some commentators such as Clyde Prestwitz and Lester Thurow for abusing strategic trade theory. They view the world economy as one where national economies compete with each other. However, Krugman insists that the performance of national economies depends upon their domestic productivity rather than their productivity relative to competitors, as Prestwitz and Thurow believe (Krugman 1996: 9). When he attacks these opponents, he likens them to List, who he calls 'this turgid, confused writer' (Krugman 1996: 31). However, List argues for domestic productivity in his theory of the productive power. In the *National System*, it is difficult to find the game-theoretic idea of strategic trade theory: governments could intervene in particular industries to shift profits from foreign to national economies.

The scope and approach of List's argument is much closer to that of Christopher Freeman than to strategic trade theory. Freeman points out that mainstream economics fails to provide a satisfactory explanation of the observed patterns of trade and economic growth, because it does not seriously consider non-price factors, especially technology. He focuses upon the role of institutions in technological innovation as a main factor of economic development and proposes the conceptual framework of the 'National System of Innovation' – 'the network of institutions in the public and private sectors whose activities and interactions initiate, import, modify and diffuse new technologies' (Freeman 1987: 1). It is true that many economists acknowledge that institutions are important for economic growth. However, unlike neo-classical economists and strategic trade theorists, Freeman's argument is based not upon the unrealistic assumptions of mathematical models in economics, but upon the evidence of empirical research. His analytical position therefore echoes List's methodological nationalism. List refers to Edmund Burke, who is famous for his hostility to speculative economists, when he argues for the importance of empirical research and against the formalistic approach of the classical school:

People here now think for themselves – they trust their own conclusions, their own experience, their own sound common sense, more than one-sided systems which are opposed to all experience. They begin to comprehend why it was that Burke declared in confidence to Adam Smith 'that a nation must not be governed according to cosmopolitical systems, but according to knowledge of their special national interests acquired by deep research.' (NSPE III: 82) ⁵

In turn, Freeman refers to List as his forerunner, appropriately commenting, 'List entitled his work *The National System of Political Economy* but an alternative title could have been: *The National System of Innovation*' (Freeman 1987: 99).

⁵ I am not convinced that Burke addressed this phrase to Smith, considering their ideological affinities and friendly relationship, and List's misunderstanding and even abuse of Smith.

State-Centric Realism

Robert Gilpin argues that the study of international political economy requires an interdisciplinary approach, since the international economy consists not only of economic but also of political, social and historical factors. According to the analytical perspective of international political economy, he advocates state-centric realism. The central idea of state-centric realism is that the state or the nation-state is still the primary actor in both domestic and international economic affairs. Although it does not neglect other players such as international organisations and institutions, non-governmental organisations and multinational corporations, state-centric realism emphasises that the decisions of national governments are the major factors determining economic matters.

Most economists assume that the goal of economic activities is nothing but to maximise the economic interest of actors. By contrast, state-centric realists assume that the purpose of economic activities is determined by political processes and social values. They focus upon the relationship between the political or social ends of economic activities and the economic means to achieve these ends. The economy is significantly embedded in larger socio-political systems, which Gilpin calls 'national systems of political economy'. National systems of political economy are defined as 'domestic structures and institutions that influence economic activities' (Gilpin 2001: 130). He argues that both the national and international economy are primarily shaped by national systems of political economy.

Gilpin remarks that state-centric realism is not a normative position, often confused with nationalism, but an analytical perspective for interpreting international economic affairs (Gilpin 2001: 15-6). List is certainly a normative nationalist, but his analytical position, i.e.,

methodological nationalism, is in many respects close to state-centric realism. Both share the view that the state is the principal actor in the international political economy. Both emphasise that national systems of political economy significantly determine the political position and economic performance of states and thus shape the landscape of the national and international economy. Both agree that politics cannot be completely reduced to any non-political factors and plays an important role in political economy. As a corollary, they endorse similar interpretations of the international political economy. For example, mirroring List's argument about the role of politics in the formation of the *Zollverein*, Gilpin stresses history in arguing against neofunctionalism, which contends that economic and monetary union could increase levels of transnational cooperation and lead to deeper political integration. Like List, he points out that 'The historical experience in national development reveals that despite neofunctionalist assertions, economic unification has followed rather than preceded political unification' (Gilpin 2001: 357).

I think that state-centric realism generally succeeds in providing a more adequate explanation of world political and economic dynamics than any other approach in modern political economy. However, unlike methodological nationalism, state-centric realism does not clearly use the concept of the nation as a conceptual framework for analysis (Helleiner 2002: 309). It is true that Gilpin carefully remarks that state-centric realism does not ignore the powerful role of nationalism and national identity in international affairs (Gilpin 2001: 19-20). However, it cannot be denied that Gilpin pays less attention to the cultural aspect of the nation as one of the important determinants in the international economy and politics. It seems that he does not think that the distinction between the nation and the state is important for analysis. This point leads to the weakness of state-centric realism. State-centric realism tends to assume military security and

political independence as the principal goal of state action, *a priori* (Gilpin 2001: 18-9), and does not explain why states are motivated to achieve national security and independence. It does not clearly explain the motivational source of state action, in other words, the ultimate cause of the dynamics of the national and international economy.

By contrast, the nation is the central concept in methodological nationalism. List defines individuals as national citizens. They share culture, values and institutions, which make collective action possible. They behave with consideration towards the public and long-term interests of their nations. List assumes that the nation creates productive powers as the driving force of the dynamic political economy. With the concept of the nation, the source of political and economic dynamics is embodied as an endogenous factor in the system of political economy. Methodological nationalism can explain the dynamics of national and international political economy more systematically than state-centric realism.

In conclusion, List's economic nationalism and his critique of economic liberalism are analytical as well as normative. He uses the concept of the nation not only substantively but also methodologically. By introducing the nation or the nation-state rather than the state as the main conceptual variable, he renders political economy cultural, historical, political, dynamic and geographical. List's methodological nationalism is significantly different from the analytical orthodoxy of economic liberalism, i.e., methodological individualism.

In recent years, a number of economists, political economists and sociologists dissatisfied with mainstream economics' inability to understand dynamics of national and international economy, have developed interdisciplinary and comprehensive approaches.⁶ List's influence on

⁶ For surveys of these approaches, see Skocpol (1985), and Hall and Soskice (2001).

them is unclear, yet, like List, they throw light upon the important role of governments and national systems of political economy. However, unlike List, few have paid attention to the nation as a conceptual variable. In addition, most do not go beyond the empirical description of particular cases to offer a generalised explanation of the dynamics of the national and international political economy. By contrast, List shows that the concept of the nation can provide a systematic framework of analysis.

List's most important contribution is to show the importance of cultural and sociological analyses of nations, which have largely been ignored in political economy. Methodological nationalism's cultural and sociological approach suggests that the dynamical source of national and international political economy is the nation. List's methodology deserves to be recognised as a resource for a better understanding of a dynamic economy.

Part II

A New Science for a New World: Hume

3. Economic Nationalism as Pre-Classical Economics

The dominant view of Hume among economists is that his political economy is a predecessor of economic liberalism or a premature form of mainstream economics (i.e., the classical, and later, the neoclassical schools), both of which are at odds with economic nationalism. However, this chapter will radically challenge this conventional interpretation of Hume's economic writings: Hume's economic thought, it will be argued, is much closer to a theory for economic nationalism than to liberal economic theory.¹ Like Friedrich List, Hume's main concern is the enhancement of power rather than the efficiency of resource allocation, and the methodological characters of his economic thought has much in common with List's.

Unlike List, Hume did not attempt to establish a systematic theory of political economy. He wrote separate essays on specific economic issues. However, a great advantage of explaining Hume's theory for economic nationalism is that his economic thought is rooted in his philosophical system. In other words, if his political economy can be characterised as a theory for economic nationalism, this will provide an opportunity to identify and explore the philosophical foundations for economic nationalism. The following chapter will consider his philosophy of social science. Having thereby explicated the philosophical basis of Hume's economic nationalism, chapter 5 will focus on its political aspect – his political theory of nationalism.

In the first section of this chapter, the historical context of Hume's work will be

¹ Abbreviations of Hume's works are: T (*A Treatise of Human Nature*, Hume ([1739-40] 1978)); EHU (*An Enquiry Concerning Human Understanding*, Hume ([1748] 1975a)); EPM (*An Enquiry Concerning the Principles of Morals*, Hume ([1751] 1975b)). Abbreviations of the individual essays cited in Hume (1985) are: OSH ('Of the Study of History'); PAN ('Of the Populousness of Ancient Nations'). Abbreviations of the individual essays cited in Hume(1994) are: PMRS ('That Politics May Be Reduced to a Science'); FPG ('Of the First Principles of Government'); OG ('Of the Origin of Government'); SE ('Of superstition and enthusiasm'); CL ('Of Civil Liberty'); RPAS ('Of the Rise and Progress of the Arts and Sciences'); NC ('Of National Characters'); OC('Of Commerce'); RA ('Of Refinement in the Arts'); OM ('Of Money'); BT ('Of the Balance of Trade'); JT ('Of the Jealousy of Trade'); BP ('Of the Balance of Power'); SRC (Of Some Remarkable Customs); OOC ('Of Original Contract'); PO ('Of Passive Obedience'); PS('Of the Protestant Succession'); IPC ('Idea of a Perfect Commonwealth').

considered. In the second section, examining his political and economic writings, I shall show that Hume's political economy is in fact as cultural, historical, institutional, political, dynamic and geographical as List's. In the third section, Hume's notion of the limit of economic development will be considered. Hume's scepticism about economic development has been largely neglected, but it is necessary for understanding his political economy. In particular, it is important to note that his sceptical attitude towards economic development is in part derived from his political theory of nationalism, which will be discussed in detail in chapter 5. In the fourth section, three alternative interpretations of Hume's position – as economic liberalism, idealism and materialism – will be criticised. Finally, I shall conclude that Hume's political economy can be characterised as a theory for economic nationalism, and suggest a new view of the early modern history of political economy.

1. The Economy of Eighteenth Century Britain

Before starting the main discussion, it might be useful to consider the historical context of Hume's work. For the conventional view of political economy, it might sound odd to argue that Hume's political economy belongs to economic nationalism, because economic nationalism has conventionally been associated with industrialisation, whereas Hume, of course, lived before the First Industrial Revolution. However, recent historical studies have shown that the British economy and society in the eighteenth century were already in a process of transformation from static to dynamic ones, and that manufacture and industry were emerging as important factors even before the Industrial Revolution. Eighteenth century Britain was the era that Charles Kindleberger calls 'proto-industrialisation' (Kindleberger 1976: 24).

One of the main causes of the transformation to a dynamic economy in eighteenth century Britain was war: beginning with the war of the Great Alliance between 1689-97, and followed by the War of the Spanish Succession, the War of the Austrian Succession, Anglo-French rivalries in north America, the Seven Year's War and the War of American Independence, the Napoleonic wars

between 1793-1815, and the revolt of the Jacobites. The impact of the Military Revolution made wars and states more relevant to the lives of the people both as taxpayers and combatants. State expenditure per GNP in the eighteenth century was about three times as much as in the seventeenth century (Mann 1992: 151). The fastest growing sector in the eighteenth century was probably government and defence rather than agriculture or manufacture. Yet this series of wars triggered the transformation to a dynamic economy. First, they promoted the financial revolution and the establishment of a public borrowing system to finance the wars. Second, in addition to the development of financial sectors, the wars led to protectionism. In order to generate revenue to service the public debt and protect domestic industries, a high-tariff regime was adopted (Cain and Hopkins 1993: 71-3). The military demands in this period stimulated industrial development not only in Britain but throughout Europe. The huge demands for armaments (guns, cannons and cannon-balls) and ships promoted the expansion of the iron industry. The textile industry was also stimulated by military demand. In addition, the stimulus of military demand contributed to the technological improvement and rationalisation of production processes in these related industries (Sen 1984: 99-112). A series of wars both helped economic development and made people realise the importance of manufacture and industry to national security.

Another important economic transformation is articulated by Joan Thirsk. According to her, in sixteenth and seventeenth century England, consumer industries emerged to a remarkable extent, such as stocking knitting, button making, pin and nail making, salt making, starch making, soap making, knife and tool making, tobacco-pipe making, pot and oven making, ribbon and race making, linen making and so forth. The varieties of consumer goods increased and their domestic market expanded. The new consumer industries were developed by 'projectors', who promoted a 'project', a practical scheme to manufacture or produce on farms consumer goods to make money or employ the poor. The development of the domestic market of consumer industries absorbed the increasing population of workers and created the high level of employment necessary to contribute to national welfare. Thirsk argues that the emergence of the new consumer industries transformed the views of political economists. Concerning manufacture, what political economists of that time

came to believe was, firstly, that home trade was as important for the national economy as foreign trade. Secondly, they claimed that the diversity of consumer goods was beneficial. Thirdly, they focused upon labour as the key factor of economic development. Thus these new facts led to the creation of new theories of political economy. In addition, the Civil War gave the political economists a deeper knowledge of the role of consumer industries and the domestic market in the national economy. Thirsk places Adam Smith's *The Wealth of Nations* in this context. The famous example of the division of labour of a pin maker was generated from his observation of the new consumer industries (Thirsk 1978).

Next, let us focus upon the development of manufacture and industry in eighteenth century Scotland. Eighteenth century Scotland achieved striking economic development. Factors similar to English economic development – wars and the rise of the consumer industries – are also identifiable in the Scottish economy. First, the series of international wars and protectionism in England transformed the traditional structure of Scotland's external trade from its previous dependence upon European markets to one which centred on English and colonial trade. After 1707, under the advantage of protectionism and political stability within the Union, the Scots enjoyed access to the English domestic market and, from 1742, bounties to encourage exports. Second, related to Thirsk's argument, it should be noted that the most important and successful export industries of eighteenth century Scotland were linen and tobacco – luxury consumer goods. The Scottish merchants introduced more efficient business methods in purchasing, marketing and shipping than their competitors in the American and European markets (Devine 1999: 58-9). Third, the Scottish landed classes and business classes promoted national economic improvement in terms of materials, methods, technology and organisation from the time of unification in 1707. They played a crucial role in agrarian modernisation and in the founding of banks such as the Bank of Scotland, the Royal Bank of Scotland and several banking companies. Under this trend for 'improvement', the Scottish agricultural and banking institutions became the most advanced models of the time (Devine 1999: 50-1). In addition, from 1750 more advanced technology and methods in England were transferred to Scotland. At that time, it was common to introduce

English workers to import their skills and practices. The new English methods of iron manufacturing, pottery, wool and glass-making were adopted. The first stage of industrialisation was beginning (Devine 1999: 62). This is the economy and society which Hume observed.

2. The Elements of Hume's Political Economy

Political and Legal Institution

As historians emphasise, Hume thinks that political liberty and economic development are interrelated. In 'Of Civil Liberty', Hume compares economic prosperity under liberty and absolute government, and finds the former superior. Duncan Forbes suggests that for Hume, liberty is no more than the guarantee of the personal liberty and security of the individual under the rule of law (Forbes 1975: 153). The expected role of free government is not to undo anything but to secure property rights by regulation in order to maintain certainty. Hume observed that two improvements of governance in Europe contributed to economic progress: 'the balance of power' and 'the internal POLICE of states' (CL 55). 'Police' means 'the regulation and government of a city or country, so far as regards the inhabitants' (CL 55n). As Duncan Forbes concludes, in Hume's political thought, 'government is there to secure the conditions of economic progress in an advancing society, to provide that security and that rule of law (= liberty) without which progress is precarious or impossible' (Forbes 1975: 88).

Hume's argument seems to be derived from his observation of the transformation to a growth-oriented economy. Nathan Rosenberg and L. E. Birdzell argue that political, social, institutional and other non-economic factors play an important role in the great economic transformation of the seventeenth and eighteenth centuries. In feudal society, individuals had to protect their property against unpredictable invasion by feudal sovereigns as much as possible. The possession of property was not stable. However, after Magna Carta, the right of subjects to enjoy the stable possession of property was conventionally established. In seventeenth century England and sixteenth and seventeenth century Holland, government was relatively weak. In both

countries, the merchant class, represented in parliaments, prevented confiscation and restricted the power of government to impose tax. The security of property free from arbitrary expropriation contributed to the expansion of commerce by reducing uncertainty (Rosenberg and Birzell 1986: 119-23).

In addition to law, the development of implicit rules was important as well. In the middle ages, the main economic associations tended to be family and kinship groups. Rosenberg and Birzell argue that after the sixteenth and seventeenth centuries, new forms of moral sentiments such as group loyalty, mutual trust and fidelity to institutions beyond family and kinship ties, which are necessary for business enterprise and remote transactions, were cultivated. They argue that non-kinship ties of organisation were developed by the merchant class, though it is difficult to explain how these new sentiments were created. The emerging merchant class created a new system of morality (Rosenberg and Birzell 1986: 123-6). However, they argue that it is wrong to think that the merchant class struggled and replaced the feudal aristocracy. Rather, many members of the feudal aristocracy prospered from the emergence of this capitalism promoted by the merchant class and kept their political power, economic welfare and cultural position (Rosenberg and Birzell 1986: 97-102).

Hume also points out the role of class in economic development. He thinks that commerce helps to promote not only wealth but also political liberty and social order, because the new middle class consisting of tradesmen and merchants is expected to prevent the absolute power of tyrants (Winch 1978: 75):

But where luxury nourishes commerce and industry, the peasants, by a proper cultivation of the land, become rich and independent; while the tradesmen and merchants acquire a share of the property, and draw authority and consideration to that middling rank of men, who are the best and firmest basis of public liberty. (RA 112)

Hume does not regard the merchant class as a rival to the aristocracy. Rather, both the aristocracy and the merchant class contribute to public liberty and the security of property against the arbitrary power of absolute government, especially through the power of taxation. A monarchy with an intermediate class is favourable for political liberty and economic progress. 'The nobility are the

true supports of monarchy' (CL 56), and therefore, useful for economic prosperity. Hume indicates that the abuse of arbitrary taxation in France, 'the most perfect model of pure monarchy', oppresses the intermediate class, including the aristocracy, and causes the stagnation of the French economy. 'But the nobility are, in reality, the principle losers by this oppression; since it ruins their estates, and beggars their tenants. The only gainers by it are the *Financiers*, a race of men rather odious to the nobility and the whole kingdom' (CL 56-7). The social fabric within the intermediate class, which consists of the nobility and the merchant class, contributes to social order and reduces the uncertainty of arbitrary discretion, thereby to promoting commerce and industry. Only speculative financiers enjoy uncertainty and instability. They are the common enemy of the aristocrats and merchants. Hume defends the merchant class, but not speculative financiers. He positively evaluates economic development as a product of liberal and social order, yet attacks financial speculation, since he sees it as a cause of social instability.

Scientific and Technological knowledge

Most political economists agree that scientific and technological knowledge are crucial for economic development. However, it is still today the subject of controversy how to incorporate technological progress as an endogenous factor within economic theory.

This is Hume's concern as well. In 'That Politics May Be Reduced to a Science', Hume argues that even though accidental factors such as the character of a ruler are important, political science can seek generalisation by interpreting the customs and manners of politics (see chapter 4). By the same token, Hume thinks that technological change and economic development can be the subject of scientific inquiry. He argues that innovation is motivated by curiosity or the love of knowledge, yet unlike avarice, the love of knowledge is not necessarily shared by all human beings:

Avarice, or the desire of gain, is an universal passion, which operates at all times, in all places, and upon all persons: But curiosity, or the love of knowledge, has a very limited influence, and requires youth, leisure, education, genius, and example, to make it govern any person (RPAS 59).

That is why the degree and patterns of scientific and technological progress are diverse. Mainstream economics can explain neither the cause nor the diversity of technological progress, because it bases its economic model upon the assumption of self-interest seeking individuals. Thus mainstream economics cannot help treating technology as an exogenous factor.² However, how is the nature of technological progress generalised or incorporated within a theory? If innovations as the cause of development are merely attributed to personal genius given by chance, economic development cannot be the object of science, because causation by chance cannot be generalised. However, the innovative spirit is often observed to be diffuse among people. This phenomenon can be the object of social science. ‘The question, therefore, concerning the rise and progress of the arts and sciences, is not altogether a question concerning the taste, genius, and spirit of a few, but concerning those of a whole people; and may, therefore, be accounted for, in some measure, by general causes and principles’(RPAS 60). The goal of social science in the study of economic development is to elucidate the social conditions under which innovative spirits and knowledge are encouraged to develop. Hume’s approach to technological studies is thus institutional and sociological.

Hume thinks that the causal relationship between certainty under the rule of law and innovation can be generalised. When the certainty of the future is secured by the rule of law, not only the prosperity of commerce but the progress of science and technology can be expected. ‘From law arises security: From security curiosity: And from curiosity knowledge. The latter steps of this progress may be more accidental: but the former are altogether necessary’ (RPAS 63). However, the rule of law does not mean fixing the *status quo* determinately or getting rid of any changes. Rather, ‘security’ means to secure confidence in the future, and is compatible with

² The proponents of the new growth theory have recently insisted that they consider technological progress and advances in knowledge as endogenous factors within growth theory, using the analytical framework of mainstream economics. However, for professional economists, an ‘endogenous’ variable means something explained by rational self-interest seeking activities. They take into account only technological advances in knowledge motivated by self-interest, but not those driven by intellectual curiosity or achieved by chance (Gilpin 2001: 49n7, 112-7). They do not modify this economic model to explain the role of technological progress in the real economy. Instead, they ignore realities which do not fit the unrealistic assumption of their economic model.

liberty, which will promote innovative activities:

I have sometimes been inclined to think, that interruptions in the periods of learning, were they not attended with such a destruction of ancient books, and the records of history, would be rather favourable to the arts and sciences, by breaking the progress of authority, and dethroning the tyrannical usurpers over human reason. (RPAS 67)

Concerning the causal relationship between the progress of science and technology and economic growth, contemporary historians compare Western Europe with China in the medieval and early modern era. China had an equivalent, and in some cases superior, science and technology and a rational bureaucratic system. Nonetheless, unlike Western Europe, she did not achieve the transformation to modern capitalism. Scientific knowledge in China was not applied for economic development (Needham 1969). David S. Landes, and Rosenberg and Birdzell, attribute this to the difference in political structure between Western Europe and China. Western Europe consisted of fragmented, small and autonomous states, and interregional trade among them promoted economic activities and technological progress. By contrast, the Chinese empire had less to gain from the benefit of trade (Landes 1969: 19-21; Rosenberg and Birdzell 1986: 88). Under the unified empire, the values of the mandarin, hostile both to hereditary aristocracies and the merchant class, were dominant (Rosenberg and Birdzell 1986: 88). These geopolitical and social factors prevented scientific knowledge from being applied for economic needs.

Hume reaches the same conclusion about the causal link between science and technology and economic growth. 'The next observation, which I shall make on this head, is, That nothing is more favourable to the rise of politeness and learning, than a number of neighbouring and independent states, connected together by commerce and policy'(RPAS 64). Interestingly enough, like contemporary historians, Hume supports his notion of technological and economic development by comparison with China and articulates a similar conclusion to theirs:

In CHINA, there seems to be a pretty considerable stock of politeness and science, which in the course of so many centuries, might naturally be expected to ripen into something more perfect and finished, than what has yet arisen from them. But CHINA is one vast empire, speaking one language, governed by one law, and sympathizing in the same manners. The authority of any teacher, such as CONFUCIOUS, was propagated easily from one corner of the empire to the other. None had courage to resist the torrent of popular opinion. And

posterity was not bold enough to dispute what had been universally received by their ancestors. This seems to be one natural reason, why the sciences have made so slow a progress in that mighty empire. (RPAS 66)

By contrast,

If we consider the face of the globe, EUROPE, of all the four parts of the world, is the most broken by seas, rivers, and mountains; and GREECE of all countries of EUROPE. Hence these regions were naturally divided into several distinct governments. And hence the sciences arose in GREECE; and EUROPE has been hitherto the most constant habitation of them. (RPAS 67)

Compared with the Chinese system of political economy, the advantageous condition of Europe for economic progress – other than political and social factors – is its fragmented geopolitical structure. Hume argues that the merit of a fragmented region, in terms of a diversity of values, opinions and knowledge, and the advantage of trade within it, is mainly the emulation and diffusion of science, technology and other knowledge (RPAS 65). Hume's perspective on political economy is thus cultural, historical, institutional, political, dynamic and geographical: the characteristics of 'methodological nationalism.' Bearing this in mind, let us see Hume's view of commerce, industry, labour and trade.

Commerce and Industry

One of the prominent features of economic nationalism is its positive view of industrial development. Economic nationalists regard economic development as the source of national power. So does Hume: 'Thus the greatness of the sovereign and the happiness of the state are, in a great measure, united with regard to trade and manufactures' (OC 100).³

Among writers of the Scottish Enlightenment, Hume is known for his optimistic view of commercial and industrial development. However, his concern with commerce and industry is not economic in a narrow sense, but cultural. Hume expects commercial and industrial development and a more luxurious life-style to expand the communication of knowledge, make people sociable and promote the progress of civilisation. 'Industry, knowledge, and humanity, are linked together

³ We can identify the 'state' in this quotation with what we now termed the 'nation-state', considering terminology of that time. See chapter 5.

by an indissoluble chain' (RA 107). For Hume, sociability is the ideal condition of civilisation. Industry, knowledge and humanity, the products of advanced commercial society, are advantageous for the public by their diffusion. His view of commerce, industry and civilisation is derived from his experience and observation. In Edinburgh and Glasgow, many clubs, the *salons*, coffee-houses were at the centre of the intellectual life of the Scottish Enlightenment. Edinburgh, in which Hume lived, was one of the centres of culture, intellectual and social intercourse as well as of the economy. The attraction of Edinburgh's cultural and intellectual life had an economic effect, and its economic prosperity contributed to further cultural and social development (Smout 1983: 58-9). Nicholas Phillipson says, 'Throughout the eighteenth century Scottish intellectual life, and that of Edinburgh in particular, was to be meshed into a complex and constantly changing network of clubs and societies devoted to the improvement of manners, economic efficiency, learning and letters' (Phillipson 1983, 27).

Against the conventional notion of that time, especially that of the republican tradition, Hume maintains that even luxury is preferable for civilisation. In seventeenth and eighteenth century England and Scotland, the leading industry was luxurious consumer production, especially linens. The expanding demand for luxurious goods attracted production, innovation, employment and trade. Perhaps Hume's economic theory, which considers commerce, manufacture and innovation as the supply side and luxurious consumption as the demand side, was derived from his observation of the linen industry in Scotland.

Hume also regards manufacture and commerce as important factors of national power, not only economic but also military. Unlike Adam Smith and Adam Ferguson, his friends, Hume does not seriously fear that people will lose their martial spirit to defend their country or their liberty because of luxury. On the contrary, the spirit of industry cultivated by economic development will promote people's courage and the public spirit necessary for national security and liberty. He admires commerce enough to call merchants 'one of the most useful races of men' (OI 129). Certainly, concerning the relationship between defence and commerce, Hume shows the wisdom of balance. Like Adam Smith, he notes the negative aspects of advanced commercial

society (Winch 1978: chapt. 5). For example, 'where the riches are in few hands, these must enjoy all the power, and will readily conspire to lay the whole burthen on the poor, and oppress them still farther, to the discouragement of all industry'(OC 102). And he discusses the vicious aspects of luxury (RA 113). However, generally speaking, he strongly supports industrial development.

Another reason why manufacture is preferable for defence is that manufacture offers more excess profit than agriculture to increase national wealth and surplus labours. As a result, such a nation can afford to use manufacturers as soldiers without undermining the minimum necessity of labour power. 'In times of peace and tranquillity, this superfluity goes to the maintenance of manufacturers, and the improvers of liberal arts. But it is easy for the public to convert many of these manufacturers into soldiers, and maintain them by that superfluity, which arises from the labour of the farmers' (OC 99). Considering the importance of the linen industry in Scotland, especially in the Lowlands, is useful to understand this notion. As T. C. Smout points out, 'Scotland progressively separated linen production from farming, and ultimately developed a proletariat skilled in textile production but divorced from the land and ready to work in towns and villages', while Ireland kept the proto-industrial family tied to a small farm, which led to the tragic stagnation of nineteenth century Ireland (Smout 1983: 63). Hume would observe the rise of a modern form of production in Scotland, which separated labourers from small and local communities, and think that such freer labour power could be mobilised for military purposes. His argument about national security and economic development lends credence to his theory for economic nationalism. As Jacob Viner and others point out, one of the distinctive features of economic nationalism is the idea that military security and industrial development are mutually reinforcing. Hume summarises this notion as follows:

And to consider the matter abstractedly, manufactures encrease the power of the state only as they store up so much labour, and that of a kind to which the public may lay claim, without depriving any one of the necessities of life. The more labour, therefore, is employed beyond mere necessities, the more powerful is any state; since the persons engaged in that labour may easily be converted to the public service. In a state without manufactures, there may be the same number of hands; but there is not the same quantity of labour, nor of the same

Labour

Bearing in mind his view of technological knowledge and industry, we must now look more carefully at Hume's view of labour. 'Every thing in the world is purchased by labour; and our passions are the only causes of labour'(OC 99). Merely from this short statement, it would be dangerous to infer that Hume holds a labour theory of value, and indeed other statements which appear to imply such a theory are hardly to be found in Hume's writings. Rather, we should pay attention to the causal relationship posited in this sentence: 'our passions' are the cause of labour and labour is the effect. Hume's concern is with how the power of labour is produced.

In addition, Hume's concept of labour is wider than the current and common usage in either mainstream or Marxist economic theory. First of all, labourers are expected to be not only economic actors but also a military force with the martial spirit. In peace time, labourers produce economic power with an industrious spirit, while in wars they become a military power with a martial spirit. Labour is the source of national power. Second, Hume throws light upon the quality of labour rather than its quantity. For Hume, skills, knowledge and the spirit of industry included in labour are important as the source of economic power. He sees labour not as the source of price or exchange value but as the source of productivity. His main concern is not exchange but the dynamic process of production and innovation. To use List's terms, Hume's theory of labour is a theory of 'productive power' rather than of exchange.

Hume makes much of the process of development of labour, in other words, the effect of 'learning by doing': 'The labourers cannot encrease their skill and industry on a sudden' (OC 99). 'Time and experience' are emphasised in his discussion of labour: 'Experience must guide their labour: Time must bring it to perfection' (RPAS 68; OC 95). His notion of labour reveals his dynamic perspective. What Hume means by labour is the stock and transmitter of practical knowledge and the spirit of industry, which are acquired through experience. Unlike Adam Smith and Adam Ferguson, he neither pays attention to the detailed division of labour in a factory, nor

fears its abuse. What Hume appreciates is the comprehensiveness of labour, including knowledge and morals acquired through time and experience, which are the foundation of civilisation as well as the source of national power. The point is not the division but the comprehensiveness of labour.

In terms of his unique idea of labour, Hume argues for manufacture. Manufacture cultivates and maintains labour as the stock of knowledge, and labour is the source of national power (OC 99-100). Thus manufacture plays a pivotal role in enhancing national power.

Trade

It is well known that Hume attacks financial mercantilism and supports free trade in general (BT 137-8). This has led many commentators to believe that Hume is an economic liberal preceding Adam Smith. However, the reason why Hume supports free trade differs from the economic liberal doctrine, which asserts that this will fulfil the most efficient allocation of resources in the world. Rather he supports free trade because trade can diffuse skills and technology through imitation, which are necessary for the development of domestic industry (OC 102; JT 150). His concern is not efficiency or a cosmopolitan ideal, nor does he see foreign trade as a zero-sum game. 'It is obvious, that the domestic industry of a people cannot be hurt by the greatest prosperity of their neighbours' (JT 150).

However, we should not conclude that this notion is at odds with economic nationalism. Firstly, as have been emphasised, economic nationalism should not be associated only with a zero-sum game view of the international economy. Secondly, Hume argues for free trade, not because he believes in economic liberalism, but because he thinks that the cause of domestic wealth is the spirit of industry. 'And if, notwithstanding these advantages, they lose such a manufactory, they ought to blame their own idleness, or bad government, not the industry of their neighbours' (JT 152). Hume's theory of trade is significantly different from that of both mercantilism and mainstream economics. Both mercantilism and mainstream economics are concerned with the allocation of economic resources in the world through international trade. By contrast, Hume

argues that the benefit of trade is in the diffusion of knowledge and that the vital factor of wealth is the increase of domestic productivity, which requires the industriousness of the people.

Further, although Hume is generally in favour of free trade, he does not stick to this as a dogma: Hume's generalisation is not a dogmatic theorem. 'The world is still too young to fix many general truths in politics, which will remain true to the latest posterity' (CL 51). Andrew Skinner pays attention to 'Of Money' and 'Of Interest,' in which Hume argues that a relatively developed economy could enjoy the advantage of international trade. This implies the possibility that Hume might justify government intervention to increase productivity in a relatively backward economy. Skinner rightly suggests that 'Thus while there is in Hume's writings a marked presumption in favour of free trade, he also recognized that government intervention may be beneficial.' (Skinner 1993: 244) Tom Velk and A. R. Riggs also argue that Hume is willing to employ both the market and politics for economic progress (Velk and Riggs 1985: 155). Moreover, Hume refers to the so-called 'infant industry argument' (McGee 1989: 184). Had Hume observed that free trade was disadvantageous for the national power of Britain, it seems reasonable to assume that he would have been a supporter of protectionism (Lyon 1970).

Money

In 'Of Money', Hume indicates that the increase of money supply by the expansion of paper credit might damage industry by raising the price of goods and labour costs. That is why 'to endeavour artificially to encrease such a credit, can never be the interest of any trading nation; but must lay them under disadvantages, by encreasing money beyond its natural proportion to labour and commodities, and thereby heightening their price to the merchant and manufacturer.' (OM 117) This notion might appear to be the doctrine of economic liberalism, that the market mechanism could adjust the prices of commodities to the optimal level and, therefore, that state intervention is undesirable. However, this would be a mistaken interpretation. Hume notices that an increase in the money supply stimulates investment in industry by decreasing the rate of interest. The money supply simultaneously encourages and discourages the development of industry, respectively

through the rate of interest and through prices. Hume analyses this system; 'in my opinion, it is only in this interval or intermediate situation, between the acquisition of money and rise of prices, that the encreasing quantity of gold and silver is favourable to industry.'(OM 119)

Quoting the same passage, John Maynard Keynes comments, 'Hume a little later had a foot and a half in the classical world. For Hume began the practice amongst economists of stressing the importance of the equilibrium position as compared with the ever-shifting transition toward it, though he was still enough of a mercantilist not to overlook the fact that it is in the transition that we actually have our being'(Keynes 1936: 343n3). Keynes, who regards Hume as an economic liberal, seems to be unsatisfied that Hume does not refer to 'a somewhat stable wage-unit' or to the 'national characteristics which determine the propensity to consume and the preference of liquidity,' which Keynes has discovered and emphasised in his *General Theory of Interest, Employment and Money* (Keynes 1936: 337).

However, Hume's position is much closer to Keynes's than Keynes recognises. Importantly, in 'Of Money,' Hume emphasises that prices and the rate of interest depend upon customs and manners. Based upon the comparative and historical study of different national or regional economies – for example, of ancient Rome, Spain and Portugal after the discovery of America, England before and after discovery of West India, France, China and so on – he concludes that not only the quantity of money but also the manners and customs of the people determine prices and the rate of interest (OM 123-5). A low rate of interest promotes commerce and industry, while economic growth caused by an increased money supply will be prevented by the inflationary effect. The increase of the money supply 'beyond its natural proportion to labour and commodities' is harmful. However, the market mechanism to adjust prices at optimal level does not always work, because both prices and interest rates, the important factors of economic development, depend upon the economic form of life of the people. In short, Hume has identified the source of economic development and the foundation of civilisation in customs and manners. He anticipates Keynes in noticing the importance of 'national characteristics which determine the propensity to consume and the preference of liquidity'.

In addition, like Keynes and unlike the classical school of economics, Hume considers both time and psychological factors as significant variables in economic analysis (Lyon 1970). It is true that Hume defines money as an instrument of exchange, just as the classical and neoclassical schools do (OM 115). In spite of his definition, however, money is more than an instrument in the sense of mainstream economics. It is a convention or symbol (T 490; see chapter 4). Hume's symbolist or social psychological theory of money can explain how the increase of money supply stimulates economic activities: 'we fancy, because an individual would be much richer, were his stock of money doubled, that the same good effect would follow were the money of every one encrease' (BT 142). The increase of money supply makes people hold the fancy that they would become rich, which promotes economic activities. In short, Hume argues for what Irving Fisher calls the 'money illusion'. The money illusion is possible because of the symbolic form of money.

Unlike other contemporary writers who shared Locke's view of money (Pocock 1975: chapt.13), Hume does not think that the symbolic and fictitious form of money is problematic. Rather, Hume thinks that not only money but also all social institutions are symbolic (see chapter 4). He admits the benefit of banks and paper-credit – for example, the smooth circulation of money – in encouraging commerce and industry (BT 143-4), and theoretically understands the substantial effect of money supply on promoting investment. Hume's symbolist theory of money can explain what he would have observed. In late seventeenth and early eighteenth century Scotland, banks such as the Bank of Scotland and the Royal Bank of Scotland were established and new credit systems were introduced. These innovative financial institutions contributed to the economic development of Scotland.

To summarise, Hume's institutional, cultural and dynamic approach properly grasp the nature of the growth-oriented economy emerging of his time. Incorporating scientific and technological knowledge as a central variable, his political economy can explain the dynamic process and national, regional and historical diversity of the economic system. It attempts to explore the economic source of national power, including military power, rather than the efficient

allocation of economic resources. In addition, long before Keynes, Hume had discovered that national forms of life influence prices and interest rates.

3. Hume's Scepticism about Economic Development

Many commentators emphasise Hume's optimism about economic development. For example, through the analysis of 'Of Refinement in the Arts', Forbes concludes, 'it is an unquestioned assumption of Hume's social and political theory that the good life is dependent on economic progress' and 'this is Hume at his least sceptical: he had none of the doubts and misgivings which Adam Smith and all the other leading thinkers of the Scottish Enlightenment had about the all-round benefits of commercial civilisation' (Forbes 1975: 87-8).

However, it seems to be slightly exaggerated to claim that Hume had none of these doubts and misgivings in his social and political theory. There are three aspects of Hume's scepticism about commercial civilisation. The first is political. Comparing monarchy with republican government, Hume examines these advantages and disadvantages:

Where birth is respected, unactive, spiritless minds remain in haughty indolence, and dream of nothing but pedigrees and genealogies: the generous and ambitious seek honour and authority, and reputation and favour. Where riches are the chief idol, corruption, venality, rapine prevail: arts, manufactures, commerce, agriculture flourish. The former prejudice, being favourable to military virtue, is more suited to monarchies. The latter, being the chief spur to industry, agrees better with a republican government. And we accordingly find that each of these forms of government, by varying the *utility* of those customs, has commonly a proportionable effect on the sentiments of mankind. (EPM 249)

Hume maintains that a republic government is better for economic progress and admits its benefits. Nonetheless, he supports the monarchical constitution of Britain. Hume's preference for a monarchical form of government is derived from his political theory of nationalism. As chapter 5 will show in detail, Hume believes that the authority of a constitution, generated by its continuity, plays a role in integrating a large-scale nation. It is true that a republican form of polity is more suitable for economic progress, but it is less so for maintaining the unity and order of such a

large-scale nation as Britain. Hume, who is famous for his celebration of economic prosperity, would oppose economic development if it threatened national unity. He prioritises political order and national unity over economic development.

The second aspect of scepticism about economic prosperity is cultural, as is found in 'Of the Rise and Progress of the Arts and Sciences':

That though the only proper Nursery of these noble plants be a free state; yet may they be transplanted into any government; and that a republic is most favourable to the growth of the sciences, a civilized monarchy to that of the polite arts. (RPAS 67)

Science, technology and industry develop by breaking through tradition and authority. Thus a monarchical polity, whose governance is based upon tradition and authority, will prevent radical innovation to some extent, while it is suitable for conserving polite customs. Hume does not think that industry and innovation should always be superior to politeness. His concern is the balance between commercial and noble civilisation.

Thirdly, Hume is sceptical about the sustainability of creative destruction for scientific and technological development. He displays a distinctly pessimistic view of the future of scientific progress:

That when the arts and sciences come to perfection in any state, from that moment they naturally, or rather necessarily decline, and seldom or never revive in that nation, where they formerly flourished. (RPAS 75)

Hume's view that the arts and sciences will decline is different from that of Civic Humanism, shared by his contemporaries, according to which civic virtue will decline and civilisation will degenerate (see Pocock 1975: chapt.13 and chapt.14). Rather Hume argues that the arts and sciences themselves will develop sufficiently to stop progress. His view is derived from his institutional and dynamic approach.⁴ He thinks that the dynamic process of innovation is driven by cultural and social factors. Firstly, innovation can be achieved after aggressive and frequent trials and emulation. However, the achievement of success will bring 'admiration and modesty', which 'naturally extinguish this emulation' (RPAS: 76). Invention of the arts is created by trials

⁴ What is meant by the 'dynamic approach' is to consider time in economic analysis (see chapter 2).

and emulation, but the arts are paradoxically the objects of admiration and modesty, which prevents further trials and emulation. Secondly, innovation is motivated by praise and glory. However, the more advanced are science and technology, the less is the marginal utility of their progress and the less appreciated socially are they. 'When the posts of honour are all occupied, his first attempts are but coldly received by the public' (RPAS 76). The social motivation of innovation will cease. Hume summarises his institutional view of innovation:

In short, the arts and sciences, like some plants, require a fresh soil; and however rich the land may be, and however you may recruit it by art or care, it will never, when once exhausted, produce any thing that is perfect or finished in this kind. (RPAS 77)

Hume is in fact less optimistic about economic progress than historians may have thought. His sceptical attitude toward capitalism comes from views other than Civic Humanism – from a political theory of nationalism and a cultural, institutional and dynamic perspective on political economy which are the main elements of a theory for economic nationalism.

4. Three Interpretations of Hume

The transformation to a dynamic economy in eighteenth century Britain encouraged the development of a new way of thinking. In particular, some historians have recently shown that the Scottish Enlightenment, especially in the work of Hume and Smith, developed social science as an effective alternative to the tradition of civic humanism or classical republicanism, which stemmed from ancient Greco-Roman political philosophy and the ideas of Machiavelli (Phillipson 1976, 1983; Moore 1977; Winch 1978; Pocock 1983; Robertson 1983). Classical republicanism is the claim that 'the development of the individual toward self-fulfilment is possible only when the individual acts as a citizen, that is as a conscious and autonomous participant in an autonomous decision-taking political community, the *polis* or republic.' (Pocock 1985: 85) The intellectuals who belonged to this tradition were likely to regard economic development as the cause of moral

Considering time, Hume suggests that the dynamics of innovative activities would cease.

corruption and political instability. Observing and analysing the real economy and society by the 'experimental method', Hume, Smith and their followers in the Scottish Enlightenment attempted to replace the republican ideal of an agrarian, static economy by the scientific understanding of a dynamic one. It is Hume who led this paradigm shift. As Donald Winch says, 'the emphasis on economic progress forms an essential part of Hume's campaign against the backward-looking cast of much contemporary political theory' (Winch 1978: 74).

However, the interpretation of Hume's political economy as an alternative to classical republicanism has been controversial. The dominant interpretation of Hume among social scientists, especially economists, is that his political economy is a predecessor of economic liberalism or a premature form of mainstream economics.⁵ For example, in his essay called 'The End of Laissez-Faire', John Maynard Keynes categorises the thought of Hume with that of Adam Smith as classical political economy, which is summed up as individualism and *laissez-faire*, and proceeds to criticise them as such (Keynes[1926]1972). Friedrich A. Hayek, an opponent of Keynes, likewise categorises Hume, Smith and himself as 'true individualists', but admires them (Hayek 1980). In his life work, *History of Economic Analysis*, Joseph A. Schumpeter traces the roots of mainstream economics in theology, natural law and Scholastic philosophy. He argues that the Enlightenment in the eighteenth century transformed theology into the science of human nature, which he associates with Hume. Schumpeter describes Hume as a utilitarian and as a rationalist or formalist. He believes that Hume's science is the origin of what he attacks – that Hume reduces society to the utilitarian calculus of pleasure and pain, which is still the basis of mainstream economics, and that he ignores the social aspect of economic activities and fails to explain the dynamic process of economic history. Schumpeter recognises that Hume is also the author of *History of England*, but comments that *History of England* 'shows that he at least, was not a slave of his utilitarianism' (Schumpeter 1954: 134). He thinks that Hume the historian is incompatible with Hume the economist.

From a different perspective, Albert Hirschman also presents a rationalist or formalist

interpretation of Hume. Hirschman describes the development of the human sciences from the theory of the passions to that of the interests. The original idea of modern social science was to find the principle of society in order to regulate the passions for social order without reference to God. First, the idea of some passions conflicting with and countervailing other passions was the dominant view of how to realise social order. This then developed to become the mechanistic idea of the interests counteracting the passions, and finally this idea was transformed into the paradigm of the equilibrium of the interests. Economic development was expected to eliminate the arbitrary power of rulers. Hirschman analyses in this context Hume's claim that 'Reason is, and ought only to be the slave of the passions,' and concludes that Hume regards society as an arena of the passions. Moreover, he situates Hume at the turning point from the view of one passion against another passion to that of countervailing the passions by the interests. Countervailing a passion is a difficult problem, but Hirschman gives Hume the honourable status of solving it by discovering how to use the 'love of gain' to control the passions (Hirschman 1977).

Among economists, John R. Commons, who established institutional economics, is almost alone in escaping the pitfall of the economic liberal interpretation of Hume. Commons notices Hume's concern with social action and his holistic and substantive approach in considering laws, customs and ethics: 'Institutional economics goes back to Hume' (Commons [1934]1959: 71). Influenced by the common law tradition and John Dewey's pragmatism or social psychology, and drawing upon his own rich experience of practical affairs, Commons is convinced that human beings are mutually dependent animals who must co-operate with one another (Mitchell 1935). He replaces classical economics, characterised by individualism and hedonism, by institutional economics as a science of collective action or '*trans*-action' between individuals, and defines an institution as 'Collective Action in Control of Individual Action' (Commons [1934]1959: 69). As to the method of explanation, referring to Max Weber, Commons proposes interpretation, instead of the mathematical formalism of classical economics, in order to grasp the dynamic and complex process of economic change (Commons [1934]1959: 99-101). Interactionism applied to

⁵ A recent example of this interpretation is Fitzgibbons(1995).

economic analysis produces institutional economics. In the next chapter, I shall show that Hume's social thought has much in common with interactionism and that his approach is interpretive. In chapter 5, I shall also point out that Hume is significantly influenced by the common law tradition. The affinities between Hume's and Commons's philosophies and approaches will thus become clearer. Although Commons himself unfortunately misunderstands Hume's psychology as individualistic (Commons [1934]1959: 90), Hume's economic thought is, I argue, thoroughly institutional in Commons's sense of this.

Unlike economists, historians have not failed to notice that Hume's economic thought is historical and dynamic as well as institutional. Constant N. Stockton comments that Hume 'deserves an honoured place in the history of the beginnings of economic history' (Stockton 1976: 317). Andrew Skinner emphasises that Hume is concerned with the process of economic change and uses history in his economic writings. He calls Hume's method for a theory of economic development 'historical dynamics' (Skinner 1993: 231). As they correctly point out, Hume's main concern about the historical dynamics of the economy is the relationship between the development of commerce and manufacture and political or social conditions, especially liberty. This was an important topic for political economists and historians in the Scottish Enlightenment tradition, such as Adam Smith, William Robertson and John Millar (Pocock 1960). In addition to rapid economic development, the contrast between the economic forms of life in the backward Highlands and advanced Lowlands encouraged the idea of economic progress in the leading thinkers of the Scottish Enlightenment, and Hume presented the typical Lowland view more than other thinkers (Forbes 1975: 87).

However, there have been two different interpretations of Hume's view of the mechanism of economic development. Stockton argues that Hume seems to offer what Marxists would call a more idealist analysis in such writings as 'Of the Rise and Progress of the Arts and Sciences' and 'Of Refinement in the Arts', while he offers a more materialist one in *History of England*. In the former, he thinks that political structures determine economic, social and cultural development. In the latter, by contrast, he explains that it is economic changes, which begin to cause the

transformation of social behaviour, manners and political structure. Stockton pays more attention to the latter, noting that Marx himself studied Hume's political economy thoroughly (Stockton 1976: 313-5). J. G. A. Pocock argues that Hume's position is the latter: the growth of commerce and industry causes the growth of manners, culture and civilisation. Economic development is the cause and civilisation is the effect. Pocock then contrasts Hume with Edmund Burke, who insists that manners are the cause and economic development is the effect (Pocock 1960). So is Hume an idealist or materialist?

Before evaluating these two interpretations, it is necessary to consider the methodological difference between Hume's social science and his history. Hume distinguishes between the methods of studying particular facts and general principles. History belongs to the former, political economy to the latter. Social scientists aim at generalisation, but historians do not. Thus, it seems that *History of England* is somewhat misleading as a basis for understanding Hume's theory of economic development. For him, the goal of historical study is not to construct a general theory but to deal with particular events.⁶ Thus in order to understand his general theory of economic development, we should refer to his social, economic and political writings rather than his historical one. As Pocock indicates, it is true that Hume sometimes argues that economic development will improve manners and culture, and contribute to liberty and civil order – economic development as cause and civilisation as effect. However, in Book III of the *Treatise*, Hume clearly maintains that conventions are required for property, promises, exchange, money, and co-operation (T 490). The *Treatise* is written not as history, but as general theory. And 'Of the Rise and Progress of the Arts and Sciences' and 'Of Refinement in the Arts' are also not histories but scientific enquiries. By referring to these writings, which aim at generalisation, it can be shown that Hume's view is not different from Burke's: for both of them, conventions are the basis of economic development (see chapter 6). However, it is inappropriate therefore to call Hume (and Burke) an idealist, since his institutional economics does not make a sharp distinction between political and economic structures. Put another way, for Hume, both idealism and materialism

commit a category-mistake, since both political and economic structures comprise patterns of social action and institutions.

5. Redrawing the Early Modern History of Political Economy

As has been seen, Hume's political economy can be best understood as providing a theoretical basis for economic nationalism. Just because Hume emphasises the desirability of commerce and free trade, it does not follow that he is an economic liberal. Unlike economic liberals, Hume focuses not upon the allocation of resources by the market, but upon the dynamic process and the sources of economic development. Hume's political economy is a theory of productive powers rather than of exchange. Further, he recognises the relationship between plenty and power, in particular military power. His perspective is as cultural, historical, institutional, political, dynamic and geographical as List's. Although industrial capitalism was still merely embryonic at his time, he did not fail to identify 'national systems of political economies' and the nature of the dynamics of the modern economy. Moreover, he notices not only positive but also negative relationships between national polity and culture, and economic development, and prioritises the former over the latter. Thus Hume's political economy is that for economic nationalism.

This reinterpretation of Hume enables us to reconsider the place of Hume's political economy, and more generally that of the Scottish Enlightenment, in the history of ideas. Let me sketch very schematically a new outline of the early modern history of political economy.

As we have seen, in establishing a modern form of political economy, the Scottish Enlightenment challenged the republican tradition. However, the birth of modern political economy in eighteenth century Scotland is not that of economic liberalism (Winch 1978, 1983, 1985a and 1992). It is difficult to find in the social thought of the Scottish Enlightenment the characteristics of economic liberalism such as methodological individualism, and the view of the market economy as a self-regulating realm.

⁶ For the fuller discussion of Hume's methodology, see chapter 4.

Rather, according to Jacob Viner, the view of selfish individuals and the *laissez-faire* doctrine are found in the claim of mercantilism (Viner 1960). Mercantilism has been associated with seeking to augment the wealth and power of the state by governmental interference and trade protection, which appears to contradict the individualism and *laissez-faire* doctrine of economic liberalism. However, in fact, mercantilists would agree with economic liberals that the state should not interfere with the private realm, except when the public good could be best served by intervention. Viner points out that 'Even between extreme mercantilists and extreme advocates of *laissez faire* the difference in avowed general principle might consist only in that the mercantilist would stress the duty of intervention unless, by exception, good reason existed for leaving things alone, while the *laissez faire* doctrinaire would insist that the government should leave things alone unless by exception special reasons existed why it should intervene' (Viner 1960: 56). It is true that there are some disputes on specific issues between mercantilism and economic liberalism. However, mercantilism and economic liberalism share methodological individualism, which Hume, Smith and the Scottish Enlightenment reject. By contrast, thinkers of the Scottish Enlightenment regard human beings as social animals, and never believe in the automatic mechanism of the market economy separated from other aspects of society.⁷

List is also an opponent of mercantilism and methodological individualism. In this respect, it is a mistake to associate mercantilism with economic nationalism. In terms of the philosophy of social science, economic nationalism is rather the radical anti-thesis of mercantilism. By contrast, economic liberalism is much closer to mercantilism in that they share methodological individualism and the *laissez-faire* doctrine. The more striking affinities with economic liberalism are found in the writings of the Physiocrats, who also advocated the *laissez-faire* doctrine. Influenced by mercantilism and the French tradition of rationalism, the Physiocrats share with economic liberals not only methodological individualism, but also the rationalist view of the self-regulating economic society or the pre-established harmony of social order (Viner 1960: 59).

⁷ Adam Smith is not discussed in detail here. My understanding of Smith is indebted to Donald Winch (Winch 1978, 1983, 1992), who has definitely undermined the economic liberal interpretation of Smith.

The rationalism and utopianism, which lie behind their beliefs are what Hume, Smith and List strongly attack. Rationalism or formalism, and the disciplinary specialisation of economic liberalism – the autonomous status of economics decoupled from other fields such as ethics, politics and history – completely contradict the intellectual project of the Scottish Enlightenment. The approach of Hume, Smith and their followers is holist and trans-disciplinary (Dow 1990). Economics as a specialised and formal theory was invented not by Hume and Smith, but by David Ricardo, J. P. Say and J. S. Mill. As Donald Winch regrets, ‘Much of Smith’s science of the legislator died with him’ (Winch 1983). It can be said that there was no such thing as economic liberalism, or ‘economics’ as a specialised discipline, in eighteenth century Scotland. In short, the characteristics of the social science of the Scottish Enlightenment, and in particular of Hume, conform more closely to a theory for economic nationalism than to liberal economic theory.

4. 'Let Your Science Be Human'

The aim of this chapter is to examine what we would now regard as Hume's philosophy of 'social science'. Methodology is one of the most important aspects of Hume's thought. *A Treatise of Human Nature* has been seen as a work of epistemology, psychology and ethics, but his main concern is arguably methodological: proposing a new method for investigating the nature of moral behaviour. This is announced in the subtitle of the *Treatise* – *An Attempt to Introduce the Experimental Method of Reasoning into Moral Subjects*. The experimental method is applied to moral subjects in Book III of the *Treatise*. *An Enquiry concerning Human Understanding*, in which Hume develops his argument in Book I of the *Treatise*, can also be regarded as centrally concerned with methodology.¹ Drawing mainly upon the *Treatise* and the first *Enquiry*, I shall articulate Hume's philosophy of social science.

In the following discussion, I shall first look at Hume's understanding of human actions and society and characterise this as *symbolism*. The key point in his social thought is that symbolic interactions generate the disinterested view of 'the spectator' in the human mind. Secondly, I shall examine Hume's argument about how to provide generalised explanations in social science, and show that he applies the idea of the objective viewpoint of the disinterested spectator to the position of social scientists in understanding social phenomena. I shall also argue that Hume's approach of social science can be seen as *interpretive*.² Thirdly, I shall examine

¹ Hume attributes the failure of the *Treatise* to the manner of its writing, and intends to 'cast the first part of the work a new' in the first *Enquiry* (EHU viii-ix).

² Some commentators insist that the interpretive approach fails to provide generalised explanations (for example, Little 1991: 155). However, I shall argue that Hume aims at generalisations in his interpretive approach.

Hume's method of historical study and its relation to social science.

1. The Spectator

Hume assumes that human beings, unlike other animals on the earth, are originally too weak to satisfy independently their own needs and wants: for example, for clothes, food and shelter. They have to co-operate with each other to satisfy their needs, in other words, to form a society. However, human nature is basically selfish. Human beings tend to be more interested in their own and their family's welfare than that of others. Their limited altruism and the scarcity of resources would lead to conflict in the attempts to satisfy their needs and thus prevent the formation of society in nature. The remedy for this natural situation is the introduction of justice as an 'artificial' virtue. Hume's concern with justice is a concern for the stable possession of property. That, in brief, is the account of the origin of property rights offered by Hume.

This account has encouraged the individualist interpretation of Hume: human beings, whose nature is selfish, make an agreement or contract to obey the rules in order to satisfy their needs in the state of nature. However, for Hume, the original state consisting of selfish individuals is just an analytical tool to emphasize the meaning of rules (Forbes 1975: 70). He regards human beings as social animals (EHU 8-9), and clearly suggests that the state of nature is merely a fiction (EPM 189). So, we should not automatically conclude that Hume holds to an individualist position. Further, Hume rejects the individualist account of the obligation of rule-following. Certainly, two selfish individuals could reach an agreement to restrain themselves by calculating their own interests rationally, 'but when society has become numerous, and has

increas'd to a tribe or nation, this interest is more remote; nor do men so readily perceive, that disorder and confusion follow upon every breach of these rules, as in a more narrow and contracted society' (T 499).

How then do members of a society come to follow its rules? Instead of individualism, Hume proposes what today would be termed a 'symbolist' account of rule-following activities.

His argument about promises indicates this:

When a man says *he promises any thing*, he in effect expresses a *resolution* of performing it; and along with that, by making use of this *form of words*, subjects himself to the penalty of never being trusted again in case of failure. A resolution is the natural act of the mind, which promises express: But were there no more than a resolution in the case, promises wou'd only declare our former motives, and wou'd not create any new motive or obligation. They are the conventions of men, which create a new motive, when experience has taught us, that human affairs wou'd be conducted much more for mutual advantage, were there certain *symbols* or *signs* instituted, by which we might give each other security of our conduct in any particular incident. After these signs are instituted, whoever uses them is immediately bound by his interest to execute his engagements, and must never expect to be trusted any more, if he refuse to perform what he promis'd. (T 522)

The words of promises are socially instituted '*symbols* or *signs*'. For Hume's science of human nature, it is not mysterious or incomprehensible that a form of words by itself has the power to regulate our actions, because 'the obligation of promises is an invention for the interest of society' (T 524).

Hume argues that the symbolic power (or the 'illocutionary force', in John Austin's phrase) of words, institutions, and especially property, entails sacredness (EPM 199-201) – just as Durkheim was much later to emphasise 'the affinity between the notion of the taboo or the sacred and the notion of ownership' (Durkheim 1992: 143). In this respect, there is no difference between sacred and secular institutions. However, the difference between superstition and social

justice is 'that the former is frivolous, useless, and burdensome; the latter is absolutely requisite to the well-being of mankind and existence of society' (EPM 199). Hume draws the line between order and disorder, or public utility and disutility, rather than between the sacred and secular, because civil institutions possess a sacred character. In the following passage, Hume offers a Durkheimian anthropological account of the transference of property:

The suppos'd resemblance of the actions, and make it fancy, that it conceives the mysterious transition of property. And that this explication of the matter is just, appears hence, that men have invented a *symbolical* delivery, to satisfy the fancy, where the real one is impracticable. Thus the giving the keys of a granary is understood to be delivery of the corn contain'd in it: The giving of stone and earth represents the delivery of a manor. This is a kind of superstitious practice in civil laws, and in the laws of nature, resembling the *Roman catholic* superstitions in religion. As the *Roman catholics* represent the inconceivable mysteries of the *Christian* religion, and render them more present to the mind, by a taper, or habit, or grimace, which is suppos'd to resemble them; so lawyers and moralists have run into like inventions for the same reason, and have endeavour'd by those means to satisfy themselves concerning the transference of property by consent. (T 515-6)

Hume's symbolist analysis of institutions is linked to his understanding of symbolic interaction: symbols make human action oriented to the anticipated reactions of others. Hume's interactionism is shown in his discussion of conventions. A convention:

gives us a confidence of the future regularity of their conduct: And 'tis only on the expectation of this, that our moderation and abstinence are founded. In like manner are languages gradually establish'd by human conventions without any promise. In like manner do gold and silver become the common measures of exchange, and are esteem'd sufficient payment for what is of a hundred times their value. (T 490)

Conventions are patterns of reciprocal expectations of conduct, which are formed through symbols. The socially shared patterns of reciprocal expectations of conduct create the sentiment of 'sympathy' by stimulating the imagination, and represent in the human mind the viewpoint of 'the

spectator'(EPM 224, 254), of 'contemporaries'(EPM 217) or a 'general unalterable standard'(EPM 229). Hume thinks that the disinterested viewpoint of the spectator is generated by social intercourse (EPM 186, 221) and attributes the origin of justice to it (EPM 191). Hume's theory of morality is based upon a theory of symbolic interaction: the spectator developed through symbolic interaction can provide the disinterested viewpoint of moral judgements in an individual mind.

Hume's idea of the disinterested spectator is very similar to what G. H. Mead calls 'the generalised other', though Mead regards Hume's theory, like Wilhelm Wundt's, as associational psychology (Mead 1934: 18). Mead argues that a human being is born into a society characterised by symbolic interaction, and learns how to take the role of others through the use of significant symbols. This role-taking develops the *self*, i.e., the capacity to view oneself from the standpoint of the *generalised other*, which implies defining one's behaviour in terms of the expectations of others' (Mead 1934: 319).³

Thus it can be said that Hume's science of human nature is symbolist. Human beings are intrinsically social animals. They share conventions or symbolic patterns of reciprocal expectations of conduct and communicate with each other on this basis. Symbolic interactions generate the disinterested viewpoint of 'the spectator' or 'the generalised other' in the human mind and make objective judgements possible. Bearing in mind Hume's social theory of objective judgements, let us next look at how he develops this understanding of human nature in his the method of social analysis.

³ I think that Alfred Schutz's phenomenological analysis of 'the world of the contemporaries' is about what Hume calls conventions (Schutz 1972: 176-207).

2. Interpretive Social Science

In the first line of the first *Enquiry*, Hume remarks that he is going to discuss the two ways of conducting social science:

Moral philosophy, or the science of human nature, may be treated after two different manners; each of which has its peculiar merit, and may contribute to the entertainment, instruction, and reformation of mankind. (EHU 5)

The first method aims to 'select the most striking observation and instances from common life' (EHU 5). This approach 'considers man chiefly as born for action' (EHU 5), and 'action' implies symbolic interaction. The main task of this approach is to observe and interpret the forms taken by this common life. 'It enters more into common life' (EHU 5).

The second method aims at discovering abstract and general principles of social phenomena:

The other species of philosophers consider man in light of a reasonable rather than an active being, and endeavour to form his understanding more than cultivate his manners. They regard human nature as a subject of speculation; and with a narrow scrutiny examine it, in order to find those principles, which regulate our understanding, excite our sentiments, and make us approve or blame any particular object, action, or behaviour. (EHU 6)

This approach aims at abstract formulations to provide generalised explanations. 'Proceeding from particular instances to general principles, they still push on their enquiries to principles more general, and rest not satisfied till they arrive at those original principles, by which, in every science, all curiosity must be bounded' (EHU 6). Comparing these two approaches, Hume attempts to construct a new method as a synthesis of the two. 'The most perfect character is supposed to lie

between those extremes' (EHU 8).⁴

In broad terms, Hume obviously prefers the former to the latter, because the latter, which he calls 'abstract philosophy', has the danger of fanciful speculation separated from common sense. 'This obscurity in the profound and abstract philosophy, is objected to, not only as painful and fatiguing, but as the inevitable source of uncertainty and error' (EHU 11). Speculation, degenerating into enthusiasm and superstition, is what Hume is most worried about. He thinks that what we would now call 'thick descriptions' of practice is required to comprehend human nature, rather than a 'formalist' approach, which pursues the goal of abstract generalisation.

However, Hume does not think that social science is mere description of particular phenomena. He believes that the mission of philosophy and social science is generalisation, as in natural science:

But however intricate they may seem, it is certain, that general principles, if just and sound, must always prevail in the general course of things, though they may fail in particular cases; and it is the chief business of philosophers to regard the general courses of things. (EHU 94)

By the same token, in the introductory part of 'Of commerce', Hume announces in his discussion that he tends toward generalisation. He distinguishes between *shallow* and *abstruse* thought, or between *particular* deliberations and *general* reasoning. A common man deals with shallow

⁴ The latter approach is today called 'formalism', represented, for example, by rational choice theory and public choice theory. Formalists believe that a simple and general model of maximising goal-oriented rationality is necessary for making social phenomena intelligible in any historical period and region. By contrast, anti-formalists insist that information about culturally specific norms is required for understanding social phenomena. The debate between formalism and anti-formalism has a long history, for example, between the Austrian Marginal Utility School and the German Historical School (Riha 1985; Hodgson 2001: Part II), and is still one of the main issues in the philosophy of social science (for example, see the symposium in the *American Journal of Sociology*(1998)). Daniel Little has recently re-examined this controversy and tried to defend formalism. He believes that generalised explanation would be impossible without the rational choice approach (Little 1991: chapter 7). However, as Alfred Schutz points out, 'the rationality of the construction of the model', which is the purpose of social science, is different from 'the construction of models of rational behavior'. For example, psychology may construct rational and general theories of irrational behaviour (Schutz 1962a: 44). Little as a formalist tends to confuse these two.

thought upon particular affairs, while a philosopher or scientist deals with abstruse reasoning upon general subjects (OC 94). He stands upon the latter in his economic writings. It is important to notice that what he calls *abstruse* thought in his economic writings can be divided between philosophy in common life and speculative philosophy. He adopts the former. However, generalisation or a certain abstraction is necessary for scientific explanation, and it requires the assumption of a common human nature beyond cultural and historical difference.

Hume believes that there are universal properties of human beings and that the purpose of philosophy or social science is to discover the general principles of human nature. In a passage often – but mistakenly – quoted as the evidence of Hume’s formalism, he says:

It is universally acknowledged that there is a great uniformity among the actions of men, in all nations and ages, and that human nature remains still the same, in its principles and operations. (EHU 83)

Hume thinks that the goal of social science is generalisation and the fulfilment of its goal is impossible without the assumption of uniformity of human nature:

But were there no uniformity in human actions, and were every experiment which we could form of this kind irregular and anomalous, it were impossible to collect any general observations concerning mankind. (EHU 85)

Hume’s acceptance of this universalist assumption has led many to interpret him as regarding avarice or self-love as this uniform human nature, and as reducing all social phenomena to this in the same manner as mainstream economics. However, Hume does not regard self-interested instrumental rationality as the common feature of human nature. Instead, what he assumes as universal is the relationship between motives and voluntary actions. The universality of this relationship is the fundamental presupposition on which the causal explanations of social science are constructed:

Thus it appears, not only the conjunction between motives and voluntary actions is as regular and uniform as that between the cause and the effect in any part of nature; but also that this regular conjunction has been universally acknowledged among mankind, and has never been the subject of dispute, either in philosophy or common life. (EHU 88)

It seems almost impossible, therefore, to engage either in science or action of any kind without acknowledging the doctrine of necessity, and this *inference* from motives to voluntary actions, from characters to conduct. (EHU 90)

It is true that human actions are diverse according to cultures or historical periods. However, the connection between motives and actions is universal in all human action. Actions are caused by motives and influenced by customs or symbols, which themselves differ between cultures (EPM 202). Thus the assumption of universal causality between motives and actions is compatible with cultural diversity (Haakonssen 1981: 32). However, how is the '*inference* from motives to voluntary actions' possible? Hume's answer is *interpretation*⁵:

Hence likewise the benefit of that experience, acquired by long life and a variety of business and company, in order to instruct us in the principles of human nature, and regulate our future conduct, as well as speculation. By means of this guide, we mount up to the knowledge of men's inclination and motives, from their actions, expressions, and even gestures; and again, descend to the *interpretation* of their actions from our knowledge of their motives and inclinations. The general observations treasured up by a course of experience, give us the clue of human nature, and teach us to unravel all its intricacies [my italics]. (EHU 84-5)

Hume argues that the experience of philosophers or social scientists makes their interpretation of human action possible. Therefore social scientists need experience of common life for interpretation. Practical wisdom or practical knowledge is required not only for common people to live in daily life, but also for philosophers and social scientists to explore the general principles of human nature. In this sense, the work of philosophers and social scientists is similar to that of

⁵ On Hume's interpretive approach, see Capaldi (1978) and Farr (1978).

artisans and farmers (EHU 85).

As we have seen in the previous section, Hume argues that conventions as the socially shared patterns of reciprocal expectations of conduct create the objective viewpoint of 'the spectator' in the human mind through social intercourse (EPM 224, 254). The viewpoint of the spectator, which enables one to anticipate others' conduct, is required for social scientists to interpret the meaning of human action:

The mutual dependence of men is so great in all societies that scarce any human action is entirely complete in itself, or is performed without some reference to the actions of others, which are requisite to make it answer fully the intention of the agent... In all these conclusions they take their measures from past experience, in the same manner as in their reasonings concerning external object (EHU 89).

A similar argument about scientific observation and interpretation is developed by Alfred Schutz. In his phenomenological analysis of the social world, Schutz sheds light upon the special case of the observer who is not an actor or a partner within the social world. Unlike an actor and a partner, the motives of the observer are not involved in the construction of 'mutual interlocked in-order-to and because motives'. However, the 'disinterested' observer in daily life can grasp the subjective meaning of the actor's act by referring to the typical and institutionalised patterns of the observed behaviour. This attitude of the disinterested observer of the social world is similar to that of the social scientist. Social scientists, who detach themselves from actual interactions within the social world, are able to grasp the subjective meaning of actions by constructing typical patterns or ideal-types of the actor's motives, ends, attitudes and personality. This scientific way of grasping the subjective meaning of action, the 'subjective interpretation of meaning', is similar to the actor's way of understanding others. In daily life, the more institutionalised is social interaction, the most

easily does the actor achieve his goal. By the same token, 'the more these interlocked behavior patterns are standardized and institutionalized, that is, the more their typicality is socially approved by laws, folkways, mores, and habits, the greater is their usefulness in common-sense and scientific thinking as a scheme of interpretation of human behavior.'(Schutz 1962b: 62) This method of understanding interactions is called *Verstehen* (interpretation).

Hume's approach is likewise interpretive, based upon a similar understanding of the social world to Schutz's. However, pursuing generalisation, Hume does not reduce the technical language of social science completely to the natural language of layman. As we have seen, Hume distinguishes between shallow and *abstruse* thought or between particular deliberations and *general* reasoning. It is true that social scientists interpret the social world and construct analytical concepts from the viewpoint of the disinterested observer in common life, yet these concepts are still more technical and abstract than lay notions. 'Where, perhaps, there will occur some principles which are uncommon, and which may seem too refined and subtile for such vulgar subjects. If false, let them be rejected: But no one ought to entertain a prejudice against them, merely because they are out of the common road' (OC 94). Hume proposes re-interpretation of the pre-interpreted world for the purpose of generalisation, or the 'double hermeneutic' in Anthony Giddens' phrase (Giddens 1976: 152). Social scientists reinterpret common life for theorisation, but have to keep themselves in this common life:

Those who have a propensity to philosophy, will still continue their researches; because they reflect, that, besides the immediate pleasure, attending such an occupation, philosophical decisions are nothing but the reflections of common life, methodized and corrected. But they will never be tempted to go beyond common life, so long as they consider the imperfection of those faculties which they employ, their narrow reach, and their inaccurate operations. (EHU 162)

Common life offers not only epistemic conditions for interpretation, but also the appropriate psychological attitude for social scientists. Purely speculative thought, contrary to the nature of humans as active animals will cause melancholy, 'the true source of SUPERSTITUTION' (SE 46), and distort this thought:

Indulge your passion for science, says she, but let your science be human, and such as may have a direct reference to action and society. Abstruse thought and profound researches I prohibit, and will severely punish, by the pensive melancholy which they introduce, by the endless uncertainty in which they involve you, and by the cold reception which your pretended discoveries shall meet with, when communicated. Be a philosopher; but, amidst all your philosophy, be still a man. (EHU 9)

Hume recommends that human science should be human, and regards human beings as not only social but also active animals (EHU 8-9). To think deliberatively, one must be active. Philosophers or social scientists should be embedded in common life. This is the main point of the experimental method of human science: 'let your science be human'.

3. History

Hume distinguishes between sciences concerned with *particular* and *general* facts. In the former category he locates history, chronology, geography, astronomy and all deliberation in life; in the latter, politics, natural philosophy, physics, chemistry and so on (EHU 164-5). It is important to note that on this basis he distinguishes historical study from political science.

In 'That Politics May Be Reduced to a Science', Hume raises the question of whether politics can be the object of scientific investigation, in other words, whether generalisation in political science is possible. In history, there are many examples that the goodness of a governor

causes good governance, but whether a good governor can be enjoyed or not depends upon chance. If all the goodness of governance can be attributed to the chance of private virtue in a governor, the cause of good governance would be uncertain forever and general principles in politics could not be discovered. However, Hume insists that, as a general principle, laws and manners are the cause and politics the effect. It is possible to offer a scientific explanation for politics by interpreting the meaning of the institutions and customs which lie behind it. Thus politics can be regarded as an interpretive science (PMRS 10-1).

However, political scientists face three problems. First, the construction of generalisation requires them to have experience, but the opportunities for acquiring practical knowledge through direct experience is too limited to understand the profound and complex nature of politics. Second, political science has to exclude chance causes and accidental factors to arrive at generalisations, but the systematic character of general theory is then in danger of ignoring potentially important conditions affecting political phenomena, leading to misjudgement. Third, the speculative work of generalisation may exert a psychological effect upon political scientists and render them too melancholic to make appropriate judgements.

Hume expects the study of history to compensate for these weakness of political science. In 'Of the Study of History', he argues that the advantage of studying history is threefold, 'as it amuses the fancy, as it improves the understanding, and as it strengthens virtue' (OSH 565).⁶ Firstly, concerning history as the amusement of fancy, Hume thinks that memory is nearly the same as imagination and that historical knowledge is the narrative form of memory (T 9). History shares the fictitious nature of fancy, and therefore, has the ability to entertain like other fictions

⁶ It is worth noting, however, that Hume does not always suggest that the purpose of studying history is

such as novels and poetry.

Secondly, the most important advantage of history is concerned with the improvement of knowledge. Hume argues that there are three merits of history as a source of knowledge. First, it offers extensive knowledge of historical facts. History itself is a valuable part of knowledge (OSH 566). Secondly, history as a stock of knowledge supplies important materials for many other sciences. History expands our knowledge of the world beyond the limits of the shortness of life span and the human capacity for direct experience (OSH 566). Thirdly historical knowledge creates a similar effect to experience and practice. The study of history can provide quasi-experience or quasi-practical knowledge, which is required for appropriate judgement and generalisation (OSH 566-7).

Finally, through its psychological and social effects, the pleasure of study and practical knowledge offered by history enable a philosopher or social scientist to distinguish between the true and the false in common life. This is what Hume really means when he says that history strengthens virtue. The aspects of amusement and practice in historical study help social scientists to become embedded in common life and be prevented from falling into melancholy and cold speculation, the causes of wrong judgement.

In this essay, Hume draws attention again to the distinction between speculative philosophy and practical judgement and sets out his overall position as a synthesis of the two:

When a man of business enters into life and action, he is more apt to consider the characters of men, as they have relation to his interest, than as they stand in themselves; and has his judgement warped on every occasion by the violence of his passion. When a philosopher contemplates characters and manners in his closet, the general abstract view of the objects leaves the mind so cold and unmoved, that the sentiments of nature have no room to play, and he scarce

completely separated into entertainment, academic knowledge or moral education.

feels the difference between vice and virtue. History keeps in a just medium betwixt these extremes, and places the objects in their true point of view. (OSH 567-8)

History is situated in the 'medium' between practice and speculative philosophy. However, this does not mean that the purpose of historical study is generalisation, as it is in political science. What Hume is saying in the passage above is that a historian needs to be as calm, social and active as a philosopher or a scientist of other subjects.⁷

The difference between politics and history is that the former is concerned with general reasoning, while the latter with particular narration (OSH 567). Politics deals with general matters and pursues generalisation, while history describes particular events. History includes the accidental and particular facts which political science has to ignore for the purpose of generalisation. History covers not only causal explanation but also the description of chance events. For example (not Hume's), political science will ignore the accidental invention of rugby: a boy in the game of foot ball suddenly picked up the ball and ran.⁸ It is impossible to give this a general causal explanation. Rather, the story of the invention of rugby is recorded and described by historians. Through the study of history, we can be reminded of the fact that there are many accidental and particular events in history and practice, which have shaped our society and lives. Thus Hume categorises history and all practical deliberation in life as a science concerning particular facts. Unlike Marx, Hume never suggests that it is possible to discover the laws of history. History is just the description of the facts, including those for which it is impossible to offer general causal explanations.

⁷ On this requirement he assesses Machiavelli. According to Hume, Machiavelli keeps himself calm as a political scientist, but fails to be a Machiavellist as a historian (OSH 567).

⁸ This example is offered by Winch (1958: 93).

In 'That Politics May Be Reduced to a Science', Hume argues that generalisation in political science is possible, but he does not ignore the fact that *Fortuna* cannot be eliminated from either politics or history (see MacIntyre 1985: 92-3).⁹ Certainly, the particular character of governors, an accidental element in politics, is inappropriate for consideration in the generalisations of politics. It is not the subject-matter of political science. However, as Duncan Forbes indicates, unlike the other Scottish historians, whose economic interpretation of history inspired Marx, Hume makes much of the accidental nature of the characters of legislators and founders of states (Forbes 1975: 316). Hume's science of politics has to eliminate these elements of classical politics for generalisation, but history captures them. The impossibility of causal explanation of *Fortuna* cannot justify denying or ignoring it in the real world. About Hume's philosophical history, Forbes says, 'there is a great emphasis on the causal agency of forms of government and legislators, and the play of 'chance' and historical contingency.' (Forbes 1975: 308) History plays the role of recording the accidental facts that interpretive political science has to ignore. Hume as the historian thus notes the limits of interpretive social science.

History is expected to supplement social science, but even scientific knowledge considered with historical knowledge is not a sufficient basis for the discovery of general axioms or laws of society. There are two reasons for this. First, Hume thinks that the course of history is too brief to find its law:

I am apt, however, to entertain a suspicion, that the world is still too young to fix many general truths in politics, which will remain true to the latest posterity. We have not as yet had experience of three thousand years; so that not only the art of reasoning is still defective in this science, as in all others, but we even want sufficient materials upon which we can reason. (CL 51)

⁹ However, MacIntyre thinks of Hume as the representative thinker of the Enlightenment project, which he attacks.

Second, Hume thinks of history as narration. 'An historian may, perhaps, for the more convenient carrying on of his *narration*, relate an event before another, to which it was in fact posterior; but then he takes notice of this disorder, if he be exact; and by that means replaces the idea in its due position' (T 9). History is not merely the random collection of facts. It requires the comprehensive power of selecting and ordering historical facts in a narrative manner. Therefore, history cannot capture all facts in the real world. It has to ignore unimportant facts for narrative purposes just as politics has to get rid of happenings by chance for generalisation or causal explanation. Practical knowledge is more than scientific and historical knowledge

In conclusion, Hume's social science draws on the interpretive approach and historical study, which are rooted in his symbolist philosophy of human nature. A key implication of his experimental method is that social scientists should be embedded in common life. In doing so, they acquire the disinterested viewpoint of 'the spectator', which is generated by social interactions which make objective judgements and generalised explanations possible. However, social scientists have to ignore accidental events in making generalisations. Hume argues that history records accidental and particular events, and hence complements an interpretive social science. As we have seen in chapter 3, his political economy is best understood as a theory for economic nationalism. Thus it can be said that symbolism and interpretive social science (supplemented by historical study) are philosophical foundations for economic nationalism. In the next chapter, we shall turn to Hume's political theory, and look more deeply into the nature of economic nationalism.

5. Enlightenment Nationalism

In this chapter, I shall argue that a political theory of nationalism can be found in the political thought of David Hume. Nationalism has been often regarded as a modern ideology originating in the French Revolution. However, recent developments in the study of nationalism have shown that nationalism originated before the French Revolution. The origins of the nation and nationalism are still surrounded by controversy, but it is reasonable to claim that national consciousness of British identity could be observed in the eighteenth and early nineteenth centuries (Colley 1986, 1992).

Nationalism has often been associated with Romanticism rather than the Enlightenment. However, the notion of national identity is basic to the Enlightenment (Smith 1983, 1991: 75), and some scholars have recently re-examined the thought of eighteenth-century writers in terms of nationalism. For example, Liah Greenfeld traces the concept of the nation to the political thought of Jean-Jacques Rousseau and in the economic thought of Daniel Defoe and Adam Smith (Greenfeld 1992: 172-7; Greenfeld 2001; 30-1 and 50-8). In the case of Hume, his essay 'Of National Characters' is known to address the question of nationality. However, it has been generally believed that this essay indicates that Hume, whilst arguing that national differences are sometimes considerable, lays less stress on nationality than Rousseau, Ferguson and even Montesquieu (Smith 1983: 21). Instead, his position has been associated with cosmopolitanism (Schlereth 1977).

The present analysis will challenge this conventional interpretation by focusing on the conception of nationalism which, it will be argued, lies behind his famous critique of social contract theory, rather than on his views in 'Of National Characters'. Little attention has been

given to this point.¹ However, the neglect of Hume's political theory of nationalism also derives from past misunderstandings of nationalism itself. Over the past few decades, however, sociologists and political theorists studying nationalism have thrown new light on this subject. They have demonstrated that nationalism is best understood as a general and fundamental phenomenon in modern society. They also show that nationalism has several variations. Some nations base their identity on ethnic and cultural descent. By contrast, there are other nations, which define themselves in terms of civic principles and historic territories, though even such 'civic' nations have a cultural component in their identity (Smith 1991; Canovan 1998; Taylor 1998; Kymlicka 1999; Yack 1999). On the basis of these new insights, this chapter will re-examine Hume's political thought as a theory of nationalism.²

In order to avoid misunderstandings, it may be useful to clarify in what sense I shall claim that Hume has a political theory of nationalism. It seems that there are two possible strategies for supporting such a theory. The first is to prove that loyalty to a nation is significant for lawful, political order.³ The second is to show that national identity is a significant source of morality. These two claims are certainly interrelated, since, for example, lawful order will be a precondition for moral order. However, I believe that the question of political order can be conceptually distinguished from that of morality. The following analysis will present Hume's theory of

¹ One important exception is Ainslie (1995).

² Hume's view of his own national identity was highly ambiguous. In some letters, he calls himself English, yet in other letters, his pride in being Scottish is explicit. On the other hand, his letter from Paris presents his cosmopolitanism and love of France: 'I am a Citizen of the World; but if I were to adopt any Country, it would be that in which I live at present and from which I am determin'd never to depart, unless a War drive me into Swisserland or Italy.' (Broadie 2001: 58-61). However, I do not discuss his complex sense of his own national identity here. Ainslie (1995) deals with this subject

³ Scholars define nationalism in different ways, yet here I shall refer to nationalism simply as 'loyalty to a nation'.

nationalism as the first claim: Hume insists that loyalty to a nation is a significant element of lawful order. He does not endorse nationalism in terms of moral particularism, but defends a particular kind of nationalism as a necessary condition for lawful governance.

I shall first examine Hume's political theory of the state and allegiance to government and his critique of social contract theory. In the second section, his political theory will be reinterpreted in terms of nationalism. Drawing on recent contributions to the theory of nationalism, which show that nationalism has both civic and ethnic components, it will be possible to understand that nationalism lies behind Hume's political thought. Next, Thomas J. Schlereth's cosmopolitan interpretation of Hume will be criticised. I shall show that Schlereth's view is derived from his ambiguous conception of cosmopolitanism and misunderstandings of nationalism. Finally, I shall compare Hume's political theory of nationalism with John Wilkes's chauvinistic ideology. The comparison between Hume and Wilkes will illuminate those aspects of nationalism that are still controversial today.

1. Allegiance to Government

In Part ii, Book III of the *Treatise*, Hume articulates the nature of modern society and of the modern state. In modern society, according to Hume, conventions which support social rules and institutions such as property and money, generate 'sympathy' or 'fellow-feeling'(EPM 260) and expand the range of collective action and communication beyond the narrow circle of traditional communities (T 516-525). However, sympathy is still insufficient. Government is required for

establishing and maintaining social order (T 537). The role of government is twofold: the execution of justice, and the supply of public goods (T 537-8).

The question is what confers legitimacy on the power of government. Traditionally, there are two theories about this – the divine right theory of the Tories and the contract theory of the Whigs. Hume compares these theories in ‘Of Original Contract’. He thinks that both theories have merits and demerits and he tries to synthesise them:

I shall venture to affirm, *That both these systems of speculative principles are just; though not in the sense, intended by the parties: And, That both the schemes of practical consequences are prudent; though not in the extremes, to which each party, in opposition to the other, has commonly endeavoured to carry them.* (OOC 186)

Hume partially accepts social contract theory. Firstly, in an ancient and primitive society, it is probable that ‘all government is at first founded on a contract, and that the most ancient rude combination of mankind were formed entirely by that principle’, though it was too ancient to find any historical record as evidence (OOC 187-8). Secondly, he remarks, ‘My intention here is not to exclude the consent of the people from being one just foundation of government where it has place. It is surely the best and most sacred of any. I only pretend that it has very seldom had place in any degree, and never almost in its full extent’ (OOC 192). Hume seems to accept that the source of authoritative power of the government is in the people, upon which social contract theory insists. Nonetheless, Hume rejects social contract theory.

Hume’s objection to social contract theory is historical and scientific. He finds in history that rulers acquired their sovereignty not from a contract with their subjects but from conquest or succession (OOC 188). The scientific reason is twofold. Firstly, he points out the imperfection of human ability. If the reason of human beings were perfect, government could be established and

maintained on consent. However, observation of human nature leads us to conclude that human beings are too imperfect to base government on contract (OOC 192). Secondly, Hume observes that people basically accept the authority of the government of their nation without any consent. He rejects the idea of tacit consent to obedience, because people cannot in principle choose government or a nation. They are forced to obey the government of the nation in which they are born (OOC 193).

In this respect, Hume admits the notion of the divine right theory – that people obey the government because of its authority. However, the divine right theory is wrong, because it renders government so sacred and authoritative as to justify despotism (OOC 186). Hume utilises the concept of authority as the source of allegiance taken from the divine right theory, and the concept of the source of power residing in people from social contract theory. What Hume tackles is the dialectic between authority and liberty in legitimising the power of government. He suggests this in ‘Of the Origin of Government’, saying, ‘In all government, there is a perpetual intestine struggle, open or secret, between AUTHORITY and LIBERTY; and neither of them can ever absolutely prevail in the contest’ (OG). Let us consider Hume’s solution.

Hume’s view of the source of the power of government is political and sociological. He argues that power has two aspects, the force of the ruler and the opinion of the ruled. If the aspect of force is stronger, the government will be called more despotic. By contrast, if the aspect of opinion is stronger, the government will be called freer. Every government needs both force and opinion, but Hume pays much more attention to the opinion of people. ‘It is therefore, on opinion only that government is founded’ (FPG 16). Opinion of the ruled is itself of two kinds, opinion of interest and that of right. Opinion of interest is a utilitarian notion shared by people: obedience to

government is generally beneficial. Opinion of right is the shared knowledge of authority which legitimises the power of government. It is authority accepted by people without force. Put another way, the idea of opinion of people can be regarded as the synthesis between authority and liberty.

However, what is the source of opinion of right? How and why do people accept the authority of the established government without enforcement, religion or social contract? Hume suggests five factors which form opinion of right: *long possession*, *present possession*, conquest, *succession* and *positive laws* (T 556-63). Among them, long possession of power is the strongest and most important source of authority. Hume thinks that time and custom influences people's minds and achieves political stability. 'Time alone gives solidity to their right; and operating gradually on the minds of men, reconciles them to any authority, and makes it seem just and reasonable. Nothing causes any sentiment to have a greater influence upon us than custom, or turns imagination more strongly to any object'(T 556). Government, in this view, is often initially established by injustice and violence, as in the case of conquest. However, over a period of time a government's rule gradually becomes acceptable to the people. In other words, the sources of allegiance are time and custom, not God or people's consent.

Here we should notice that Hume attributes the source of authority not to the 'right' origin of government, but to the continuity of governance. The object of allegiance is not the founding father, who often established government in an unjust and violent way, but the present ruler who succeeds to the long history of sovereignty.

But to whom is allegiance due? And who are our lawful sovereigns? This question is often the most difficult of any, and liable to infinite discussions. When people are so happy, that they can answer, Our present sovereign, who inherits, in a direct line, from ancestors, that have governed us for many ages; this answer admits of not reply; even though historians, in tracing up to the remotest antiquity the origin of that royal family, may find, as commonly

happens, that its first authority was derived from usurpation and violence. (OOC 197)

Hume's theory of time and custom is rooted in the tradition of common law.⁴ According to J. G. A. Pocock, the philosophy of common law implies, firstly, that although custom is immemorial, its content is changing. Secondly, the truth of custom can be found only within present experience, not by discovering and recovering antiquity (Pocock 1960). The authority of common law is owed to nothing but time and continuity. By the same token, the authority of government depends upon time and custom, and the object of allegiance is the present ruler as one aspect of the long history of government. Unlike romanticism, Hume's science observes that it is not antiquity but continuity that is the source of authority.

However, this does not mean that people always accept any kind of government just because of its long continuation. Every government depends not only upon opinion of right but also upon opinion of interest. If despotic government threatened people's interest, for example, by undermining the stable possession of property, it would lose the foundation of allegiance and revolution would occur. Hume's partial acceptance of the right of resistance seems to be based upon his sociology of social order: shared opinion of interest and opinion of right among people are the foundation of government (T 563-4). The people could resist despotic government, not because they must consent to its establishment by contract, but because the government depends upon the holistic opinion of interest and opinion of right shared by them. He thinks of resistance and revolution as the social movement of recovering the stability of order. However, in what kind of circumstances could these be compatible with lawful order? For example, why did the Glorious

⁴ For discussions regarding Hume and the common law tradition, see Postema (1986: chapt.3 and 4).

Revolution succeed in recovering political order? Hume gives up on finding the answer to this (T 563 and OG 22). Instead he argues that although whether or not the Glorious Revolution was lawful is disputable, the successors of William of Orange maintained lawful order and contributed to public interests. All that can be said theoretically is 'Time and custom give authority to all forms of government, and all successions of princes; and that power, which at first was founded only on injustice and violence, becomes in time legal and obligatory' (T 566).

For Hume, the question of in what circumstances resistance and revolution can be justifiable is not a matter of speculation, but of practice. He declares this clearly in the first paragraph of 'Of Passive Obedience', the next essay after 'Of Original Contract', in which he develops his theoretical argument about government. 'In the former essay, we endeavoured to refute the *speculative* systems of politics advanced in this nation; as well the religious system of the one party, as the philosophical of the other. We come now to examine the *practical* consequences, deduced by each party, with regard to the measures of submission due to sovereigns' (PO 202). Hume argues that resistance and revolution for the defence and recovery of the constitution are justifiable when the constitution is infringed by the ruler. 'The remedy in this case, is the extraordinary one of resistance, when affairs come to that extremity, that the constitution can be defended by it alone' (PO 204). In short, Hume thinks that a constitution above government is the supreme source of power, and if government threatens a constitution, revolution is justifiable. However, the general principle of justification of revolution in particular cases cannot be found. The infringement of the constitution can be solved as a matter of practice. Put another way, the perfect system of constitution, or the final result of the struggle between authority and liberty, can never be established by reason. As the common law tradition teaches, the general principles of

constitution cannot be formulated, and the particular truths about constitution can be known only through experience.

2. Hume's Theory of Nationalism

I shall now argue that we can translate Hume's argument about allegiance to government into a theory of nationalism. It is true that not all allegiance to government can be identified with nationalism, i.e., loyalty to a nation. However, there are good reasons for regarding what Hume means by allegiance to government as nationalism. First, there is textual evidence to show that Hume has nations in mind in his argument about governance. In his critique of social contract theory in the *Treatise*, Hume makes use of the word 'nation':

But were you to ask the far greatest part of the nation, whether they had ever consented to the authority of their rulers, or promis'd to obey them, they wou'd be inclin'd to think very strangely of you; and wou'd certainly reply, that the affair depended not on their consent, but that the were born to such an obedience. (T 548)

It is true that Hume, like his contemporaries, does not distinguish clearly between the nation and the state in his terminology; given that this is so, one might then insist that what Hume means by allegiance to government is loyalty to the state rather than to the nation. However, in eighteenth-century Britain, 'state and society interacted continuously' (Hall 1995: 16). The government was embedded in society. Samuel Johnson's dictionary indicates this. According to it, 'nation' means 'a people distinguished from another people, generally by their language, original or government', which is similar to the current usage. However, 'society' denotes community and 'community' means 'the commonwealth, the body politick'. Unlike modern sociological terminology, there is no

clear distinction between 'society' and 'community'. The meaning of 'state' relevant to our discussion is 'the community, the public, the commonwealth.' A state is not a purely legal, political organisation in the modern sense of the term, but connotes a community of people. Moreover, 'government' itself has three meanings: '1. form of a community with respect to the disposition of the supreme authority, 2. an establishment of legal authority, 3. administration of public affairs'. 'Government' connotes community as well as a legal and administrative body. Thus the concepts of 'state', 'government' and 'nation' are intertwined, and there is no clear distinction between allegiance to the government and to the nation. These intertwined concepts are typically found in the word 'constitution'. One of the meanings of 'constitution' is 'established forms of government, system of laws and customs'. 'Nation', 'government' and 'constitution' are thus closely interrelated (Johnson ([1755]1968)).

Secondly, in his argument about historical continuity as the source of allegiance to government, Hume refers to Britain after the Glorious Revolution, which can be regarded as the nation (Colley 1986,1992). Moreover, he recognises Britain of his time as a new form of large-scale political unit in history and celebrates its superiority.

Public liberty, with internal peace and order, has flourished almost without interruption: Trade and manufactures, and agriculture, have encreased: The art, and sciences, and philosophy, have been cultivated. Even religious parties have been necessitated to lay aside their mutual rancour: And the glory of the nation has spread itself all over Europe; derived equally from our progress in the arts of peace, and from valour and success in war. So long and so glorious a period on nation almost can boast of: Nor is there another instance in the whole history of mankind, that so many millions of people have, during such a space of time, been held together, in a manner so free, so rational and so suitable to the dignity of human nature (PS 217).

Thirdly, Hume's view of allegiance to government resonates with the nature of the nation. Margaret Canovan argues that nationhood as a political phenomenon is *mediation* between the state and the people, the individual and the collective, the mundane and the sacred, the present and the past. The nation 'cannot exist without subjective identification, and therefore is to some extent dependent on free individual choice, but that choice is nevertheless experienced as a destiny transcendent individuality' (Canovan 1998: 69). Hume also argues for such mediation. Partially drawing upon social contract theory, he argues that the power of the government derives from the people's choice. On the other hand, he points out that the people cannot choose their home country and accept without consent the authority of government generated by its historical continuity. The political order of Britain of his time is based on mediation between the state and the people and between authority and liberty. In short, Hume observes in Britain what is now termed the 'nation'.

Finally, history, to which Hume attributes the stability and unity of Britain, is one of the defining elements of the nation (Smith 1991: 14). Charles Taylor's distinction between patriotism as strong citizen identification, and nationalism as one particular form of patriotism, is useful here. Taylor argues that nationalism is the idea that common political allegiance is grounded in some cultural identity which exists independently of the polity. He points out that the French and American Revolutions were initially driven by patriotism, not by nationalism, because in both cases the origin of the nation was not thought to have been rooted in previous history, and the revolutionary patriots sought a liberal form of polity as the universal ideal. The French and the Americans later began to see their revolutions as a particular, common historical experience, and then, to understand their own patriotism in terms of nationalism (Taylor 1998: 201-2). In this respect, it can be said that Hume's notion of allegiance to government is a form of nationalism

rather than of patriotism in general, because, as his argument about the Glorious Revolution notably indicates, he maintains that the source of allegiance to government is its historical continuity rather than its particular form. It is therefore possible to regard what Hume means by allegiance to government as a form of nationalism.⁵

However, it is clearly not a so-called 'primordialist' form. Primordialism is the idea that nationality exists in nature as an inherited and unchangeable entity. Hume's political thought is quite different from this. He argues that in history many governments were founded contingently by political violence such as conquest and revolution, and it was the continuity of their governance which created the sentiment of allegiance. The origin of many nations is political and accidental. The framework of a territorial state was set by political power originally, and has produced national identity through a historical process. In short, a state creates nationality, not *vice versa*. In addition, a nation is an historical product, and as common law tells us, the content of historical product is not unchangeable. What is important for nation-formation is history.

However, Hume's view of the nation is also different from the idea of the so-called civic nation, which is normally contrasted to the ethnic nation as an inherited and cultural community. The civic nation means a political and voluntary association created by the choice of rational individuals to accept a certain political principle. Hume clearly rejects the idea of social contract

⁵ Donald C. Ainslie identifies Hume's theory of nationalism with his conception of the mechanism of sympathy. Sympathy is the horizontal ties among members of society, but is not sufficient to maintain a large-scale state such as the United Kingdom. Ainslie argues that while the boundaries of nations generated by sympathy do not necessarily correspond with those of states defined by governments, Hume does not explicitly discuss how to solve this misalignment, more specifically, that of the Scottish 'nation' and the British 'state'. However, Ainslie acknowledges that Hume and many Scots of that time had a British identity as well as a Scottish one (Ainslie 1995: 299-300). Hume sees Britain as a nation-state. Ainslie misses the point of Hume's political theory of nationalism: the common history of a political framework can be a source of nationalism as allegiance to government.

theory, that government is established by the people's voluntary consent. Unlike civic nationalists, he focuses attention upon the involuntary aspects of allegiance to lawful government, which is generated by historical continuity of a constitution. Civic and cultural elements are inseparable in his idea of nationalism.

It may be helpful to consider Bernard Yack's recent criticism of the civic/ethnic distinction often drawn by students of nationalism. The myth of the ethnic nation exaggerates the inability to change inherited culture, while the myth of the civic nation assumes that national identity is acquired by consent. In terms of ideal-types it is true that the United States and Canada centre their national identity upon political principles and Germany and Japan upon linguistic and cultural inheritance. However, 'contingent inheritance of distinctive experiences and cultural memories' is 'an inseparable part of every national political identity' (Yack 1999: 106). For example, even 'liberal democratic culture itself inspires people to think of themselves as members of prepolitical communities' (Yack 1999: 109). It is, therefore, wrong to regard France, the United States or Canada as voluntary associations. Every nationalism contains both civic and ethnic elements to some extent (Smith 1991: 13; Canovan 1998 chapt. 7). Yack concludes, 'without consent our cultural legacy would be our destiny, rather than a set of background constraints on our activities. But without such a legacy there would be no consent at all, since there would be no reason for people to seek agreement with any one group of individuals rather than another' (Yack 1999: 116; see also Scruton(1990)).

Yack's argument is very similar to Hume's critique of the divine right and social contract theories and to his solution to the dichotomy between authority and liberty. On the one hand, Hume partially accepts the claim of divine right theory that the authority of government cannot be

chosen, but rejects the view that this authority is absolute and unchangeable. On the other hand, he partially agrees with the claim of social contract theory that the people agree to obey the government, but rejects the idea that they freely choose their government. Political power contingently set the political and legal framework of the territorial state in origin, and its constitution has been formed in history. Loyalty to constitutional nationhood or nationalism is derived from the people's attachment to and respect for its historical continuity and particularity.

It may be helpful to reconsider Sir Lewis Namier's typology of nations. He distinguishes between primarily territorial nations such as Britain and Switzerland and primarily linguistic nations such as Germany and Italy. The concept of territorial nationalism suggests that through an historical process, a state and its geographically determined framework has created a communal consciousness, not *vice versa*. By contrast, linguistic nationalism emerging in 1848 demands that a state should be based upon a culturally and linguistically homogeneous community. However, Namier does not ignore the cultural, communal and even emotional elements of the territorial nation, which have been developed by shared memories of its history. The criterion of distinction is not rational v. non-rational or political v. cultural, but conservative v. radical. 'Territorial nationality is essentially conservative, for it is the product of a long historical development; nationalisms which place the emphasis on language almost invariably seek change, since no existing satiated community singles out one principle for its basis'(Namier 1958: 31). It can be said that Hume's argument concerns the territorial nationality of Britain.⁶

⁶ One might still question whether what matters in 'Of Original Contract' and other works is specific to a nation or a nation-state rather than a political society in general. However, this kind of question seems to be derived from the narrow conception of the nation, especially, primordialist one. What Hume refers to as a political society is governed by a modern form of government, which secures legal rights and imposes civic duties. The members of that society agree to accept the authority of government, which is generated by the

Hume's political thought regarding nationalism is not only analytical but also normative. His normative position is to conserve the political order under the polity of the United Kingdom after the Glorious Revolution: the territorial and historical framework of Britain maintains a large-scale society, and the personal liberty and security of individuals are guaranteed under the rule of law of the constitution. Namier, who inherits the British tradition of conservatism from Hume, says, 'liberty is the fruit of slow growth in a stable society; is based on respect for the rights of the individual, deeply embedded in the life and habits of the community; is in its origin an aristocratic idea: of the self-conscious individual, certain of himself and his position, and therefore perfectly at ease. It spreads when every man's house becomes 'his castle': yet he must have a house and be safely rooted' (Namier 1958: 37-8). We shall call Hume's and Namier's view 'conservative nationalism'.⁷

3. Hume's Cosmopolitanism?

This section criticises Schlereth's argument and defends my nationalist interpretation of Hume. In his work, *The Cosmopolitan Ideal in Enlightenment Thought*, Schlereth insists that Hume as well as Franklin, Voltaire and other Enlightenment thinkers believed in the cosmopolitan ideal. The basic premise of his argument is that the Enlightenment shared cosmopolitanism as 'an attitude of mind

historical continuity of its political and legal framework. In other words, through shared historical experience, a subjective identification of the members with political society emerges. If such a political society were not a nation-state, what would it be?

⁷ What I mean by being conservative is to respect the present lawful order and its historical continuity. In this sense, conservatism is different from romanticism. A romantic wished to discover and recover antiquity, while a conservative does not. For defence of the nation from the conservative standpoint, which is similar to Hume's argument, see Scruton (1990).

that attempted to transcend chauvinistic national loyalties or parochial prejudices in its intellectual interests and pursuits' (Schlereth 1977: xi). The Enlightenment philosophers formed an international intellectual class, travelled from one country to another, and communicated with each other. They maintained a belief in human uniformity, and aspired to establish secularised human sciences in order to discover human nature, free from religious dogma and traditional prejudices. It is true that the Enlightenment thinkers recognised the national diversity of political systems, social forms of life and cultures. However, Schlereth emphasises that, as Hume's essay 'That Politics May Be Reduced to a Science' indicated, 'they therefore tended to maintain that all men have roughly the same interests and obligations, participate in the same human experiences, and would share the same truths, values, and rights if they were equally liberated, enlightened, and free' (Schlereth 1977: 105).

Schlereth notes that the Enlightenment philosophers in general did not rule out nation-states. However, 'Hume and most of his fellow philosophes viewed the nation-state as a necessary but strictly utilitarian political device, for neither Hume, Franklin nor Voltaire based his political theory on the existence of a particularistic national polity that had been predetermined by unique laws, language, or destiny, a special "true religion" or divine right.' (Schlereth 1977: 106) Schlereth argues that the Enlightenment philosophers attempted to secure the universal value of liberty in their own nation and to guarantee it throughout the world. He calls this position 'humanitarian nationalism,' to use Carleton J. Hayes's phrase. According to Schlereth, 'the function of humanitarian nationalism was not to make the philosophe French, English, Scottish, American, or German; rather it was to make him a citizen.' (Schlereth 1977: 112) However, he argues that the Enlightenment's ideal of humanitarian nationalism indirectly contained the seeds of

destruction of a real cosmopolitan society. At the end of the eighteenth century, the cosmopolitan aspect of the Enlightenment humanism declined, and nationalism became pronounced. Instead of Enlightenment cosmopolitanism, Edmund Burke, Johann Herder and Jean Jacques Rousseau introduced new trends in political theory, which abandoned the belief in individualism and human uniformity, and introduced an emotional emphasis upon national and cultural particularity (Schlereth 1977: 110-2).

However, Schlereth's argument fails to prove that Hume's position is cosmopolitanism. First of all, the basic premise of his argument is highly problematic. In his definition, cosmopolitanism is an ideal attitude of mind that sheds parochial prejudices in its intellectual inquiry. Throughout his work, he insists that Hume is a cosmopolitan, because he attempts to analyse the world impartially. However, this attitude should rather be called ethical neutrality in science and the ideal of ethical neutrality is different from cosmopolitanism. For example, it would be logically possible for a social scientist to insist without his or her own parochial prejudices that the love of the fatherland is an essential and universal quality of human nature. However, it will be difficult to call this view 'cosmopolitanism'. Schlereth's definition of cosmopolitanism is too broad and ambiguous.

It is true that Hume assumes a certain uniformity of human nature (EHU 83). It is also true that, as Schlereth points out, Hume attempts to be a scientist as a disinterested spectator, and not to base his political theory upon the existence of a particular national polity. However, for Hume, the assumption of uniform human nature is required only for a general explanation of social phenomena (EHU 85). In order to avoid misunderstanding, he carefully notes that he never denies diversities of human actions:

We must not, however, expect that this uniformity of human actions should be carried to such a length as that all men, in the same circumstances, will always act precisely in the same manner, without making any allowance for the diversity of characters, prejudices, and opinions. (EHU 85)

What Hume sees as the universal characteristic of humans is that their actions are affected by customs (EHU 88, 90), and customs differ according to cultures. This idea reconciles the assumption of universality of human nature with the recognition of cultural diversity (Haakonssen 1981: 32). Put another way, the assumption of universal human nature is a necessary presupposition for the theoretical explanation of particular societies (EHU 85). In his discussion of universal human nature, Hume is concerned to show how to provide a generalised explanation in scientific inquiry (see the previous chapter).

By the same token, the fact that Hume belonged to the international intellectual circle, acquired a good reputation in it and even wished to live in France, does not contradict that as a scientist he had a political theory of nationalism, which explains the importance of nationalism for political order. Neither does the friendship between Hume and Voltaire. Their friendship beyond national borders does not necessarily imply that they share anti-nationalism. In addition, such French traditionalists as Gerdil, Ferrand, de Bonald and de Maistre used Hume's writings in order to support their conservatism and attack the *philosophes* (Bongie 2000).

Further, Schlereth's conceptions of the nation-state and nationalism seem too narrow. Referring to Hume's essay, 'Of National Characters', Schlereth argues that Hume insists upon 'the circumstantial nature of nation-states and their lack of any transcendental, organic, metaphysical, or precivilized folk ethic or principle of unity,' though he pays attention to the national diversity of political systems and human characters (Schlereth 1977: 104). This is definitely true. However, it

does not follow that Hume sees the nation-state in negative terms. Hume has no idea of national identity as an inherited and unchangeable property. Instead, he thinks that national identity is generated by the historical continuity of the polity. It is changeable and contingent on history. Nonetheless, nationalism plays a significant role in political order. What Schlereth describes in the quotation above is nothing but a primordialist theory of nationalism. Certainly Hume is not a primordialist. However, he has another kind of theory of nationalism: loyalty to a nation is derived from the people's respect for its historical continuity.

Schlereth quotes the following passage in 'Of National Characters' in order to show that Hume condemns the chauvinism generated by national consciousness (Schlereth 1977: 107):

The vulgar are apt to carry all *national characters* to extremes; and having once established it as a principle, that any people are knavish, or cowardly, or ignorant, they will admit of no exception, but comprehend every individual under the same censure (NC 78).

However, first, anti-chauvinism is not necessarily anti-nationalism or cosmopolitanism. Rather, nationalists could be entirely opposed to chauvinism, because it would cause reckless wars and threaten national unity. As I shall argue later, this is Hume's position. Second, the central claim of 'Of National Characters' is that national characters or national identities should not be regarded as unchangeable and as the only factor shaping political systems. Yet this does not imply that Hume's position is anti-nationalist in general.

Thirdly, Hume's argument about international society contradicts Schlereth's cosmopolitan interpretation. His ideal view of the world is not cosmopolitan but *inter-national*: the world order would be based upon 'Laws of Nations' (EPM 205). He is sceptical about cosmopolitan citizenship, pointing out that 'The rules of justice, such as prevail among individuals, are not entirely suspended

among political societies.’ (EPM 206) As we have seen in chapter 4, in the discussion of the rule of justice, he shows that the rule of justice is generated and supported by conventions as forms of social intercourses. However;

here is the difference between kingdoms and individuals. Human nature cannot by any means subsist, without the association of individuals; and that association never could have place, were no regard paid to the laws of equity and justice. Disorder, confusion, the war of all against all, are the necessary consequences of such a licentious conduct. But nations can subsist without intercourse. They may even subsist, in some degree, under a general war.’ (EPM 206)

Hume hardly believes in the cosmopolitan ideal that communicative actions could achieve a universal society. In Hume’s view, ‘nations can subsist without intercourse,’ because a nation is integrated and maintained by the authority or political and vertical ties between the government and the people. Communication alone cannot achieve a universal society or even national unity.⁸

Strangely, in spite of his cosmopolitan interpretation, Schlereth pays attention to Hume’s view of *inter-national* society (Schlereth 1977: 119), and indicates that ‘neither Voltaire, Franklin, nor Hume shared the optimism of cosmopolites like Paine, Bentham or Condorcet that war could be eliminated from the earth. They did attempt to advance what Hugo Grotius had called the *temperamenta* of warfare’ (Schlereth 1977: 117). Schlereth also admits that Hume and most Enlightenment thinkers accepted the nation-state as a necessary and useful political organisation (Schlereth 1977: 105). Besides, he calls their position ‘humanitarian nationalism.’ But whether humanitarian or not, nationalism is nationalism. It is hard to understand why he regards Hume’s position as ‘Enlightenment cosmopolitanism’ rather than ‘Enlightenment nationalism.’ In his

⁸ In this respect, Hume differs from Mead, who is more optimistic about the possibility of a universal society achieved by symbolic interactions.

argument, Schlereth ignores the conservative aspects of Hume's thought, in particular, his preference for the monarchical form of British government. He does not refer to one of his most famous essays, 'Of Original Contract,' which is hardly compatible with the cosmopolitan interpretation. For these reasons, I conclude that Schlereth fails to prove Hume's cosmopolitanism.

4. From Liberty to Violence

In eighteenth century Britain, there was a political movement which could be considered 'nationalistic' and to which Hume was opposed. The leader of this nationalist movement was John Wilkes. This section compares Hume's conservative nationalism with Wilkes's ideology in order to make clearer not only the meaning of Hume's nationalism, but also the nature of nationalism most generally.

Duncan Forbes points out that the Whig's ideology of social contract theory and liberty was married with Anglo-centric chauvinism, which he calls 'vulgar Whiggism'. The main tenet of vulgar Whiggism is the distinction between English free government and French absolute government. Unlike Hume, the vulgar Whigs justified the English constitution after the Glorious Revolution, contrasted with French absolutism, by the theory that the liberty of man in civil society means being under a government established by the people's consent (Forbes 1975: 139-143). Vulgar Whiggism implies a kind of social contract theory that includes the element of parochial nationalism.

Hume is opposed to vulgar Whiggism, because it adversely affects the people's opinion of the authority of the government and undermines the foundation of political order. According to

Hume's theory, social contract theory fails to explain the source of allegiance to a large-scale nation including sub-national communities. The government of a large-scale nation needs historical time and customs as the source of its authority, which is not established by consent. Therefore, monarchical forms of government are suitable for large-scale nations, while republican governments are suitable only for small-scale nations. This conclusion leads to the possibility that the people's opinion would be adversely affected by social contract theory and that this would cause the dissolution of a large-scale nation into small-scale communities.

Hume's worries were realised in the 'Wilkes and Liberty riots' of 1768-71. John Wilkes advocated an extreme version of the vulgar Whig's idea of liberty and linked it with the grievances of the growing middle class so as to attack the political dominance of the landed class and demand parliamentary reform. Hume was worried about Wilkes's ideology and movement. He argued before the Wilkes's affair that enthusiasm preferred liberty and caused disorder (SE 48-9). Enthusiasm for liberty tends to undermine authority as the social bond of a large-scale nation such as Britain. What Hume calls 'enthusiasm' can be associated with parochial and violent nationalism. Wilkes's movement actually sparked a chauvinistic and radical English nationalism, which led not only to Francophobia but also Scottophobia. Wilkes's slogan of liberty was the symbol of Englishness under the creed of Vulgar Whiggism. Wilkes emphasised the superiority and peculiarity of Englishness and focused on the linguistic division between England and Scotland (Colley 1992: 105-117).

Aspects of the Wilkes's affair are of illuminating relevance to the theory of nationalism. First, social contract theory was connected with enthusiastic and chauvinistic nationalism. The liberal and democratic elements of social contract theory are generally associated with the political

principles of civil society rather than the culture of ethnic community. However, as Yack points out, even civic principles can inspire ethnic sentiments. In the case of Wilkes's riot, the ideal of liberty provoked the national consciousness of the English and stimulated chauvinistic hostility to the French and Scots. This raises a serious problem for the constitutional patriotism which Jürgen Habermas endorses. Habermas advocates the universalistic, procedural and abstract principles of liberal democracy situated within the historical context of a specific culture. He asserts that national identity should be based not upon ethnicity but upon citizenship in order to realise the ideal of the multiethnic nation (Habermas 1989: chapt. 10; Habermas 1994, 1996). He expects that civic institutions could prevent chauvinism and attempts to replace irrational or at best non-rational nationalism by citizenship. However, Wilkes's riot shows that the universalistic principle of liberal democracy can be connected with chauvinism. Émile Durkheim's sociology of religion explains this phenomenon. He argues that sacred things have the function of integrating society and that the enthusiasm of public opinion in revolutionary periods transforms secular things into sacred things, such as the cult of Reason in the first years of the French Revolution (Durkheim [1912]2001). For Habermas, Switzerland provides an example of constitutional patriotism (Habermas 1995: 507). However, if Namier is right, the national unity of Switzerland is a product of her historical process (see also Canovan 2000: 423-5). In addition, Anthony Smith, influenced by Durkheim's sociology of religion, points out that the Swiss share historical memories symbolised by the tales of Stauffacher and the Oath of the Rütli, and of William Tell and Gessler (Smith 1991: 22).

Habermas's proposal of constitutional patriotism is based upon his theoretical project of the linguistification of the sacred. Marrying Durkheim's sociology of the sacred to linguistic philosophy, he endeavours to replace the authority of the sacred as the basis for social cohesion by

communicative reason (Habermas 1987: chapt. 5). However, in reality, it seems difficult to rule out the role of the sacred for social cohesion. Habermas is careless about the ethical and emotional element of civic institutions, especially democracy, and overestimates the power of reason to regulate nationalistic emotion. By contrast, sceptical Hume does not believe that reason alone can regulate violent passions. He thinks that it is not universalistic principles but the historical continuity of a constitution which creates the prudent emotion of loyalty to it.

Second, the development of the mass media played an important role in the rapid diffusion of Wilkes's chauvinistic movement (Colley 1992: 112). Ernst Gellner argues that mobilisation and communication contributed to forming nations (Gellner 1983). In the case of the Wilkes's affair, while the communication media promoted the creation of the consciousness of Englishness, they nonetheless worked towards breaking that of Britishness. According to Hume's theory, nations are dependent upon nothing but people's opinion of allegiance and a constitution stabilises this allegiance through the effect of time and custom. However, instead of a constitution, political ideologies such as social contract theory, spread by the mass media, may affect people's opinion and undermine the foundation of national unity. Seeing Wilkes's riot, Hume pointed out the effect of journalism on chauvinistic nationalism. 'Here is a people thrown into Disorders (not dangerous ones, I hope) merely from the Abuse of Liberty, chiefly the Liberty of the Press' (Hume 1932: 180).

Third, we should notice that Wilkes and his supporters belonged to the *bourgeoisie* (Colley 1992: 112). That reminds us of Hume's hesitation in completely approving the utility of commercial society and the merchant class for a monarchical polity. He points out not only the importance of the merchant class for liberty, but also that of the nobility (EPM 248-9). As we have seen in chapter 3, it is true that he approves of the utility of commerce, industry and the merchant

class for liberty and social order. He notes that economic progress is one of the hallmarks of civilisation and that republican forms of government are more suitable for economic and technological development than monarchical forms. Nonetheless he thinks that a monarchical government mixed with elements of a republican polity is the best constitution for large-scale nations. Hume's concept of the nation, which is mainly the British nation, is plural. Economic development and the merchant class are not enough to maintain such a large-scale and plural nation. Indeed, he is worried that the growth of the *bourgeoisie* may undermine the stability and unity of Britain. He believes that the nobility is required not only for political order but also for liberty.

By comparing various forms of nationalism, Jack Snyder points out that increasing democratisation and freedom of the press generally tend to stimulate popular nationalism which leads to violent conflicts. For example, through radical democratisation and rapid growth of a free press in revolutionary France, the democratic elite appealed to chauvinistic nationalism to attract the masses. Their voices were amplified by the mass-media to engender nationalist conflicts. The recent and most tragic example is the genocide in Rwanda and Burundi in 1993 and 1994. Rwanda and Burundi were suddenly democratised and liberalised by international pressure. However, the revolutionary introduction of democratic elections and the newly free press did not prevent but brought about extremist movements leading to the massacre of over a half million people. By contrast, eighteenth century Britain enjoyed a relatively moderate nationalism, because the traditional ideology and institutions of liberty and the rule of the predemocratic elite co-existed and contributed to prevent belligerent nationalism and self-defeating wars. Snyder suggests that radical reform is dangerous and civic institutions should be put in place gradually in order to avert the motives for violent nationalist conflicts (Snyder 2000). Hume's attempt to counter Wilkes's

contractarian nationalism is based on his insight that an institutional combination of liberty and the aristocracy is needed to contain violent nationalism.

5. Conservative Nationalism

There are several reasons that a theory of nationalism in Hume's political thought has been missed. Firstly, Hume's personal preference to France, in spite of his Scottish background, has prevented from interpreting his political theory as that of nationalism. Secondly, Hume is known for a thinker of the Enlightenment, which has been regarded as being at odds with nationalism. Thirdly, he advocates the impartial position of researchers and the objectivity of social science, which have been falsely associated with cosmopolitanism. Finally and most importantly, nationalism has been misunderstood. It has been regarded as the belief that nationality exists in nature as an inherited and unchangeable entity. Hume certainly disagrees with this. However, he has another concept of nationalism: a nation is formed upon a territorial and historical framework, such as the British nation. On the one hand, unlike primordialist theory, Hume thinks that the nature of national identity is changeable in a historical process. On the other hand, conservative nationalism is different from civic nationalism and constitutional patriotism, because it does not neglect the cultural and emotional aspect of loyalty to a constitution: people's attachment to historical time and custom. Hume thinks that long-term conservation of the territorial framework and historical growth of civic institutions could make possible the peaceful order and unity of a nation by creating a common national identity larger than small ethnic identities. The following two chapters will show that Edmund Burk and Alexander Hamilton, who are known for their nationalism,

significantly share conservative political and social thought with Hume. The analysis of Burke's and Hamilton's nationalist thoughts will support the view that Hume's political theory can be interpreted as that of nationalism.

Rapid democratisation and liberation, encouraged by contractarian nationalism, have the danger of provoking chauvinism and belligerent nationalism. They will cause disorder and violence and threaten civil order and liberty. This is still the unsolved problem, nationalism's dark side. The strength of Hume's conservative nationalism is to suggest one possible way of containing this kind of violent nationalism: maintaining the territorial framework in the long run and avoiding radical change.

Certainly, the universal validity of conservative nationalism will need further consideration, because eighteenth century Britain enjoyed the fortunate advantage of territorial and historical frameworks. However, in his final work, Ernst Gellner reaches a Humean conclusion in his discussion of the practical implications for solving ethnic conflicts, though his theory of nationalism and ideological position differ from Hume's:

Conservatives are right to this extent: the most effective social cement is continuity, custom and the consensus based not on reason (there seldom are any good reasons for obeying this rather than that authority): people obey established authorities and observe established customs and procedures because others do so as well. By joining the silent majority, any particular individuals or group increases the prospect of peace and the possibility of getting on with its own business undisturbed. Once the established order is disturbed, however, it is not clear where legitimacy and authority lie, and the rival claimants can only prevail not by good reasons, but by greater terror, and so many dissolutions of empire in internecine and bloody warfare. (Gellner 1998: 104)

For tackling ethnic confrontations, which are one of the most serious problems today, Hume's political theory of nationalism deserves consideration.

Part III

A Hidden Orthodoxy: Burke, Hamilton and Hegel

6. Against Speculation: Burke's Economic Nationalism

Needless to say, Edmund Burke is the founding father of political conservatism. However, his economic thought is controversial. His most famous work, *Reflections on the Revolution in France*, exerted a strong influence upon German romantics such as Adam Müller, who were hostile to Britain's economic liberalism. Partly inspired by the *Reflections*, they condemned modern industrial society and idealised a traditional form of community (Szporluk 1991: 99-101; Riha 1985: chapt.3). By contrast, many commentators, especially Hayek, have regarded Burke as belonging to the British tradition of economic liberalism (Hayek 1980). The basis of this interpretation is twofold. The first is a legend that Adam Smith once said that Burke was 'the only man I ever knew who thinks on economic subjects exactly as I do without any previous communication having passed between us.' However, this story is dubious (Canavan 1995: 116-7). Moreover, recent historical studies have questioned that Smith himself is an economic liberal (Winch 1978). The second is Burke's essay, 'Thoughts and Details on Scarcity'. Ian Gilmour, who supports the paternalist version of conservatism, regrets Burke's economic views in this essay and maintains that they are inconsistent with those in the *Reflections* (Gilmour 1978: 66-7). Comparing 'Thoughts and Details' with Smith's works, Donald Winch concludes that Burke's economic thought differs from Smith's, but then argues that it is not Smith, but Burke in 'Thoughts and Details' who is an economic liberal (Winch 1985b and Winch 1996: 198-220).

So, rather as with 'the Adam Smith problem' – whether his moral view in *The Wealth of Nations* is consistent with that in *The Theory of Moral Sentiments* – we face the Edmund Burke problem. Is Burke's economic thought in the *Reflections* compatible with that in 'Thoughts and

Details'? Is his position economic liberalism or economic romanticism? This chapter will propose a third interpretation in order to solve this problem: Burke is neither an economic liberal nor a romantic, but an economic nationalist, and consistently so in both the *Reflections* and 'Thoughts and Details'.¹

1. Reflections on the Financial Revolution in France

Burke was not an economic theorist, but he was very interested in economics and familiar with the political economy of the Scottish Enlightenment. He was engaged in economic affairs and referred to many economic issues in his writings (Canavan 1995: chapt. 6). In the *Reflections*, which has been read as the primary expression of his political philosophy, Burke gives considerable attention to economic aspect of the French Revolution.

One of the main causes of the French Revolution was the economic and financial crisis at the end of the *Ancien Régime*, and the revolutionary government adopted several innovative policies which had a crucial impact upon the French economy (see Aftalion 1990). The French Revolution can be understood as an economic revolution as well. Therefore, a reading of the *Reflections* in terms of political economy should cast considerable light on Burke's economic thought.

¹ Economic nationalism has been often identified with economic romanticism. However, as chapter 2 has shown, Friedrich List's economic nationalism is significantly different from economic romanticism. Economic nationalism should be distinguished from economic romanticism. See also the comparison between Hegel and Fichte, an economic romantic, in chapter 8.

It is well known that Burke charges the Revolution with destroying the conventional political order and traditional custom. Less well known is that, in the same manner, he criticises it for undermining custom as the foundation of economic progress. Like other leading writers in eighteenth century Britain, he thinks that commerce, trade and manufacture are important for civilisation. He is not a critic of economic development as such.

If, as I suspect, modern letters owe more than they are always willing to own to antient manners, so do other interests which we value full as much as they are worth. Even commerce, trade, and manufacture, the gods of our oeconomical politicians, are themselves perhaps but creatures; are themselves but effects, which, as first causes, we choose to worship. (R 174)²

Burke's economic view is that customs and conventions are the foundation of economic development. He maintains this repeatedly in the *Reflections*. This conclusion is derived from his assumptions about human beings: a human being is 'in a degree a creature of his own making' (R 189), in other words, a social and cultural product. Burke thinks that an atomised individual cannot act for the future.

When antient opinions and rules of life are taken away, the loss cannot possibly be estimated. From that moment we have no compass to govern us; nor can we know distinctly to what port we steer. Europe undoubtedly, taken in a mass, was in a flourishing condition the day on which your Revolution was completed. How much of that prosperous state was owing to the spirit of our old manners and opinions is not easy to say; but as such causes cannot be indifferent in their operation, we must presume, that, on the whole, their operation was beneficial (R 172-3).

For Burke, conventions and customary ethics are not an obstacle to the dynamic development of industry. On the contrary, they are the indispensable 'compass' of action for the future. Therefore commerce, trade and manufacture would be impossible without customs and ethics. Interestingly

² References to R and TD refer respectively to *Reflections on the Revolution in France*, Burke ([1790]1968) and 'Thoughts and Details on Scarcity', Burke([1800]1991).

enough in the quotation above, Burke implies that what he means by customs and ethics useful for economic growth are those in eighteenth century Europe. He seems to attribute the cause of the emerging growth-oriented economy in Europe to ethics and customs peculiar to Europe:

Nothing is more certain, than that our manners, our civilization, and all the good things which are connected with manners, and with civilization, have in this European world of ours, depended for ages upon two principles; and were indeed the result of both combined: I mean the spirit of a gentleman, and the spirit of religion. (R 173)

It is not certain whether what Burke means by 'the spirit of religion' is the Protestant ethic as Max Weber was late to argue. However, it is clear that he considers the role of ethics and spirit of religion in economic growth.

Like Hume's, Burke's economic thought is institutional and dynamic. Among the institutions for a dynamic economy, he emphasises the importance of property. He argues that property plays a role in turning our concern from short-sighted self-interest to long-term, public interest (R 140-1). From the viewpoint of an institutional theory of political economy, Burke attacks the economic policy of the revolutionary government, especially the nationalisation of church property and the circulation of paper money called the '*assignats*'. The Constituent Assembly faced serious financial problems affecting the state, and in order to solve these problems, the Assembly decided to appropriate church property and issue the '*assignats*' secured by these nationalised properties to reassure creditors (Aftalion 1990: chapt. 3). Needless to say, one of the reasons for Burke's objection to the nationalisation of church property is religious, but others are economic.

Firstly, confiscation undermines ethics and institutions as the foundation of a dynamic economy of civilisation: the spirit of religion and property. Property makes public and long-term

commitment possible and thus contributes to economic development in the long run. Therefore, invading property rights means destroying of the foundation of sound economic growth. Secondly, the appropriation of church property will destroy the church as an intermediate institution. For Burke, intermediate groups such as the noble class, the merchant class and the church not only play a political role of counter-power against a tyranny, but also allocate resources to the public and serve their long-term interest economically.

In the monastic institutions, in my opinion, was found a great power for the mechanism of political benevolence. There were revenues with a public direction; there were men wholly set apart and dedicated to public purposes, without any other than public ties and public principles; men without the possibility of converting the estate of the community into a private fortune; men denied to self-interests, whose avarice is for some community; men to whom personal poverty is honour, and implicit obedience stands in the place of freedom. (R 267)

Confiscation will destroy intermediate groups and this mechanism for converting resources to long-term commitment. Politically it will cause 'the despotism of the multitude' (R 227) in Burke's words, or 'the tyranny of majority' in Tocqueville's. Economically it will lead to excess circulation of paper money and speculation, as we will see. The political ambition of the Revolution and the new economic policy of the Constituent Assembly correspond to one another. 'All you have got for the present is a paper circulation, and a stock-jobbing constitution' (R 142).

Thirdly, the destruction of institutions and over-issue of paper credit will cause financial speculation. Through 'a process of continual transmutation of paper into land, and land into paper', 'that species of property becomes (as it were) volatilized'(R 308). The uncertainty and fluctuation of value will make merchants and manufacturers fall into what John Maynard Keynes was later to call 'the crisis of confidence', and as a consequence:

Industry must wither away. Oeconomy must be driven from your country. Careful provision will have no existence. Who will labour without knowing the amount of his pay? Who will study to encrease what none can estimate? Who will accumulate, when he does not know the value of what he saves? (R 311)

Burke's observations were arguably correct. The excess circulation of the '*assignats*' caused their value to fall remarkably and led to hyperinflation. As the '*assignats*' depreciated, coins quickly went out of circulation through the mechanism of Gresham's law – bad money drives out good. Burke draws attention to this phenomenon (R 367-8). Further, this monetary chaos damaged the substantive economy. Ordinary people suffered from the serious shortage of exchangeable currency and actual purchases became more difficult. The price of labour rose, and the level of unemployment increased. The '*assignats*' exacerbated the economic crisis (Aftalion 1990: 95-8).

Like other intellectuals in eighteenth century Britain, Burke attributes financial chaos and speculation to the monied interest. He contrasts the monied interest with the landed interest and supports the latter. However, the monied interest does not mean the *bourgeoisie* in general. What he means by the monied interest is mainly speculative financiers and bankers (R 215). Merchants and manufacturers are excluded (Pocock 1989: 28-30). He argues that the monied interest seizes political power to adopt confiscation and the circulation of paper money in France (R 307). He believes that the Revolution was caused by the monied interest, and the political adventure of the Revolution is thus associated with the economic one of speculation. 'The monied interest is in its nature more ready for any adventure; and its possessors more disposed to new enterprises of any kind' (R 211).

It should be noted that Burke fiercely attacks the excess circulation of paper money in France, not paper money in general. He supports it in Britain by pointing out that the British

economy does not suffer from Gresham's law (R 353-4). He indicates that the financial economy in Britain is free from political power exercised in an arbitrary manner, unlike France. Moreover, he approves the necessity of public debts, though with some reservation. 'Public debts, which at first were a security to governments, by interesting many in the public tranquillity, are likely in their excess to become the means of their subversion' (R 264). He criticises excessive dependence on public debts, especially in France; but, unlike Hume, he seems to admit their utility.

Comparing it with the British regime, Burke concludes that the monied interest is more separated from the landed interest in the French regime, and it is this that caused the inappropriate management of financial policy (R 209-10). His analysis again seems to be correct. For example, P. J. Cain and A. G. Hopkins argue that the political and economic system of eighteenth century Britain, with its alliance between the landed interest and the City (which they call the gentlemanly order), formed an efficient and stable financial market and established the orthodoxy of sound financial management (Cain and Hopkins 1993: chapt. 2). Further, compared with that of Britain, the financial system of France was backward: John Law's Mississippi bubble made a deep impression on French People's minds of the danger of financial speculation, and this unfortunate episode delayed the development of a financial system, for example, the establishment of a bank of France (Aftalion 1990: 19). In addition, many commentators suggest that the French people are by nature prudent and economical, while the English are speculative and adventurous (Kindleberger 1996a: 42-3). Interestingly enough, Burke points out this French characteristic (R 210).

What caused the speculative economy in France? Burke's answer is the speculative philosophies of 'political men of letters' or 'men of theory' (R 313). His polemic language repeatedly associates philosophical speculation with financial speculation: 'philosophic financiers',

'adventurers in philosophy and finance', 'this is the finance of philosophy' and so on (R 359, 360 and 364). Burke believes that the French philosophers and professionals were married with the monied interest to establish the revolutionary government and caused the excess circulation of paper money. 'Along with the monied interest, a new description of men had grown up, with whom that interest soon formed a close and marked union; I mean the political Men of Letters. Men of Letters, fond of distinguishing themselves, are rarely averse to innovation' (R 211). Both the monied interest and men of letters favour innovation in everything and cooperate with each other to adopt innovative financial policy. As we have seen, Burke insists that tradition and custom are not an obstacle to but necessary for a dynamic economy. In the French economy, the people's suspicion of paper money and speculation had previously prevented financial chaos. Burke regrets that the speculative philosophy of the intellectuals undermined the people's wisdom, generated by French national customs.

The representative 'men of theory' are the Physiocrats, such as Turgot, Mirabeau and Dupont. Their theory distinguishes farmers from landowners and merchants, artisans and industrial workers, and maintains that only farmers create wealth (Aftalion 1990: 44-5). Based upon the assumption of atomised individuals, the Physiocrats aim to find the natural order as distinct from the positive order which is the inappropriate product of the human legislator (Spiegel 1971: 185). Atomic individualism, Cartesian rationalism and the devaluation of landowners, merchants and artisans in Physiocratic theory are the target of Burke's critique. In principle, admittedly Physiocratic theory respects property rights, and therefore, the nationalisation of property seems not to be directly derivable from it (Aftalion 1990: 46). Moreover, the French intellectuals were originally sceptical about paper money, firstly because they admired Hume and

knew well his critique of paper money, and secondly because they were impressed by John Law's disastrous failure (Aftalion 1990: 44). Indeed some intellectuals were worried about speculation and actually opposed to the nationalisation of church property. Nonetheless, confiscation and the issue of the '*assignats*' were approved by the Physiocrats in the Constituent Assembly. Mirabeau justified them by the Rousseauan rhetoric of the 'general will' (Aftalion 1990: 63). This 'tyranny of the majority' is what Burke observed (R 228-9). Lawyers are also the target of Burke's critique (R 129). Probably he has in mind Thouret, a jurist who insisted upon atomic individualism and denied the property rights of the church. According to Thouret's legal theory, only individuals could possess property rights, while organisational bodies such as the church are merely fictitious and do not deserve to own property (Aftalion 1990: 62-3).

Burke's diagnosis seems to be basically correct. However, he misunderstands the French Revolution in terms of political economy in two respects. Firstly, he overestimates the *Ancien Régime*. He vindicates the French monarchy by pointing to its economic prosperity. 'The wealth of a country is another, and no contemptible standard, by which we may judge whether, on the whole, a government be protecting or destructive' (R 233). He analyses the economic condition of the *Ancien Régime* statistically and concludes its good performance, referring to the statistical data of Necker's book *De l'Administration des Finances de la France* published in 1785 (R 234). Necker enjoyed the reputation of a fair and talented practitioner whose approach was practical rather than theoretical and systematic (Aftalion 1990: 23). Burke favours Necker's practical approach, and trusts him: 'It is impossible that Mr Necker should be mistaken in the amount of the bullion which has been coined in the mint. It is a matter of official record' (R 234). However, Necker was in fact skilled at managing to disguise the real financial situation to reassure the state's

creditors. For example, in 1781 he published a report on the Treasury's expenditure and income called *Compte rendu au roi par M. Necker* and reinforced his image of an honest and skilful minister. However, the figures in it were false (Aftalion 1990: 24). Burke refers to another of Necker's books, but its accuracy seems to be dubious. Probably the real condition of the French economy at the end of the *Ancien Régime* was worse than Burke believed.

Burke also overestimates the *Ancien Régime* politically and socially. He blames the Revolution for undermining the established diversity and plurality of the social fabric. However, as Tocqueville indicates, the centralisation of the absolute monarchy had already destroyed intermediate groups, homogenised French society and prepared the way for the tyranny of the majority in the Revolution. Thus, Tocqueville comments:

Burke failed to realise how things were in the kingdom which the monarchy (whose downfall he deplored) had bequeathed to its new masters. Under the old order the government had long since deprived Frenchmen of the possibility, and even the desire, of coming to each other's aid. When the Revolution started, it would have been impossible to find, in most parts of France, even ten men used to acting in concert and depending on their interests without appealing to the central power for aid. Thus once that central power had passed from the hands of the royal administration into those of irresponsible sovereign assemblies and a benevolent government had given place to a ruthless one, the latter found nothing to impede it or hold up its activities even momentarily. The same conditions which had precipitated the fall of the monarchy made for the absolutism of its successor. (Tocqueville [1856]1966: 223)

The second error in Burke's analysis concerns his belief that the monied interest was allied with the intellectuals to seize power in the Revolution. He contrasts the nobility with the monied interest allied with the intellectuals, and admires the former (R 235-6). For him, the nobility is a social class appropriate for conserving civil order. The Revolution is the revolt of the monied interest allied with the intellectuals against the aristocracy. However, the French intellectuals were

in fact mainly recruited from the nobility rather than the *bourgeoisie*. According to Liah Greenfeld, the administrative centralisation of absolutism promoted by Richelieu and Louis XIV excluded the nobility. Facing the crisis of their social superiority, the nobility were forced to redefine themselves as cultural elites and formed the 'system of literary monopoly'. Greenfeld argues that the grievances and frustration of the intellectuals – the excluded and declining aristocracy in origin - brought about the Revolution (Greenfeld 1992: 167-188). It was not the intellectuals combined with the monied interest but those born from the nobility that overthrew the monarchy. Burke seems to have analysed the French Revolution from the perspective of political economy in eighteenth century Britain: the landed interest as the foundation of civil order and the monied interest in danger of undermining it (Pocock 1982). However, he learnt of the misgovernment of the *Ancien Régime* in his last years, thanks to his son, Richard who had studied the French monarchy.³

However, Burke is on strong ground in claiming that he points out that the philosophical speculation of the intellectuals and specialists brought about the Revolution and caused economic disorder through the innovative and unrealistic policies generated by their abstract theories. He presents a brilliant sociology of the intellectuals (Nisbet 1993: 118) and specialists. The intellectuals form the narrow 'system of literary monopoly'(R 212) separated from common life, and devote themselves to philosophical speculation in it. Nonetheless, they pretend to be 'men of the world' (R 212) and eager to construct or reconstruct the real world according to their theories or principles, instead of facing the complexity of reality. 'It is this inability to wrestle with

³ 'My dear departed friend [Richard], whose loss is even greater to the public than to me, had often remarked, that the leading vice of the French monarchy (which he had well studied) was in good intention ill-directed, and a restless desire of governing too much' (TD: 144).

difficulty which has obliged the arbitrary assembly of France to commence their schemes of reform with abolition and total destruction'(R 279). Burke argues that politics is too complex to be dealt with in a rationalistic manner. In addition to the closed system of literary monopoly, the specialisation of the professions promotes unrealistic speculation. Reality is too exhaustive and complex for the specialists' lack of general knowledge to comprehend. For example, specialised lawyers, who are familiar with nothing but the technical knowledge of law, cannot understand the complexity of the real world. Instead of attempting to comprehend the complexity of society, they reduce it to atomised individuals.

Burke strongly rejects any project of simplifying society. Society is too complex and human ability too limited for theorists to control or construct it satisfactorily. A politics which seeks to simplify society will lead to miserable consequences (R 157). Politics should be directed by 'wisdom without reflection, and above it' (R 119) or by 'practical wisdom' which supersedes 'theoretical science'(R 118). Politics should not be the slave of theories.

The science of constructing a commonwealth, or renovating it, or reforming it, is, like every other experimental science, not to be taught *a priori*. Nor is it a short experience that can instruct us in that practical science; because the real effects of moral causes are not always immediate; but that which in the first instance is prejudicial may be excellent in its remoter operation; and its excellence may arise even from the ill effects it produces in the beginning. (R. 152)

Practical wisdom – the ability to comprehend the complexity of reality without theoretical reflection – is acquired only through experience from 'old establishments' such as tradition, customs and especially a constitution. 'Old establishments' are 'not often constructed after any theory; theories are rather drawn from them'(R 285). However, Burke does not insist upon maintaining the status quo. Rather he takes time and change into account, and approves the

necessity of improvement and reform. 'I would not exclude alteration neither; but even when I changed, it should be to preserve' (R 375). He does not reject change, but proposes the right means of reform:

The means taught by experience may be better suited to political ends than those contrived in the original project. They again re-act upon the primitive constitution, and sometimes improve the design itself from which they seem to have departed. I think all this might be curiously exemplified in the British constitution. At worst, the errors and deviations of every kind in reckoning are found and computed, and the ship proceeds in her course. (R 285)

This reasoning about reform seems to be derived from a constitutional theory of the common law tradition.⁴ According to Melvin A. Eisenberg, common law reasoning concerns 'the interplay of social and doctrinal propositions'. He argues that the model of the common law consists of the ideals of social coherence, systematic coherence and doctrinal stability over time. The ideal of social coherence is that the body of rules which make up the law should correspond to all applicable social standards. This ideal promotes openness and substantive rationality. The ideal of systematic coherence is that all rules which make up the body of the law should be consistent with one another. This ideal contributes to predictability and formal rationality. The ideal of doctrinal stability is the principle of keeping and transmitting the stock of practical wisdom as a synthesis between substantive and formal rationality. These three ideals of common law reasoning reconcile the coherence and consistency of legal order with openness and responsiveness to a dynamic and diverse society (Eisenberg 1988: 43-7). By the same token, the premise of constitutional politics is maintaining the diversity of the real world and making it coherent, rather

⁴ Pocock points out the influence of the common law tradition upon Burke's thought. See Pocock (1960).

than reforming a complex and diverse society into a simple and homogeneous form. 'By this means our constitution preserves an unity in so great a diversity of its parts' (R 119).

2. Burke's Concept of the Nation

It is important to consider carefully Burke's concept of the nation. It is true that the *Reflections* inspired German romanticism or romantic nationalism – the idea that a primordial essence of nationality exists in nature outside time. However, the following passage, which is often quoted to illustrate Burke's view of the nation, shows that he is not a romantic nationalist.

Society is indeed a contract. Subordinate contracts for objects of mere occational interest may be dissolved at pleasure – but the state ought not to be considered as nothing better than a partnership agreement in a trade of pepper and coffee, calico or tobacco, or some other such low concern, to be taken up for a little temporary interest, and to be dissolved by the fancy of the parties. It is to be looked on with other reverence; because it is not a partnership in things subservient only to the gross animal existence of a temporary and perishable nature. It is a partnership in all science; a partnership in all art; a partnership in every virtue, and in all perfection. As the ends of such a partnership cannot be obtained in many generations, it becomes a partnership not only between those who are living, but between those who are living, those who are dead, and those who are to be born. (R 194-5)

This passage shows that, firstly, Burke partially accepts social contract theory. In other words, he approves of the idea that nationality is an artificial product and to some extent dependent upon subjective agreement rather than nature or destiny, as romantic nationalists assume. Nonetheless, secondly, and unlike the assumption of social contract theory, such agreement is not made by the free choice of atomised individuals. A nation is not a voluntary association but a cultural and historical constraint upon individuals. Nationality is a 'partnership' or what Margaret Canovan

calls 'mediation', which links the individual and the collective, and the present and the past. Thus a nation is contingently produced in history and subjectively identified, but experienced as immemorial and natural (Canovan 1998: 68-71). It is clear that Burke's conception of the nation thus echoes Hume's conservative nationalism⁵: nationalism is derived from the people's attachment to the historical continuity of a constitution as a set of rules. Nationalism includes both civic and ethnic elements.

Burke's vindication of the British constitution stems from the practical demand of politics: the constitution is the source of practical wisdom as a guide to politics. Similarly, it can be said that his concept of a nation is rooted in a philosophy of practice because he more or less identifies a constitution with a nation regarding both of them as the historical stock of practical knowledge.

We are afraid to put men to live and trade each on his private stock of reason; because we suspect that this stock in each man is small, and that the individuals would do better to avail themselves of the general bank and capital of nations, and of ages. (R 183)

For Burke, a nation is not only a cultural phenomenon, which is ontologically valuable, but also the source of practical knowledge, which is necessary for social and economic order. Political judgements should be derived from a national constitution as a stock of practical knowledge. Burke would agree with Max Weber's manifestation of economic nationalism: economic policy and the criterion of value used by an economic theorist should be based upon national values (Weber [1895]1994: 15).

By contrast, nationalism in Revolutionary France is seen by Burke as generated by a contractarian understanding of democracy:

⁵ On the affinities between Hume's and Burke's thought, see Sabine (1937: chapt. 29).

That there needs no principle of attachment, except a sense of present conveniency, to any constitution of the state. They always speak as if they were of opinion that there is a singular species of compact between them and their magistrates, which binds the magistrate, but which has nothing reciprocal in it, but that the majesty of the people has a right to dissolve it without any reason, but its will. Their attachment to their country itself, is only so far as it agrees with some of their fleeting projects; it begins and ends with that scheme of polity which falls in with their momentary opinion.

These doctrines, or rather sentiments, seem prevalent with your new statesmen. But they are wholly different from those on which we have always acted in this country. (R 184)

Here we shall remember that Burke regards traditions and customs not as the obstacles to, but as the foundation of commerce, trade and industry. Ethics and institutions in a nation direct private and short-sighted economic activities to a commitment to public and long-term interests. A nation, as the partnership between the past and the future, is the basis of sound economic development. Moreover, appropriate political judgements can be derived from practical wisdom built in a national constitution. The constitutional nationhood of Britain does not prevent but promotes economic prosperity by respecting and securing the constitution as the guide to practical judgements. By contrast, philosophical speculation in France – contractarian democracy and financial capitalism – destroyed the historical nationhood of France and the national system of the French economy, and caused the unstable order of politics and the economy. Thus Burke's overall position is clearly that of economic nationalism.

4. Is Burke an Economic Liberal?

We now turn to consider 'Thoughts and Details'. The following passage in the essay is often quoted to show that Burke's economic view is one of free market liberalism. 'We, the people,

ought to be made sensible, that it is not in breaking the laws of commerce, which are the laws of nature, and consequently the laws of God, that we are to place our hope of softening the divine displeasure to remove any calamity under which we suffer, or which hangs over us' (TD 137). However, before drawing any conclusions from this about his economic standpoint, we should consider the background against which this piece of work was written. 'Thoughts and Details' was a memorandum to Prime Minister William Pitt about a national policy of poor relief occasioned by the bad harvests in 1795. In order to rescue farm labourers, the Justices of the Peace in Speenhamland subsidised their wages according to the size of their families and the price of bread. Burke argues against the Speenhamland system in his memorandum (Canavan 1995: 129). In interpreting it, we should also bear in mind that like most of his writings, 'Thoughts and Details' is a political memorandum upon a specific topic – agricultural affairs and social policy in England in 1795, using political rhetoric for persuasion rather than a general theory of economics.

It is true that Burke refers to 'the laws of commerce' in it, and this has encouraged the 'liberal' interpretation. However, his argument about the market economy is not the same as mainstream economics implies. He does not see the market economy as based on self-interest seeking activities, but adopts a more institutional and sociological view. Firstly, he remarks that price is determined by convention. 'But who are to judge what that profit and advantage ought to be? Certainly no authority on earth. It is a matter of convention dictated by the reciprocal conveniences of the parties, and indeed by their reciprocal necessities' (TD 125-6). He assumes social and reciprocal relationships between the farmer and the labourer in farming communities rather than a labour market consisting of selfish individuals. 'The convention of the farmer and labourer'(TD 126) basically determines wages. In *The Great Transformation*, Karl Polanyi

regards Burke, who was opposed to the Speenhamland system, as an economic liberal. However, Burke's view here in fact is similar to Polanyi's, namely that the labour market is 'embedded' in society. Burke was still, as it were, prior to the 'great transformation'. In addition, even Polanyi, who is free from the bias of economic liberalism, admits that the Speenhamland system was problematic and ended in failure (Polanyi 1957).

Secondly, Burke distinguishes between the type of agricultural labour involving full-time and active workers, and that involving part-time and weak workers such as old men, women and children. He indicates that the free market, or 'the principle of commerce' under equality and secured by the rule of law, can be applied only to the former, while it cannot improve the condition of the latter automatically (TD 127-8). However, he does not here propose state intervention for the relief of the poor. Instead he expects religion and morals in society to provide charity for them (TD 129). In this he builds on his argument in the *Reflections*. There, he criticised the centralised power of the revolutionary government for undermining the church and its social functions serving the public interest. By the same token, in 'Thoughts and Details' he opposes state intervention not because he believes in *laissez-faire* liberalism, but because he supports the role of intermediate groups and ethics. He believed that the church and Christian ethics could work in England at that time well enough to do without social policy. For the same reason, he argues against the construction of public granaries by the government. He observes that the private granaries owned by the farmers work well for the public interest. Public granaries will not work because the government cannot manage the whole economy of a large-scale state as it wishes (TD 134-6). Rather the excess and unnecessary intervention will destroy the conventions, social institutions and voluntary associations which work for the public interest.

In this respect, Hayek may be right: Burke would agree that ‘many of the institutions on which human achievements rest have arisen and are functioning without a designing and directing mind’ (Hayek 1980: 7). However, Burke would also accept the necessity of state intervention in some cases. In the case of the bad harvests in 1795, the particular focus of ‘Thoughts and Details’, he argues against state intervention, but, this is based, not on the dogmatic creed of economic liberalism, but on his observation of the specific circumstances of agricultural economy and on practical judgement.

Indeed, in ‘Thoughts and Details’, Burke discusses most generally the conditions, under which state intervention is appropriate:

It is one of the finest problems in legislation, and what has often engaged my thoughts whilst I followed that profession, “What the State ought to take upon itself to direct by the public wisdom, and what it ought to leave, with as little interference as possible, to individual discretion.” Nothing, certainly, can be laid down on the subject that will not admit of exceptions, many permanent, some occasional. But the clearest line of distinction which I could draw, whilst I had my chalk to draw any line, was this: That the State ought to confine itself to what regards the State, or the creatures of the State, namely, the exterior establishment of its religion; its magistracy; its revenue; its military force by sea and land; the corporations that owe their existence to its fiat; in a word, to every thing that is *truly and properly* public, to the public peace, to the public safety, to the public order, to the public prosperity. (TD 143)

From this one can infer that if an exceptionally serious crisis happened and threatened the public interest, Burke would agree that the government should play a more positive role. What he is against generally is ‘an over doing of any sort of administration’ (TD 145), of which he judges the Speenhamland system in 1795 to be an example. But unlike economic liberalism, his position is free from theoretical dogma.

Thus Burke's economic thought, I argue, is consistent between the *Reflections* and 'Thoughts and Details'. On the one hand, he argues for the development of commerce and industry and against excessive intervention by the state, but he is not an economic liberal. He rejects the principle of *laissez-faire* and accepts labour markets being embedded in society. On the other hand, he respects customs, tradition and constitutional nationhood and attacks financial capitalism, but he is not a romantic. For him, a nation is not a primordial and natural entity but a contingent human product. The customs and traditions of a nation are necessary for economic development in the long term, and this is something which he celebrates. In short, his economic thought is institutional, dynamic and sociological. His style of thinking is practical and not constrained by speculative philosophy or dogmatic creeds. Thus we can regard Burke's economic thought as economic nationalism and consistently so throughout his work. And economic nationalism is the real conservative economic thought. I believe that reconsideration of Burke's political economy helps to deepen understanding of the true meaning of conservatism and economic nationalism.

7. Hume's Legacy: Hamilton's Economic Nationalism

This chapter examines the political and economic thought of Alexander Hamilton, the most significant economic nationalist along with Friedrich List, in order to illuminate the origin and nature of economic nationalism. Historians have recently made clear that the political and social thought of eighteenth-century Britain, especially of the Scottish Enlightenment, exerted a profound influence upon revolutionary America. However, the modes of thought of the eighteenth century are far from monolithic. For example, as we have seen, David Hume established the science of human nature and attempted to replace the political thought of the classical republican tradition with a modern form of political theory. Similar rivalry emerged in revolutionary America: the early debate between the Federalists and the Anti-Federalists, and the later one between the Federalists and the Jeffersonian Republicans.

The Federalists, especially Alexander Hamilton, attempted to create the Union of the States as a single nation and insisted upon the necessity of a powerful central government. Profoundly influenced by Hume, Hamilton regarded the British type of monarchical government mixed with republican elements as the best model of the polity for liberty (Hamilton [1787]1962: 184). By contrast, Thomas Jefferson endorsed the ideal of republicanism – participative democracy in a small political arena was the necessary condition of freedom and a strong government was at best unnecessary and at worst harmful. The Anti-Federalists and the Jeffersonian Republicans regarded ‘mixed monarchy’ as despotic. They feared that Hamilton’s plan would introduce into America the elements of aristocracy and monarchy which threatened the spirit of freedom. In particular, Jefferson fiercely attacked Hume, calling him the ‘great apostle of

Toryism,' a 'degenerate son of science,' and a 'traitor to his fellow men.'(Werner 1972: 455; Moore 1977: 838-9)

The contrasting economic views of Hume and the classical republicans also parallel to those of Hamilton and Jefferson. Hume argued for economic development, while classical republicans regarded this as the cause of moral corruption. By the same token, Hamilton proposed a national bank and industrial policy in order to promote the economic progress of the nation, while Jefferson opposed his economic nationalism.

In the first and second section of this chapter, I shall discuss how Hamilton derives his idea of economic nationalism from Humean thinking. However, my main concern is not the direct impact of Hume's writings upon Hamilton, but the affinities between their ways of thinking. Among revolutionary Americans, Hume was known as a political essayist and historian rather than a philosopher (Werner 1972: 441), and it was mainly Hume's political and economic writings that Hamilton admired. However, we can also regard him as displaying the 'spirit' of Hume's experimental method: Hamilton too bases his political judgements on experience, observation and practical knowledge, rather than on theoretical or philosophical speculation, and indeed modifies some of Hume's assertions consistently with this. A comparison between Hamilton and Jefferson, whose thought is speculative rather than practical, will make clearer the philosophically distinctive features of economic nationalism.

The third section will examine Hannah Arendt's interpretation of the American Revolution and the philosophy which lies behind this interpretation. She is a modern republican thinker, deeply sceptical of social science, and admires Jefferson. I shall argue that, biased by her speculative philosophy, her interpretation of the Revolution is wrong. Republicanism is still

influential in current political discourse, and this discussion of Arendt's republicanism will further demonstrate the importance of Hamilton's economic nationalism today.

1. The Science of Politics

It is well known that the Federalists were indebted to Montesquieu, but Hamilton seems to have learnt the elements of the British model from Hume, who developed the political science of Montesquieu. For example, in 'That Politics May Be Reduced to a Science', Hume remarks that 'a republican and free government would be an obvious absurdity, if the particular checks and controuls, provided by the constitution, had really no influence, and made it not the interest, even of bad men, to act for the public good.'(PMRS 5) Referring to the phrase 'the science of politics,'

Hamilton says:

The science of politics, however, like most other sciences, has received great improvement. The efficacy of various principles is now well understood, which were either not known at all, or imperfectly known to the ancients. The regular distribution of power into distinct departments; the introduction of legislative balances and checks; the institution of courts composed of judges holding their offices during good behaviours; the representation of the people in legislature by deputies of their own election: these are wholly new discoveries, or have made their principle progress towards perfection in modern times. (F 125)¹

Hume insists that legislators ought to consider the selfish nature of human beings. Based upon a sceptical understanding of human nature, he proposes a politics of 'moderation' and suggests that 'the surest way of producing moderation in every party is to increase our zeal for the public.'(PMRS 12) Hamilton, as a student of Hume, notices that 'ambition, avarice, personal

¹ References to F refer to *The Federalist*, Hamilton, Madison and Jay ([1787-8]1961).

animosity, party opposition and many other motives not more laudable than these, are apt to operate as well upon those who support as those who oppose the right side of a question', and attempt to 'furnish a lesson of moderation'(F 90). Hamilton's main concern is the system of laws and institutions which produces moderation to increase public spirit and patriotism.

For Hume, the best system for moderation is the mixed monarchical form of the British constitution. For Hamilton, the point is how to realise the merits of a monarchical government within a republican framework. Hamilton admires the superiority of the British constitution, but never attempts to establish a monarch in America. As a student of the comparative politics of Montesquieu and Hume, he remarks 'with Montesquieu that a government must be fitted to a nation as much as a Coat to the individual, and consequently that what may be good at Philadelphia may be bad at Paris and ridiculous at Petersburg'(Quoted in Frisch 1991: 21). He thinks that the essence of the British government is:

'a vigorous execution of the laws – and a vigorous defence of the people, will result. Better chance for a good administration.

It is said a republican government does not admit a vigorous execution.

It is therefore bad: for the goodness of a government consists in a vigorous execution. (Hamilton [1787]1962: 186)

Isaac Kramnick argues that the languages of liberalism, republicanism, the Protestant ethic and a state-centred ideal of sovereignty and power are identified in the political discourse of revolutionary America, and that Hamilton's discourse of the 'energy of government' is characterised by the state-centred ideal. The state-centred language of sovereignty and power can be traced back to Bodin, Richelieu, Hobbes and James I. It stresses the heroic exercise of power. Its ideal polity is not a republican city state, but an empire and, later, the nation-state. Kramnick insists that inspired by the process of nation-state building in early modern Europe, Hamilton

believes that the coercive centralised nation-state, which pushes aside any intermediate bodies between the state and individuals, should be built in America. Kramnick admits that Hamilton thinks that the central role of energetic government is to secure private rights, and argues that in this respect, Hamilton shares a liberal theory of the state with Locke. However, he maintains that Hamilton is mainly preoccupied with the power-centred paradigm (Kramnick 1988).

However, I am sceptical about Kramnick's interpretation. It is true that Hamilton aims at building a nation-state. However, first, for Hamilton, the ideal model of the nation-state is the mixed monarchical polity of Britain, which does not push aside intermediate bodies between the state and individuals. Second, we should consider the profound impact upon Hamilton of Hume, whose understanding of power is different from Lockean liberalism or the power-centred paradigm. Like Hume, Hamilton tackles the tension between the force of government and liberty (Frisch 1991: 3-4). While Hume argues against both the divine right theory and social contract theory, Hamilton's target is mainly the latter in the New World. He reaches the same conclusion as Hume that the authority of a government accepted by the people solves the tension between force and liberty.

The fabric of American empire ought to rest on the solid basis of THE CONSENT OF THE PEOPLE. The streams of national power ought to flow immediately from that pure, original foundation of all legitimate authority.(F 199)

Hamilton thinks that an energetic government means a government whose authority is accepted by the people. Unlike Jefferson, Hamilton is sceptical about participative democracy. He believes that perfect democracy will degenerate into the tyranny of the majority and that the authority of government can be a counterbalance against the legislative power. He agrees with Hume that the

people's allegiance to the government is required for executing laws and maintaining civil society.

'We must extend the laws of federal government to the individual citizens of America' (F 201).

Hamilton believes that 'the vigor of government is essential to the security of liberty.' (F 90). What he means by liberty is the traditional right to the secure possession of property under the rule of law, which Hume insists upon, rather than the classic republican paradigm of participation in the public realm or the Lockean concept of the individual right of revolution (Appleby 1984: 16-23). Hamilton shares the concept of civil society with Hume. The main element of civil society is property rights which are secured by laws, and government is required for the execution of the laws and the decision of justice. Energetic government is not a heroic power, but a guardian of the rule of law.

For Hume, another merit of the monarchical form of the British government is that it is suitable for maintaining the framework of a large-scale nation. By the same token, Hamilton thinks that a quasi-monarchical government – energetic executive power – is preferable for the union of the States. He asserts that confederation without energetic government is inappropriate. But why does Hamilton believe that the union of the States is better than confederation for America? Through independence, Americans established their national identity which incorporated the idealistic form of English values such as liberty, independence of individuals, the right of participation and self-government. The unique equality of the social conditions of America made it possible and necessary to fulfil these ideals (Greenfeld 1992: 403-422). In short, the national identity of America, which was growing in her short history, was the ethos of Jeffersonian republicanism. In the Jeffersonian ideal of self-government, there is no obvious implication that union under a single government is best. Paradoxically then, it seems that

Americans shared a conception of national identity which denied the national unity of the States of America. So, if Hamilton respected the existing national consciousness of American identity, he would have to conclude that confederation was the best option. However, Hamilton hoped to build the union of the States as a single nation under a strong executive as a substitute for a monarchical government. Besides, he calls it 'empire'. So why does he attempt to invent a new national constitution for America in spite of her growing national identity expressing Jeffersonian republicanism?

There are several reasons. First of all, Hamilton observes the condition of America and concludes that she deserves to be called a single nation. The War of Independence made the North Americans come into intimate contact with each other and cultivated a sense of shared nationality (Murrin 1987: 347): an embryonic form of consciousness of American identity was being shaped. Further, Hamilton suggests that America is spatially and socially integrated enough to deserve to be considered as a single nation: 'the relative situation of these States; the number of rivers with which they are intersected, and of bays that wash their shores; the facility of communication in every direction; the affinity of language and manners; the familiar habits of intercourse'(F 114). For him, America is substantially a large-scale nation which, as Hume argues, requires the authority of central government to unite the States, rather than a small republic. A strong government or 'a firm union will be of the utmost moment to the peace and liberty of the States, as a barrier against domestic faction and insurrection'(F 124). His conclusion can be seen as based upon the Humean science of human nature. Hume observes that conventions remedy the narrow-sightedness of human nature so as to make collective action possible and form a society. However, he argues that a large-scale nation requires the authority of the government and the vertical ties of

the people to it in order to maintain political and legal order. By the same token, Hamilton thinks that the authority of a central government is required for the States to coexist and co-operate with each other:

It is a known fact in human nature, that its affections are commonly weak in proportion to the distance or diffusiveness of the object. Upon the same principle that a man is more attached to his family than to his neighborhood, to his neighborhood than to the community at large, the people of each State would be apt to feel a stronger bias towards their local governments than towards the government of the Union; unless the force of that principle should be destroyed by a much better administration of the latter. (F 168)

The ideal of the Jeffersonian Republicans is the equilibrium of powers, upon which liberty and stability depend. They fear that deviation from this equilibrium would cause constitutional corruption. They regard Hamilton's plan for energetic government as likely to cause just such a deviation (Banning 1974: 180-1). The idea of the equilibrium of powers is similar to modern political pluralism – the politics of autonomous and mutually independent governments without a dominant power of decision. However, political pluralism fails to secure the legitimacy of execution and decision of justice of government, reducing politics to the process of the power struggle of factions, eliminating the authority of the governmental powers (Lowi 1979: 36-7). Hamilton sees this and attempts to ensure the authority of the central government. He thinks that conflicts between the States, or civil wars, will break out without a powerful government of the Union, just as Hume is sceptical about a peaceful equilibrium among states in practice in his essay 'Of the Balance of Power', and is worried that the liberalism of the vulgar Whigs will cause the disintegration of Britain. Interestingly enough, Hamilton refers to Scotland's position in Britain to support his argument:

Scotland will furnish a cogent example. The spirit of clanship which was, at an early day, introduced into that kingdom, uniting the nobles and their dependents

by ties equivalent to those of kindred, rendered the aristocracy a constant overmarch for the power of the monarch, till the incorporation with England subdued its fierce and ungovernable spirit, and reduced it within those rules of subordination which a more rational and more energetic system of civil polity had previously established in the latter kingdom. (F 170)

Thus Hamilton is worried about conflicts between the States. He criticises as too idealistic the liberal view that commercial republics do not fight against each other (This tradition has continued from Immanuel Kant to Karl Deutsch, and is currently to be found in the interdependence theory of international relations). For Hamilton, this is just a product of 'the Utopian speculation' against 'practical maxim' (F 113). He rejects the optimism of republicanism or modern liberalism by citing in the sixth *Federalist* the historical facts that commercial republics such as Athens, Carthage, Venice and Holland made frequent wars (F 111-2). In his method of argumentation, we can see that Hamilton follows Hume. In 'Of the Populousness of Ancient Nations', Hume argues against the idealised view of ancient republics and asserts:

Thus, upon comparing the whole, it seems impossible to assign any just reason, why the world should have been more populous in ancient than in modern times. The equality of property among the ancients, liberty, and the small divisions of their states, were indeed circumstances favourable to the propagation of mankind: But their wars were more bloody and destructive, their governments more factious and unsettled, commerce and manufactures more feeble and languishing, and the general police more loose and irregular: These latter disadvantages seem to form a sufficient counterbalance to the former advantages; and rather favour the opposite opinion to that which commonly prevails with regard to this subject. (PAN 421)

Hume insists that the ancient world consisting of small states was not only warlike, but also politically unstable and economically stagnant. Put another way, he suggests that economic nationalism – a large-scale and well-integrated nation in the modern world – is preferable for

political order and economic development. His rejection of the ideology of republicanism results from the application of his historical and social scientific methods:

How can we pretend to calculate those of ancient cities and states, where historians have left us such imperfect traces? For my part, the matter appears to me so uncertain, that, as I intend to throw together some reflections on that head, I shall intermingle the enquiry concerning *causes* with that concerning *facts*; which ought never to be admitted, where the facts can be ascertained with any tolerable assurance (PAN 381).

Hume rejects republicanism by applying his experimental method of history, supplemented by social science. For him, the republican view of history and political economy is merely the product of speculative philosophy. Hamilton follows both Hume's conclusion and his method. In addition to historical facts, Hamilton's experience and observation enable him to infer that a large-scale and integrated domestic market is advantageous for economic development. A disunited nation prevents economic development because commercial wars among the independent states will lead to mutual protectionism and the inefficiency of a fragmented domestic market (F 116). By contrast, in the integrated national economy, 'the spirit of enterprise, which characterises the commercial part of America, has left no occasion of displaying itself unimproved'(F 116). Hamilton stresses the American spirit of enterprise. Considering the national character shared by the States, he concludes that an integrated national market is better for the national system of the American economy. He also considers how to promote the national spirit of enterprise to build a stronger nation, as we shall see later.

Another economic reason for the necessity of national unity of America is financial. A national banking system, which requires the authority of a trustworthy government, had to be established. After Independence, America suffered from the burden of public debt and inflation.

An efficient financial system was urgently required in order to cope with the financial crisis. However, Hamilton's idea goes beyond this. He is much more convinced of the necessity and utility of public credit than Hume, which he sees as useful not only for economic development. Firstly, Hamilton thinks that public credit to finance wars is vital for national security (Hamilton[1795]1934b: 170-1). Secondly, he expects public debts to create 'the interest of the State in an intimate connection with those of the rich individuals belonging to it', and to play the role of 'a powerful cement to our Union' (quoted in Earle (1986: 237)). These ideas are not Hume's, but seem to be derived from the British model of military-fiscalism – the social connection between the landed interests and the City helping to finance wars more efficiently than the political and financial system of France (Cain and Hopkins 1993: chapt. 2). This efficient system of war finance promoted the unity of the nation, kept nationalism moderate by winning wars at reasonable cost, and prevented mass grievances, thereby maintaining state order (Synder 2000: 142).

Hamilton takes another idea from the British Model. He insists that if the States of America were united to form a single nation, she could enjoy the geopolitical benefits of an insular nation. Comparing Britain with the states in continental Europe, he indicates the strategic advantage of an insular nation. An insular environment is easier to defend, demanding less centralised power to maintain an army. It also contributes to the enhancement of liberty in Britain. 'If we are wise enough to preserve the Union we may for ages enjoy an advantage similar to that of an insulated situation'(F 123). Hamilton seeks the possibility of realising the geopolitically advantageous condition of a singular and insulated nation similar to Britain. Interestingly enough, Jack Snyder pays attention to this same point, noting that the strategic advantages of the island

state of Britain contributed to the formation of a relatively moderate and civic form of nationalism. Its off-shore location allowed Britain to keep its standing army small and its bureaucracy less centralised, with social and economic power remaining dispersed among intermediate groups (Snyder 2000: 136-8).

We can now understand why Hamilton does not support the founding of a nation based upon the indigenous ideology of Jeffersonian republicanism. He is inspired by the British model of the national system in several aspects and judges that the main points of the British model are applicable to America. He learns many important lessons from Hume in understanding essential features of the British model. Taking account of the unique conditions of America, Hamilton nonetheless accepts central claims of Hume's conservative nationalism – that authority of government and the unity of a nation are necessary for liberty. He prioritises the establishment of the territorial and political framework which would create national unity and secure liberty.

However, unlike the historically formed constitution of Britain, the establishment of the Constitution faces a serious difficulty: in his plan for the government of a new-born America, Hamilton cannot rely on the historical continuity to which Hume attributes the source of authority. As a student of Hume, Hamilton is sceptical about human reason as a basis for establishing political order. 'I never expect to see a perfect work from imperfect men.' (F 544) However, he derives a lesson to solve this problem from Hume's conservative thought. As a student of Hume's empiricism, he expects time and experience after the establishment of the government to overcome the limits of human ability and create the nation. In the conclusion of the *Federalist*, quoting Hume's phrase, Hamilton summarises his view:

The zeal for attempts to amend, prior to the establishment of the Constitution, must abate in every man who is ready to accede to the truth of the following

observations of a writer equally solid and ingenious: "To balance a large state or society [says he], whether monarchical or republican, on general laws, is a work of so great difficulty, that no human genius, however, comprehensive, is able, by the mere dint of reason and reflection, to effect it. The judgments of many must unite in the work; experience must guide their labor; time must bring it to perfection, and the feeling of inconveniences must correct the mistakes which they *inevitably* fall into in their first trial and experiments." These judicious reflections contain a lesson of moderation to all the sincere lovers of the Union, and ought to put them upon their guard against hazarding anarchy, civil war, a perpetual alienation of the States from each other, and perhaps the military despotism of a victorious demagogue, in the pursuit of what they are not likely to obtain, but from time and experience. (F 546-7)

However, the Constitution that was eventually ratified was a compromise between the Hamiltonian nationalist position and the Jeffersonian republican one (Greenfeld 1992: 431); and Jeffersonianism became dominant in 1790s as the core of American national identity.

2. Industrial Policy

Hamilton focuses mainly upon how to promote the productive powers of labour in his famous *Report on Manufactures*. He is concerned with productivity rather than just the maximisation of welfare and the efficient allocation of resources at a single moment, and supports manufacture in terms of its productivity. However, he is not always convinced of the superior productivity of a manufacturing industry over agriculture. He confesses that this has not been shown. Rather, the main point of his proposal is to enhance the social division of labour and augment the variety of industries rather than the promotion of manufacture itself. He asserts that 'the establishment and diffusion of manufactures have the effect of rendering the total mass of useful and produce labor,

in a community, greater than it would otherwise be' (RM 187).² The diversity of industries expands opportunities for people to find the most suitable profession to increase their active powers. 'When all the different kinds of industry obtain in a community, each individual can find his proper element, and can call into activity the whole vigor of his nature. And the community is benefited by the services of its respective members, in the manner in which each can serve it with most effect'(RM 195). In addition, Hamilton takes into account the national character of the American – 'the spirit of enterprise'. 'The spirit of enterprise, useful and prolific as it is, must necessarily be contracted or expanded in proportion to the simplicity or variety of the occupations and productions which are to be found in a society' (RM 196).

The lessons of Hume's political economy echo in the *Report*. In 'Of Refinement in the Arts', Hume says:

In times when industry and the arts flourish, men are kept in perpetual occupation, and enjoy, as their reward, the occupation itself, as well as those pleasures which are the fruit of their labour. The mind acquires new vigour; enlarges its powers and faculties; and by an assiduity in honest industry, both satisfies its natural appetites, and prevents the growth of unnatural ones, which commonly spring up, when nourished by ease and idleness. (RA 106-7)

However, while Hume advocates manufacture in terms of the quality of workers and pays much less attention to the efficiency of the detailed division of labour and machinery, Hamilton's argument is the other way round. Hamilton indicates the three circumstances of the detailed division of labour which contribute to productivity: 'the greater skill and dexterity naturally resulting from a constant and undivided application to a single object', 'the economy of time, by avoiding the loss of it, incident to a frequent transition from one operation to another of a different

² References to RM refer to *Report on Manufactures*, Hamilton ([1791]1934a).

nature', and 'an extension of the use of machinery' (RM 191). Hamilton especially focuses upon machinery, referring to the cotton-mill invented in England (RM 192). Obviously, the industrial revolution makes the difference between Hume's and Hamilton's argument. Historians generally believe that the industrial revolution started sometime between 1760 and 1782 (Kindleberger 1976: 2). Hume's economic writings were published in 1752 and the *Report* was submitted in 1791. Hamilton was profoundly impressed by drastic technological change.

Their differences seem to result from the different stages of economic development as well. In the advanced economy of Britain, Hume notes the quality of skilful labourers, who provide the stock of practical knowledge, and sees them as the foundation of economic progress. By contrast, the problem which Hamilton is forced to tackle is how to make a relatively backward economy take off with a scarcity of capital and labour. He stresses the utility of machinery. Firstly, machinery makes it possible to use unskilled workers such as women and children effectively and to diminish the handicap of labour costs. Secondly, mechanical power can make up for the want of labour (RM 207-8). Thus Hamilton modified Hume's political economy of productive power of labours, to take account of the specific situation of the American national economy.

It is important to notice that Hamilton's goal is not industrialisation itself but achieving the autonomy of America. He maintains that diversification of the national economy by industrialisation is necessary for national autonomy. The establishment of manufacturing creates domestic demand for agricultural surplus. He does not insist upon sacrificing agriculture for manufacture. Rather, 'this idea of an extensive domestic market for the surplus produce of the soil, is of the first consequence. It is, of all things, that which most effectually conduces to a flourishing state of agriculture' (RM 198). In principle, 'it is a primary object of the policy of

nations, to be able to supply themselves with subsistence from their own soils; and manufacturing nations, as far as circumstances permit, endeavour to procure from the same source the raw materials necessary for their own fabrics' (RM 197). The practical Hamilton knows the impossibility of a perfectly autonomous state and the limits of self-sufficiency (Harlen 1999). From a realist perspective, he concludes that the domestic market, developed by the diversification and advance of industrial structure, is more certain than the foreign market for agricultural products (RM 197-9).

Hamilton expects political effects from industrialisation as well as economic benefits. He argues that the diversification of the national economy contributes to the cohesive unity of the nation. By building a complementary relationship between manufacture and agriculture, the industrial North and agricultural South could develop common interests, enabling the two regions to be united not only economically but also politically and socially (RM 230-1). Moreover, industrial development is vital for national security:

Not only the wealth but the independence and security of a country appear to be materially connected with the prosperity of manufactures. Every nation, with a view to those great objects, ought to endeavor to possess within itself, all the essentials of national supply. These comprise the means of subsistence, habitation, clothing, and defence. (RM 227)

In order to establish new industries and diversify the economic structure, Hamilton proposes industrial policy. The idea of state intervention to promote industries does not explicitly occur in Hume's economic thought, living as he did in the advanced economy of Britain before the industrial revolution. But Hamilton shares Hume's scepticism about abstract theory, his respect for practice and experience and his dynamic perspective. He rejects the proposition of *laissez-faire* that 'industry, if left to itself, will naturally find its way to the most useful and profitable

employment' (RM 203), because free-market theory ignores the reality of the dynamic processes of enterprise. Hamilton understands that entrepreneurs and capitalists are forced to act for the uncertain future and that business is apt to be prosecuted with 'the strong influence of habit and the spirit of imitation' and 'the fear of want of success in untried enterprise.'(RM 203) Hume observes that custom and imitation promote economic activities. Hamilton agrees with Hume's science of human nature, but believes that habit and the spirit of imitation are not enough to overcome the fear of lack of success in untried enterprise. Unlike the developed and dynamic economy of Britain, industrialisation in the backward economy of America faced too many obstacles and high uncertainty to expect spontaneous development.

Experience teaches, that men are often so much governed by what they are accustomed to see and practise, that the simplest and most obvious improvements, in the most ordinary occupations, are adopted with hesitation, reluctance, and by slow gradations. The spontaneous transition to new pursuits, in a community long habituated to different ones, may be expected to be attended with proportionably greater difficulty. (RM 203-4)

In order to arouse the spirit of enterprise, 'the confidence of cautious, sagacious capitalists' (RM 204) to act for the future must be enhanced. The role of government here is to diminish uncertainty for enterprises. 'And to inspire this description of persons with confidence, it is essential that they should be made to see in any project which is new – and for that reason alone, if for no other, precarious – the prospect of such a degree of countenance and support from governments, as may be capable of overcoming the obstacles inseparable from first experiments' (RM 204).

Hamilton's dynamic perspective leads to his idea of uneven development in the world economy. He thinks that an underdeveloped country would remain fixed in its backward position

without governmental support because it faces more uncertainty than the advanced economy, preventing dynamic projects.

To maintain, between the recent establishments of one country, a competition upon equal terms, both as to quality and price, is, in most cases, impracticable. The disparity, in the one, or in the other, or in both, must necessarily be so considerable, as to forbid a successful rivalry, without the extraordinary aid and protection of government. (RM 204-5)

Hamilton argues against economic liberalism and proposes state intervention, but does not advocate a planned economy. He admits the disadvantage of protectionism, that it increases prices of goods and allows monopoly. However, firstly, he maintains that domestic competition will prevent monopoly and reduce prices to some extent. (RM 223-4) International competition should be limited, but domestic competition is allowed. Secondly, he considers long-term interests. Protection and state intervention are not permanent, but simply temporary measures to encourage infant industries. Once domestic manufacturers have grown and achieved competitiveness, trade regulations are removed and, consequently, the prices of goods are reduced in the long-run. The negative effects of protectionism will eventually be offset. 'In a national view, a temporary enhancement of price must always be well compensated by a permanent reduction of it' (RM 224). Hamilton criticises economic liberalism because it ignores the nature of a dynamic economy, the different stages of development, and long-term national interests.

The *Report* makes Hamilton famous for economic nationalism. He advocates economic development and argues against the agrarian notion of Jeffersonian republicanism. Nonetheless, it cannot be said that Hamilton is more economic-oriented than the Republicans. Recent historical studies have been sceptical about Hamilton's industrialism. John R. Nelson Jr. argues that Hamilton appealed to the manufacturers' interests as long as the government revenues were

increased (Nelson Jr. 1979). Hamilton regards the construction of a unified nation and the establishment of a strong government and Humean civil society as the main goal. His main concern is political rather than economic.³ He believes that the spirit of enterprise should be subordinated to national unity and energetic central government. Hamilton as well as Hume advocates economic development as long as it helps to maintain national unity and enhance national power.

3. Economic Nationalism versus Republicanism

The ideology of the American Revolution embodies two rival ideals: Hamiltonian nationalism and Jeffersonian republicanism. The question is which ideal contributed most to the success of the Revolution. Which was right, Hamiltonian's plan for energetic government or Jefferson's objection to it? Hannah Arendt's answer is the latter.

Arendt sees in the revolutionary tradition the human capacity for action in concert to create something new and she celebrates the spirit of beginning or of revolution. She emphasises that the word 'constitution' means 'the act of constituting' (Arendt 1973: 145) and interprets the American Revolution in terms of the ancient Roman pathos for foundation. The spirit of founding, which inspired the founding fathers, is generated by and maintained in people's active

³ By contrast, the Jeffersonian Republicans in fact acted not only for farmers but also manufacturers far more than Hamilton (Nelson Jr. 1979). It is true that the economic view of classical republicanism is originally agrarian. However, Joyce Appleby articulates the ideological transformation from classical republicanism in Europe to Jeffersonian republicanism in America and how Jeffersonian republicanism was married with economic liberalism. Historically, the spirit of American capitalism is derived from Jeffersonian republicanism. (Appleby 1984).

participation in public affairs. She is profoundly impressed by the exceptional success of the American Revolution among a series of revolutions. Compared with the French and Russian Revolutions, only the American Revolution founded a new body politic without disastrous violence and has achieved freedom and durable order. She attributes the striking achievement of the American Revolution to the persistence of the spirit of political revolution which is identified with Jeffersonian republicanism – the ideal that small republics are appropriate for a politics of participation in public affairs and freedom. Arendt thinks that Jeffersonian republicanism is similar to the original form of the Roman spirit of foundation. The Romans believed that authority derived from the act of foundation. The foundation was regarded as sacred. She emphasises that the Americans not only founded the new republic and created a constitution, but also preserved an authority born from the act of creation and regarded it with piety, just as the ancient Romans did. Here is found the conservative element of Arendt's thought. She is concerned with the durability of institutions as well as the active power of beginning something new (Canovan 1997: 19), and hence she stresses the contrast between the American and the French revolutions. The former succeeded in the conservation of the constitution, while the latter did not.

However, Hamilton and Hume are much more conservative than Arendt. They attribute authority not to the act of constituting but only to the conservation of a constitution. Hamilton believes that the success of the American Revolution depended upon the authority of the central government, which could be created by the historical continuity of the political framework of the Union as a single nation. By contrast, Arendt insists that authority arises out of the act of foundation and should be maintained by the people's participation in the political realm. For

Jefferson and Arendt, the ideal of durable order compatible with freedom is the perpetual continuity of revolution.

However, Arendt's interpretation is open to question. First of all, she insists that the foundation of a new body politic in the American Revolution arose out of the embryonic form of politics in colonial history, and that the principle of federation was spontaneously generated by the early experience and practice of participative democracy, rather than from theoretical speculations about the possibility of a large-scale republican form of government (Arendt 1973: 267). She finds the human ability for action in concert to begin something new in the spontaneous process of establishing the federation. However, the Federalists' project of foundation was not altogether the product of spontaneous development. Rather, their vivid sense of crisis about an excess of democracy in the States drove them to create a new body politic. They faced abuses of the state legislatures, such as violation of property rights and factional interest-seeking activities in the reality of democracy, and determined to establish the federal government, the Union and the Constitution in order to create lawful order (Wood 1987). It is true that the founders were realistic and practical as Arendt praises them for being, and that the success of the American Revolution can be attributed to their practical wisdom. However, it is their practical wisdom which caused them to be worried about the defects of the participative democracy in the States which Arendt celebrates. Moreover, Jefferson, influenced by revolutionary theories of republicanism, was more speculative than Hamilton (Fisch 1991: 8-9).

Secondly, Arendt maintains that the fortunate abundance of North America helped the founders to keep concentrating upon political considerations, and that the spirit of revolution has remained. By contrast, the French revolutionary leaders were forced to engage in the social

question of how to liberate the masses from poverty and as a result, failed to establish stable order and freedom. However, even if Arendt's interpretation is right, it is possible to argue that the fortunate economic conditions of America, desirable for freedom, were achieved by Hamilton's project of the Union rather than Jeffersonian republicanism. Hamilton clearly proposed the Union and energetic government in order to achieve economic and geopolitical conditions advantageous for liberty and stable order, while the agrarian Republicans were opposed to his projects. Arendt also argues that the concept of *virtù* in the revolutionary tradition of republicanism is in danger of justifying violence as the means for fulfilling the end of foundation, and that Robespierre's ideal degenerated in this way. Only the American Revolution could found a new body politic without violence and Arendt finds the reasons for this success in Jeffersonian republicanism (Arendt 1977: 136-141). However, it seems more reasonable to suppose that Hamilton's efforts to prevent the abuse of *virtù* by the political framework of the Union, influenced by Hume's conservative nationalism, contributed more to the successful achievement of the American Revolution.

The difference between Hamilton's and Arendt's views, or between economic nationalism and republicanism, is parallel to a difference between their methods or ways of thinking. Arendt not only interprets the spirit of the American Revolution in the context of the tradition of republicanism, but also philosophically celebrates the action of beginning inspired by ancient Roman thought or by myths of founders of states. Her speculation, without sufficient reference to historical facts, leads to her particular interpretation of the Revolution, and her interpretation of history helps to justify her normative position. By contrast, Hume's scientific method, upon which Hamilton relies, aims at demolishing the republican myths of 'Legislators and Founders of States' which prevailed in the eighteenth century (Winch 1978: 34) and which Arendt tries to restore.

Conservative nationalism is derived from social science, while Jeffersonian and Arendtian republicanism is based upon ontological claims influenced by traditional myths about the founders of states.

The differences between these interpretations of the American Revolution are also rooted in the differences in political and social thought between republicanism and economic nationalism. Republican thinkers such as Jefferson and Arendt emphasise the intrinsic value of politics. Modern phenomena such as capitalism and nationalism, and even social science for Arendt, are the symptoms of the degeneration of civic virtue. Republican thinkers tend to make a sharp distinction between the economy and politics: economic activity belongs to the realm of necessity and of the private, while politics belongs to the realm of freedom and the public. Romanticising the Greek *polis*, they insist that citizens should be free from economic necessity so as to engage in politics. Capitalism is nothing but a threat to civic virtue and freedom. Republican thinkers are likely to identify modern economic development with the problem of modernity: the decline of the public sphere. For example, Arendt argues that 'labour' is directed by biological necessity and that 'work' is a solitary activity, while only political 'action' outside the economic sphere involves what she calls the 'web of human relationships' (Arendt 1998). By contrast, from experience and observation, Hume and Hamilton conclude that economy activity could not operate without customs and ethics. Economic activity is neither conditioned by biological necessity nor solitary conduct. Thus not only politics but the dynamic economy needs the 'web of human relationships'. Further, unlike Smith and Marx, Hume and Hamilton do not distinguish between productive and unproductive labour. Economic activity cannot be sharply separated from other aspects of social life. Unlike republican thinkers, economic nationalists recognise the positive interplay between

politics, the economy and society. Moreover, Hume and Hamilton believe that economic development can contribute to the enhancement and expansion of the web of human relationships.

The nation-state is a modern phenomenon as problematic as capitalism for many republican thinkers.⁴ For example, Arendt regards the nation-state as a mass society whose economic and social conditions are managed by the administrative state, or nation-wide 'housekeeping' in her phrase (Arendt 1998: 28-37). It consists of conformist and atomised individuals or what David Riesman calls 'lonely crowds' (Arendt 1998: 58-9). There is no freedom or public realm in it. However, her grotesque picture of the nation-state is a pathological, totalitarian form. The ideal-type of the nation-state, which Hume observed in Britain and Hamilton tried to reproduce in America, embodies not mass but civil society, secured by the rule of laws.

Arendt worries that the nation-state would hinder the dynamism and creativity of human action. She admires the fortune of America – that America could escape from the European nation-state development and be able to make a new beginning in the New World (Arendt 1973: 194-5). However, Hamilton and Hume never neglect the dynamic power of action. Rather, they were profoundly concerned with it. For example, Arendt says, 'there is an element of the world-building capacity of man in the human faculty of making and keeping promises. Just as promises and agreements deal with the future and provide stability in the ocean of future uncertainty where the unpredictable may break in from all sides, so the constituting, founding, and world-building capacities of man concern always not so much ourselves and our own time on earth as our

⁴ However, not all republican thinkers see the nation-state as negative. For example, David Miller defends nationality in terms of republicanism (Miller 1995, 1999).

“successor”, and “posterities” (Arendt 1973: 175). By the same token, referring to promises, Hume points out the importance of ‘action in concert’ or ‘conventions’ in his terms, to overcome the uncertain future (T 522). However, Hume does not think that conventions are sufficient to maintain the civil order of a large-scale nation. The authority of government to integrate sub-national communities is required to prevent self-defeating conflicts among them. Unlike Arendt, Hume is convinced that the political authority of an overarching framework can mitigate violence as the dark side of the power of action, yet without losing the dynamic power of action. A large-scale nation and the authority of central government are compatible and complementary with an active society. Similarly, Hamilton plans to build the framework of the Union in order to promote ‘the spirit of enterprise’ and enhance the dynamism of society.

Arendt’s thought stands in opposition to any kind of social scientific thinking, another product of the modern world (Canovan 1974: 118-9). For her, science is the mode of thought by which an observer would look upon nature from an Archimedean standpoint. However, the nature of humans is impossible to determine, because social scientists, who are themselves bounded by human nature, cannot occupy an Archimedean standpoint. The science of human nature is thus ‘like jumping over our own shadows’ (Arendt 1998: 10). Moreover, stressing the fact of ‘Nativity’, she rejects the assumption of universal human nature upon which social science depends. Instead of human nature, she sets the conditions of human existence as a question. The human condition is a matter for philosophical inquiry, not for science.

However, it seems that Arendt does not altogether believe that social science fails to explain the world. On the contrary, she attacks modern society, while thinking that social science can appropriately explain it. She argues that political economists study politics by gathering

statistics about mass behaviour and hence ignore the diversity and uniqueness of politics and human activities in order to offer general explanations. However, she maintains that the statistical method of social science can be valid for explaining human behaviour and social phenomena, because human beings in mass society unanimously follow each other's behaviour in a uniform manner. She believes that the rise of political economy, whether economic liberalism or Marxism, coincided with the decline of the political and the rise of the social (Arendt 1998: 38-49). Moreover, she argues that the dominance of the social has been achieved in the form of the nation-state: mass society managed by the nation-wide administration of housekeeping.

However, Arendt's view of social science as well as of the nation-state is too narrow. She identifies the philosophy of social science only with rationalism and positivism, and political economy only with economic liberalism and Marxism. Yet, as we saw in chapter 4, Hume's science of human nature rejects an Archimedean standpoint for the social scientist. Rather, Hume insists that social scientists should stand within common life and observe the world through a 'double hermeneutics.' A science of human nature is possible.

In conclusion, Hamilton's political, economic and social thought draws our attention to two essential features of economic nationalism which have been largely neglected. Firstly, economic nationalism has a philosophical and scientific foundation. Hamilton's thought is based upon Humean social science and history. Its political and legal ideal is the establishment of the rule of law and authority of government, which secure civil society. Its economic thought is dynamic, sociological and institutional. It focuses upon productivity and development rather than efficient resource allocation, cooperation and social division rather than the detailed division of labour, a high degree of autonomy rather than the perfect autarchy or comparative advantage of the

national economy. In particular, its distinctive insight is that economic development and national unity require each other. The ideal model is the British constitution and economy, which Hume celebrates. However, Hamilton does not attempt to reproduce the British model in the new world blindly. Rather he considers carefully the historical, cultural and geographical peculiarity of America, referring to comparative and historical studies of political economy, and modifies Hume's theory through practical wisdom. He prefers experience, observation and practical knowledge to philosophical speculation. He learns these ways of thinking from Hume. Secondly, the ultimate aim of economic nationalism is not economic development but national unity and autonomy. Industrialisation is required for national unity and autonomy. Thus Hamilton's main concern is not economic but political. If economic development contradicted national unity and autonomy, Hamilton would prefer to sacrifice economic development.

8. The Dialectic of Political Economy: Hegel's Economic Nationalism

Hegel's final published work, *Elements of the Philosophy of Right*, attempts a profound systematisation of legal, ethical, political and economic theory. It is well known that Hegel had studied the work of Adam Smith. He refers to Smith, Ricardo and Say in the *Philosophy of Right*. However, Hegel's economic thought is clearly not a form of economic liberalism. Neither can it be interpreted as a prototype for later left-wing economic theorising. Although Hegel profoundly influenced Karl Marx, Marx criticised Hegel and constructed a different system of political economy. Hegel's economic view does not therefore belong to either of the two major ideologies of modern political economy. My aim in this chapter is to discuss and interpret Hegel's political economy in terms of a third ideology – economic nationalism.

There is no doubting that political economy plays a significant role in Hegel's system. In the *Philosophy of Right*, Hegel articulates his economic view in terms of 'the system of needs'. However, we cannot regard his treatment of 'the system of needs' as constituting an independent economics, since it forms only a part of his more general social theory of 'civil society'. Further, through his dialectic, political economy and social theory are synthesised within the theory of the state, more specifically, the nation-state. This suggests that an economic nationalist interpretation of his political economy has some plausibility.

In this chapter, I shall focus upon the theoretical aspects of Hegel's political economy in the *Philosophy of Right*. A key claim is that his normative position is not a prime question here, because, as will be seen in the first section, the *Philosophy of Right* is written in the mode of a non-prescriptive science. Based upon the justifiable presupposition that Hegel's system can be

distinguished from his normative view, the second section will show that Hegel's economic thought is a scientific theory of economic nationalism, or, to put it the other way round, that economic nationalism is based upon a systematic science. The third section will focus on Hegel's political theory of the nation-state and show that it is systematically connected with his economic theory. In order to make clear the scientific aspect of economic nationalism, the final section will compare Hegel not with Smith or Marx, but rather with Fichte. Fichte, like Hegel, links political economy with the idea of the nation. Yet Fichte's view differs methodologically from Hegel's and thus represents a different sort of economic nationalism. A comparison of the two will therefore illuminate what is meant by scientific economic nationalism.

1. Interpretive Social Science

In the Preface and the early part of the Introduction to the *Philosophy of Right*, Hegel presents the method of his philosophy of right. He distinguishes between the laws of nature and the laws of right, and hence between the natural world and the social world. The natural world is subject to the necessity of natural laws, while human beings as self-conscious beings are not necessarily subject to natural necessity or external authority in an animal-like way. Human beings are intrinsically moral beings who seek what ought to be, and face the tension between this and what is. The social world, which consists of human beings with free will, is too contingent and arbitrary to discover natural-law like laws of right (Hegel 1991: 13-4). Yet it is the social world with which the philosophy of right deals. We can regard the philosophy of right as social science. Hegel rejects rationalism as the method of social science, which he calls the 'superfluous philosophy'.

However, he rejects what we would now call anti-foundationalism as well. 'For by declaring the cognition of truth to be a futile endeavour, this self-styled philosophizing has reduced all thoughts and all topics to the same level', in other words, 'to mere opinions and subjective conditions' (Hegel 1991: 19)

In natural science, the first thing required is the definitions of observed objects in the external world. Definitions represent the starting point. Yet definition in the philosophy of right or social science is the end-point as well as the starting point. For example, to state the concept of law is not only to provide the initial definition of law but also the chief aim of legal theory. The social world is constructed by institutions, which are the product of the social world, which consists of socially defined institutions, and so on. Logical deduction starting from fixed definitions is impossible in social science, since definition is the object as well as the presupposition of inquiry. 'The deduction of the definition may perhaps be reached by means of etymology, or chiefly by abstraction from particular cases, so that it is ultimately based on the feelings and ideas [*Vorstellung*] of human beings. The correctness of the definition is then made to depend on its agreement with prevailing ideas [*Vorstellungen*]' (Hegel 1991: addition to para.2). Hegel thinks that social science is ultimately reduced to infinite inquiry for the meaning of language in the definition of institutions. Then, 'philosophy forms a circle' (Hegel 1991: addition to para.2).

However, this is not a vicious circle or an infinite regress for Hegel. Rather, circularity is the condition of truly infinite freedom in the social world. In the natural world, there is no freedom but only the necessity of natural laws. In the social world, human beings can be to some extent free from necessity. Certainly, infinity in logical deduction as the image of a straight line

rather than a circular one has no limit, but it is negatively free and even vicious, because it does not return into itself but is more and more detached from social reality (Hegel 1991: para.22). Logical deduction, or, in a word, rationalism, as the method of social science degenerates into abstract, fanciful speculation and leads to political or religious fanaticism. The example is the Reign of Terror in the French Revolution. Hegel shares with Burke the diagnosis of the French Revolution. 'For fanaticism wills only what is abstract, not what is articulated, so that whenever differences emerge, it finds them incompatible with its own indeterminacy and cancels them [*hebt sie auf*]. This is why the people, during the French Revolution, destroyed once more the institutions they had themselves created, because all institutions are incompatible with the abstract self-consciousness of equality' (Hegel 1991: addition to para.6). The idea of negative freedom is rooted in rationalism: to be free from the concrete means to be more abstract.

Unlike rationalism, the circularity of the philosophy of right is not only infinitely free, but also works within the social world. It is positive freedom. Instead of logical deduction, Hegel proposes 'the comprehension of the present and the actual' (Hegel 1991: 20) or interpretation as the method of social science.¹ For Hegel, reason is not acquired by logical deduction, but found in what actually exists in concrete forms of the social world. 'What is rational is actual; and what is actual is rational'(Hegel 1991: 20). What Hegel means by the rational is the same as what Plato calls the Idea: the unity of conceptual form and substantial essence (Hegel 1991: 22). The task of social science is to comprehend the Idea. The attempt of rationalism to abstract the concept from present actuality is nonsense. To comprehend the actuality of the social world means to be involved in an infinite circularity of inquiry into meaning. Put another way, philosophers or social

scientists themselves as observers are also involved in the social world as the observed. They are constrained by their epoch and circumstances. 'As far as the individual is concerned, each individual is in any case *a child of his time*, thus philosophy, too, is *its own time comprehended in thoughts*. It is just as foolish to imagine that any philosophy can transcend its contemporary world as that an individual can overleap his own time over Rhodes' (Hegel 1991: 22).

The comprehension or interpretation of social reality cannot help referring to history, because the definitions or meanings of institutions have historical origins. Thus, the method of history as well as that of social science is the comprehension or interpretation of institutions. However, historical comprehension differs from philosophical comprehension. To explain particular institutions of a particular time is a purely historical task, and philosophy or social science deals with the meaning of the present and actual world which has its historical origin. However, because the original circumstances in the past are no longer present, the original meaning of an institution in the past becomes different from its meaning in the present. Unlike historical comprehension, philosophical comprehension requires more than a straightforward description of particular and concrete institutions. Its aim is to comprehend the application of universality within the particular. The philosophy of right seeks to comprehend the application of the universal concept of a legal system within the particular context of determinations, such as the national character of a people and the stage of historical development (Hegel 1991: para.3). In other words, social science aims at generalisation.

Comprehension as the method of social science is the synthesis between abstraction of the universal concept and description of the particular substance, or between the method of natural

¹ 'Comprehension' can be called the interpretive approach to social science in the modern term. See

science and that of history. Hegel's epistemology of the Idea underpins this method of comprehension. Truth is an Idea, the correspondence between the concept and reality. Neither natural scientific abstraction nor historical description can arrive at truth. Truth can be grasped only as the universal concept within the particular substance as the present and the actual. That is why Hegel insists that the philosophy of right or social science cannot be prescriptive. Truth can only be comprehended as the present and concrete form. Philosophers or social scientists are constrained by the contemporary world and their reflection is involved in it. All that can be achieved is the comprehension of the present and actual world after the facts. 'When philosophy paints its grey in grey, a shape of life has grown old, and it cannot be rejuvenated, but only recognized, by the grey in grey of philosophy; the owl of Minerva begins its flight only with the onset of dusk' (Hegel 1991: 22).

Nonetheless, some commentators believe that the *Philosophy of Right* is prescriptive. For example, Richard Dien Winfield insists that the economics articulated in the *Philosophy of Right* is normative, because Hegel regards economic activity as a part of normative social relations and economic relations as the matter of justice in society. By contrast, classical and mainstream economics reduce economic activity to natural or monological functions. For Winfield, Hegel challenges classical economics and proposes a prescriptive economics as an alternative (Winfield: 1987). However, Winfield confuses prescriptive economics with a non-prescriptive economics that considers social and normative relations in the economic sphere. It is true that Hegel would reject the method of classical and mainstream economics. However, he would reject its method not because it is not prescriptive, but because it is abstract, formal, and unrealistic and thus ignores

Steinberger (1977).

the normative and social aspects of economic activity as actuality. Classical and mainstream economics begins deductively from the false definition of human beings as *homo oeconomicus* and refuses circularity. It applies a natural science-like method to the social world. As will be seen, Hegel proposes economics as the comprehension of the present and actual economy. It is never prescriptive. Hegel articulates the universal concept or general principle of an economic system, but one that is embodied in the context of his contemporary world. It is not Hegel but his interpreters who detach the universal concept from the context of Hegel's circumstance and understand it as prescription.²

2. The System of Needs

Unlike the animal driven by natural instinct and completely constrained by natural laws, the human being in nature has self-consciousness and free will. However, as the famous allegory of the master and the slave in the *Phenomenology of Spirit* shows, he can attain his self-consciousness only by recognising the other as other (Hegel 1991: para.7, addition to para.7). The human being is a social animal, and freedom as human nature is achieved only in community. This is the traditional understanding of human nature since ancient Greek philosophy and Hegel derives his basic view of human nature and community from Greek antiquity. However, he notices a profound difference between ancient Greece and modern Europe (Pelczynski 1971: 5-6). He recognises the transformation from medieval to modern society which allows human beings to

² Another reason why Hegel's political economy is likely to be misunderstood as non-descriptive is that his philosophy is essentially dynamic; considering historical change and using future-oriented terms such as development, dialectical movement, progress and so on (Carvounas 2002: 57-60).

go beyond the constraints of local communities and drastically expand the scope of their subjective freedom. Hegel argues that it is the subjective right of freedom that released human beings from communities as concrete substance and provided the concept of subjectivity (Hegel 1991: para.185). The right of subjectivity is juristic, abstract and formal. 'The commandment of right is therefore; *be a person and respect others as persons*' (Hegel 1991: para.36). 'Person' here refers to the abstract concept of the individual, detached from the concrete substance of community. Guaranteed his status by right, the activity of the individual to pursue his needs and find satisfaction is no longer constrained by local community.

However, the right of subjective freedom is merely negative and abstract. Subjective need only attains satisfaction as objectivity through social relationships with others, who are free individuals. The social relationships of the modern world, which Hegel calls 'the system of needs', are more extensive, complex and dynamic than those in traditional communities, because the system of needs consists of modern individuals whose activities are free from the constraints of traditional society. The fundamental difference between traditional and modern society is the positive role of subjective freedom or the arbitrary will of the individual. In premodern society, the emancipation of subjective freedom means only destruction of the hierarchical system and corruption of the social order. It is nothing but a negative and destructive force for society. However, in modern or 'civil' society, the legal institution of right supports subjective freedom so as to reconcile it with the social order. Subjective freedom is institutionalised and turned into a driving force of active conduct and the dynamic development of economy and society. The distinctive feature of modern society is a dynamic economy.

In contrast to his non-prescriptive methodology, Hegel's account of a dynamic economy appears to be prescriptive, but only because the political, legal and economic systems of Germany of his time were backward. Most historians do not locate the German 'take-off' of industrialisation before the 1850s (Trebilcock 1981: 38). However, Raymond Plant suggests that Hegel attempts to grasp not only the German but also the general European trends initiated by Napoleon (Plant 1983: 119-121). After his conquest, Napoleon introduced a modern legal and political system in the form of his *Code Napoléon*, and removed obstacles to modernisation such as the restrictive guild system, feudal relics in the rural areas and customs barriers. Moreover, Napoleon's Continental System protected the German economy from British textile industry and allowed a rapid introduction of modern methods such as large-scale organisation, trained labour, machine production and efficient administration. As Clive Trebilcock comments, 'a better approximation to the institutional systems within which economic "subjects" were likely to act in an enterprising way was provided by the invading French' (Trebilcock: 30). Although the economic benefits of the French occupation were limited, some areas achieved economic development and cities expanded. Hegel could see in these transformations towards a modern economy that subjective right emancipated human capacities and generated economic and social dynamism.

To comprehend the system of needs which emerged in the modern world is the task of political economy. That is why political economy is 'one of the sciences which have originated in the modern age as their element [*Boden*]' (Hegel 1991: para.189). Hegel refers to Smith, Say and Ricardo, but his political economy is far from classical economics.³ It is certainly assumed that in

³ Recent contributions by intellectual historians support this claim. It is true that Hegel is profoundly

the system of needs, subjective needs attain their satisfaction through the 'demand' for external objects being met by the 'supply of work'. However, Hegel's political economy is institutional and dynamic. On demand side, property plays a main role. Hegel regards property as the synthesis between the external thing and its use as the manifestation of the owner's will of possession (Hegel 1991: para.45 and para.61). Without the subjective presence of the owner's will, the material thing is merely external and not property. For example, we can gain or lose property by prescription (long-term possession), because prescription is the continuing announcement of the owner's will of possession (Hegel 1991: para.64). Just as the elements of property are identified and distinguished as the external thing and its possession, those of contract as the common will to agreement and its actualisation through performance. Contract is achieved not only by agreement but by expressing subjective will through formal gestures, specific words and other symbolic actions (Hegel 1991: para.78). A symbol or sign is the socially institutionalised subjective will.

On the supply side, Hegel focuses upon the importance of work and skill. Work is defined as the mediation between particular means and particular needs. The mediation is realised by means of *theoretical* and *practical education*. Hegel thinks that human beings develop their capacities through practical activities (Walton 1984: 249). Through his education and skill, a worker can produce the thing as he wills. The product is subjective will actualised by skilled work (Hegel 1991: para.197). Here we can see Hegel's deviation from ancient Greek philosophy again.

influenced by Smith. However, firstly, Donald Winch shows that Smith's political economy is significantly different from Say's and Ricardo's (Winch 1978 and 1983). Secondly, Norbert Waszak argues that Hegel did not have direct knowledge of Say and Ricardo, yet regarded them as followers of Smith (Waszek 1988: 133, 144).

Athenian citizens, whose economy depended upon slaves, did not work. Since they had no conception of free work, work did not play an important role in their philosophy. By contrast, the role of work is crucial for Hegel's philosophy of civil society. Work, self-consciousness and subjective freedom are interrelated. Through work, a human being can change the natural world as he wills and expand the range of his activities. A person who does not work is not free in a modern sense (Plant 1977: 84-5).

Property, contract and work are the institutionalised and objectified subjective will. In other words, these institutions of civil society emancipate and develop human powers and capacities from the constraints of nature and traditional communities (Walton 1984: 249-250). Modern institutions render the economy and society dynamic by liberating human potentiality. Trade and industry characterise the dynamic economies of the modern world. Trade and industry are freer than agriculture, because they rely more upon these institutions and subjective will (Hegel 1991: para.204).⁴

However, both property as need and work as means still remain abstract, because neither property nor work by itself can determine its quality. The quality of both needs and means is determined by social interaction between individuals. 'This universality, as the *quality of being recognized*, is the moment which makes isolated and abstract needs, means, and modes of satisfaction into *concrete*, i.e. *social* ones' (Hegel 1991: para.192). In the system of needs, the principle of mutual recognition is recovered: each must obtain his means of satisfaction by accepting the others' subjective will, actualised by their property and the products of work. At the

⁴ However, Hegel does not deny that the members of the agricultural estate can know and will their substantial freedom embodied by the state (Franco 1999: 260-1).

same time, each must produce the means for the other's satisfaction. Their needs, goods and activities are socially interlocked in a complex system (Hegel 1991: para.192).

Hegel's concept of 'the system of needs' is very different from the market mechanism of classical and mainstream economics. Mainstream economics assumes the economic rationality of individuals. The market is the result of economic activities of rational individuals, an autonomous realm independent of other aspects of human life. The premise of mainstream economics is that the static state of market equilibrium is attained as the result of the negative freedom of individuals. There is no idea of positive freedom. Paradoxically, 'free' individuals are forced to be subservient to the necessity of the market mechanism. Hegel rejects this supposed economic rationality of individuals. Rather, economic rationality is dependent upon the system of needs as a nexus of relations with other aspects of human life (Plant 1977: 91). He assumes positive freedom rather than negative freedom as basic to human nature. The will to positive, concrete, or social freedom, to use Frederick Neuhouser's terms, emancipated by modern institutions, generates the dynamics of the modern economic system (Neuhouser 2000).

Unlike classical economics, Hegel's dynamic theory implies that modern economic systems cannot attain the status of autonomous mechanisms of harmonious order. Hegel identifies three main factors as disturbing such equilibrium. The first is contingent physical factors and circumstances, though this is not peculiar to civil society. The second is the arbitrariness of the emancipated subjective will in modern society. The consequences of free activities are unpredictable and the dynamic movement generated by free activities is complex and uncertain. These two kinds of uncertainty, which are inherently irremovable, cause poverty as the failure of

the system of needs (Hegel 1991: para.242). The final and most important factor, which is related to the second one, is the division of labour and the complexity of the system of needs.

It is true that Hegel appreciates the positive aspects of the division of labour. 'Through this division, the work of the individual [*des Einzelnen*] becomes *simpler*, so that his skill at his abstract work becomes greater, as does the volume of his output. At the same time, this abstraction of skill and means makes the *dependence* and *reciprocity* of human beings in the satisfaction of their other needs complete and entirely necessary' (Hegel 1991: para.198). Thus the abstraction or specialisation of work in the division of labour enhances the productivity of human powers and locks workers into the system of needs as a whole. However, 'the abstraction of production makes work increasingly *mechanical*, so that the human being is eventually able to step aside and let a *machine* take his place'(Hegel 1991; para.198). The more abstract the work, the further from positive or concrete freedom the worker. Workers are linked to specialised work and lose the view of the totality of social life, despite being located within the system of needs. This leads to a mismatch between need and its satisfaction. Workers increase the volume of production in order to improve their livelihood, but they are too remotely linked with consumers through the vast system of needs to be aware of the relevant demand for their products. Hence the system of needs tends to encourage overproduction, and the lack of demand causes poverty and exacerbates workers' already deficient livelihoods.

The division of labour causes what Paul Samuelson calls the 'fallacy of composition'. As Hegel puts it, 'this shows that despite an *excess of wealth*, civil society is *not wealthy enough*' (Hegel 1991: para.245). The contradiction of civil society or a dynamic economy is summarised thus:

When the activity of civil society is unrestricted, it is occupied internally with *expanding its population and industry*. – On the one hand, as the association [*Zusammenhang*] of human beings through their needs is *universalized*, and with it the ways in which means of satisfying these needs are devised and made available, the *accumulation of wealth* increases; for the greatest profit is derived from this twofold universality. But on the other hand, the specialization [*Vereinzelung*] and *limitation* of particular work also increase, as do likewise the *dependence* and *want* of the class which is tied to such work; this in turn leads to an inability to feel and enjoy the wider freedoms, and particularly the spiritual advantages, of civil society. (Hegel 1991: para.243)

The contradiction of civil society produces poverty. Poverty is not merely a problem for the economic system, but, more importantly, for politics and society.⁵ It is alienation. For Hegel, poverty generated by the structural contradiction of the system of needs is different from poverty in premodern society. In modern society, right not only detach individuals from the communal bonds of traditional society and provides self-consciousness for them, but also relocates them within the system of needs as a larger whole than traditional communities. However, the abstraction and contradiction of the system cause them to lose ‘that feeling of right, integrity [*Rechtlichkeit*], and honour which comes from supporting oneself by one’s own activity and work’ (Hegel 1991: para.244). The masses of isolated and alienated individuals are transformed into a ‘rabble’ and rebel against social order (Hegel 1991: para.244). In traditional political thought since the ancient Greek, individuals emancipated from communal relationships are seen as nothing but the cause of disorder. Hegel thinks that the system of needs may in principle perform the role of an organic whole for society. However, if the system fails to play that role, emancipated individuals will destroy the social order, just as traditional thought had claimed. Such alienation is

⁵ Ian Fraser focuses on the material or natural aspect of needs in Hegel’s system, and sees poverty merely as lack of the minimum level of material needs (Fraser 1998). However, as will be seen, Hegel lays more stress on the social and spiritual rather than the material aspects of poverty, though he does not neglect the material aspect.

a modern phenomenon. Hegel derives this from England. 'In England, even the poorest man believes he has his rights: this differs from what the poor are content with in other countries' (Hegel 1991: addition to para.244).

Hegel discusses several possible solutions to the problem of alienation. The first is charitable welfare provided by the rich or public authority. However, Hegel rejects this policy, because 'this would be contrary to the principle of civil society and the feeling of self-sufficiency and honour among its individual members' (Hegel 1991: para.245). Individuals actualise their subjective freedom and acquire relationships with others through work to create economic and social dynamism, which is the principle of civil society. However, charity secures only the economic needs of individuals without their engagement in work and provides no chance of positive freedom. Dynamism would also cease. In addition, poverty is not so much an economic but a social problem. Just to improve the standard of living in terms of material welfare solves nothing. 'Poverty in itself does not reduce people to a rabble; a rabble is created only by the disposition associated with poverty, by inward rebellion against the rich, against society, the government, etc' (Hegel 1991: addition to para.244).

The second solution Hegel considers is the expansion of economic activities beyond the domestic framework of civil society: international trade (Hegel 1991: para.247) and colonisation (Hegel 1991: para.248). Hegel thinks that the dynamism of civil society leads to economic expansion beyond the autarkical order. The closed commercial state which Fichte proposes is impossible in the modern age, since the emancipated power of subjective will can no longer stay within the internal economy. 'Just as the earth, the firm and *solid ground*, is a precondition of the principle of family life, so is the *sea* the natural element for industry, whose relations with the

external world it enlivens' (Hegel 1991: para.247). Indeed Raymond Plant argues that colonisation is the only solution which Hegel is able to find (Plant 1977: 113). However, economic expansion is not the only solution for Hegel. For example, he considers the roles of government: public works such as street-lighting, bridge-building, the pricing of daily necessities, and public health (Hegel 1991: addition to para.236), and regulative and indicative industrial policy. The dynamic economy cannot attain an automatic harmony between private and public interests and therefore government needs to play a positive role.

Hegel's view thus departs from economic liberalism. Economic liberals deem the free person the one who is free from the state, whereas Hegel, by contrast, contends that the state positively secures individuals' freedom, because economic development by itself makes relationships between individuals more remote and the achievement of systemic harmony more difficult. However, what Hegel has in mind is not a planned economy, which denies subjective freedom as the principle of civil society. The role of government is only to mediate between private activities and public ends. It includes provisional regulation and indicative industrial policy so as to adjust the system of needs (Hegel 1991: para.236).

The most important solution for alienation Hegel considers is the corporation. Instead of the family and the traditional community, the corporation reintegrates individuals in civil society, protects them against contingencies and educates them. Through the corporation, individuals recover mutual recognition and the sense of belonging to a community. It is not only an economic and social but also an ethical entity which can remedy the alienation generated by overproduction. However, overproduction and alienation are not only the cause but also the result of ethical corruption. Hegel attributes overproduction to the economic motivation of isolated individuals. If

an individual is isolated, he will try to gain recognition through economic success. However, since the economic activity of isolated individuals is selfish in nature, they can never regain relationships with others through economic success. Rather overproduction and alienation will be exacerbated under a capitalism driven by the now perverted obsession of isolated individuals to achieve social recognition. This is a vicious circle. However, Hegel thinks that the corporation provides the moment of mutual recognition and restrains the unlimited and self-defeating movement of capitalism (Hegel 1991: para.253).

It is interesting that Hegel's diagnosis of capitalist individualism is similar to the sociological analysis of modern American capitalism offered by Robert N. Bellah and the co-authors of *Habit of the Heart*. They argue that in a large-scale, complex, industrial society, it is more difficult to regard work as a contribution to the whole community and easier to lose the traditional view of a 'calling', that work is inseparable from morality. Americans dominated by individualism are likely to see the value of work only in terms of economic success. However, Bellah and his co-authors observe that even for successful Americans, work as merely career for self-esteem is not enough to find its meaning (Bellah 1985: 65-71). Like Hegel, they think that the problems of industrial society are not only economic but social. Hegel's insight that 'despite an excess of wealth, civil society is not wealthy enough' echoes their depressing comment: 'We have been called a people of plenty, and though our per capita GNP has been surpassed by several other nations, we are still enormously affluent. Yet the truth of our condition is our poverty' (Bellah 1985: 295).

On the surface, Hegel's analysis of capitalism's self-contradiction seems prophetic. However, we must consider three aspects of the historical backgrounds to his analysis. The first is

the German economy of his time. Peasant emancipation in the first decade of nineteenth century Germany made most people free and transformed them into a work-force for industrialisation. It separated the peasantry from local communities and moved them into the cities as a proletariat, but in danger of becoming a rabble (Heiman 1971: 121-2). The French occupation and modernisation brought not only benefits but disadvantages. Poverty, unemployment and overpopulation were common in many areas around 1820. Economic distress drove a great many of poor people to America.⁶ This emigration is the colonisation to which Hegel refers. The second is the modern and large-scale organisations introduced in Germany under the Continental System. Certainly, these organisations were still only an embryonic form of the modern corporation. However, it seems reasonable to assume that Hegel observed in reality what he calls 'the corporation'. The third is advanced capitalism of Britain. Hegel carefully studied British industrial capitalism (Hegel 1991: para.245), in which what Karl Polanyi calls 'the great transformation' was ongoing. Observing these facts, Hegel analysed the cause of alienation and finds the importance of the corporation.

The corporation is called 'a *second* family' (Hegel 1991: para.252). It is a community for trade and industry. However, Hegel distinguishes it from the medieval guild. Unlike the guild, which is merely a closed organisation of privilege in Hegel's view, the corporation in civil society has a legal form and rights and contributes to the social and ethical order without destroying economic and social dynamism. In addition to legal rights, the corporation comes under the supervision of the state in order to bring isolated individuals into the social and ethical order as a whole (Hegel 1991: addition to para.255). Corporations mediate between civil society and the

⁶ 800,000 persons emigrated between 1815 and 1850. See Trebilcock (1981: 32).

state. So, let us now turn to Hegel's theory of the state and nation.

3. Hegel's Theory of the Nation-State

The right of subjective freedom plays a major role in the birth of the dynamic economy. By the same token, Hegel argues that the right of subjective freedom creates the nation-state. Hegel thinks that deontological ethics is not sufficient for morality, because the formal acceptance of legal or moral obligation without the self-consciousness or subjective conviction of goodness may involve hypocrisy. Since self-consciousness can be attained only through mutual recognition within community, morality requires a certain form of community (Hegel 1991: para.140). Thus the state, which actualises the right of subjective will, must have a communal character. The modern state is the nation-state: the civic institutions of the state need the nation. The subjective will to accept civic duties forms the unity of the rights and duties of citizens within the nation-state. The unity of the rights and duties of citizens generates the strong power of the state. Subjective will, which is emancipated from traditional constraints, is the source of dynamism in modern society. When subjective will identifies its rights with duties toward the state, its sense of duty becomes strong and consequently the state becomes powerful (Hegel 1991: para.261). The subjective will to identify rights with civic duties is nationalism, which Hegel calls patriotism. For Hegel, nationalism or patriotism is not temporary enthusiasm in an extraordinary situation. Rather, it is a political disposition that, through the institutions within the state or the constitution, habitually trusts that particular interests inhere in the interests and ends of the nation-state (Hegel 1991: para.268). For Hegel, nationalism is partially habitual, and partially reflective (Franco

1998: 293-6; cf. Canovan 1998: 68-71).

The constitution of the state is actualised when nationalism as the subjective will of the nation accepts it:

Since spirit is actual only as that which it knows itself to be, and since the state, as the spirit of a nation [*Volk*], is both the law which *permeates all relations within it* and also the customs and consciousness of the individuals who belong to it, the constitution of a specific nation will in general depend on the nature and development [*Bildung*] of its self-consciousness; it is in this self-consciousness that its subjective freedom and hence also the actuality of the constitution lie. (Hegel 1991: para.274)

Here we should notice that what Hegel calls 'the spirit of a nation' does not connote romanticism. He thinks that the nation-state and nationalism are modern phenomena. The nation-state comprises the legal institutions of right and subjective will, and both of these are products of the modern world (Hegel 1991: addition to para.279). Hegel's idea of the nation is what Friedrich Meinecke calls the 'political nation': it is formed 'not only through a demand for self-determination but also through the quiet working of the state and through a shared political life within the same political system' (Meinecke 1970: 13). The nation is the product of the state and its legal framework. However, Hegel denies that the nation and its constitution can be constructed in a rationalistic way. Rationalism in constructing a constitution will fail, because a constitution must embody the subjective will of the people to accept it, which takes a long time to be formed. Hegel refers here to the Spanish constitution: Napoleon tried to give the Spanish a constitution *a priori*, but this did not work. The constitution can be actualised only by the nation's attachment to it, which is a product of time (Hegel 1991: addition to para.274). The state certainly creates the nation by its legal and institutional framework, but only through a historical process.

However, in his influential essay, 'Hegel and Nationalism', Shlomo Avineri rejects the

nationalist interpretation of Hegel. Examining Hegel's use of the terms *Volkgeist* (a spirit of a nation) and *Volk*, Avineri shows that Hegel's political thought is far from German Romanticism, though Hegel uses Herder's term *Volkgeist*. In Hegel's view, Avineri argues, *Volkgeist* is not the origin but the product of historical phenomena. It cannot be interpreted in the Romantic spirit of an eternal ethnic entity. Then Avineri concludes that Hegel rejects any manifestation of nationalism (Avineri 1996). Hegel's political thought certainly differs from Romantic nationalism, but I think that he has another theory of nationalism. As Avineri rightly points out, Hegel sees the nation as not the origin but the outcome of history. However, as we have seen, Hegel's idea of the nation as a historical product is an important part of his system. And Hegel's idea of nationalism, as a partially habitual and partially reflective attachment to the 'political nation', is also significant in his political thought. In this respect, Hegel's political theory can be seen as that of nationalism. It is not Romantic but conservative nationalism.

Here the corporation plays an important role again. Hegel thinks that the corporation mediates between the state and the individual and helps to create the nation. Unlike traditional communities and guilds, the corporation in civil society is supported and supervised by the state in terms of legal status, welfare and so on. Through the corporation, citizens regain a connection with the whole understood as national consciousness. The constitution permeates them. The spirit of the corporation is transformed into the spirit of the state (Hegel 1991: para.289).

Hegel's theory of the nation-state is thus linked with his political economy. Let us summarise his system. The state emancipates human power from the constraints of traditional communities by providing the right of subjective freedom. Emancipation and the birth of the modern individual create the dynamic economy called the system of needs. However, the

structural contradiction of the system generates alienation and threatens the social order. The corporation and ultimately the state regulate individuals and reintegrate them into a new whole as the nation. The members of the nation-state are modern individuals who have subjective will. Therefore, their reintegration into the nation means the identification of subjective will with the nation. The modern economy is dynamic and the nation-state is powerful, because they consist of free individuals who release their capacities.

4. The Closed Commercial State

Fichte was a contemporary of Hegel and is known both as an idealist and a nationalist, like Hegel. However, Fichte's political economy is very different from Hegel's. In 'The Closed Commercial State', Fichte argues for a closed, autarkical and static system of national economy. There are several differences of metaphysics and ethics between Fichte and Hegel, which lead to their different conclusions about political economy. However, here we will focus upon their methodologies to elucidate the root of their differences.

For Hegel, what is rational is actual, and what is actual is rational. The aim of political economy is to comprehend the actual world. It is never prescriptive. By contrast, Fichte assumes that the actual state is in the process of creating the rational state. The object of study is not the actual state but its process toward the rational state. Social science serves the creation of the rational state. It is prescriptive. 'If the science of governing in the actual state according to the maxim I have just described is called politics, then these politics will lie half-way between the actual state and the rational state' (Reiss 1955: 86-7).

What Fichte means by the rational state is a community as an organic body of which individuals are parts. Every individual supports and maintains an organic whole through his right to work. According to the necessities of human life, every worker is connected with one another through the civil contract. In other words, the rational system is a self-sufficient economy based upon the social division of labour. The state has the obligation to ensure everyone's right to work and to control the rational economic order through the national currency and the monopoly of minimum trade. In order to realise the rational state, the state has to be closed and to restrict individual activities within its realm. Fichte thus demands a much more positive role for the state than Hegel articulates.

Further, the state should be based upon its *natural frontier of realm* which, according to Fichte, ensures economic self-sufficiency. The rational state should maintain and protect its peculiar form of life, institutions and customs within a closed economy. As a result, nationalism as attachment to culture is born and the nation created. Fichte believes that the closed and static economy of the rational state will in fact create nationalism and the nation. This theory of nationalism is therefore contrary to Hegel's. Observing the actual world, Hegel argues that the modern legal system emancipates subjective will to create the dynamic economy and the nation. In addition, he thinks that the nation is the product of politics and history. He rejects rationalism in nation-building. By contrast, Fichte's concept of the rational state, which yields the source of the nation, is ahistorical (Reiss 1955: 92). The rational state is the product of metaphysics.

For Fichte, the aim of social science is to realise the rational state, and according to his theory, the rational state is the nation-state. In this sense, Fichte is definitely a nationalist. Yet unlike Hegel, his political economy is prescriptive for building the nation. At the same time,

Fichte is motivated by the ideal of world peace. 'If war is to be ended, the cause of war must be ended' (Reiss 1955: 96). He thinks that the cause of wars between states is the gap between the *natural frontiers of realms* and the actual territories of dynasties. If states were based upon their *natural frontiers* and attained political unity and self-sufficient economies, which are the conditions of the rational state, war could be abolished and world peace could be realised. As Meinecke notes, Fichte's idea of nationalism is in fact a variation of cosmopolitanism (Meinecke 1970: chapt. 5). The nation would be born from the rational state, and the end of the rational state is the peaceful order of the world. Fichte's political economy prescribes a cosmopolitan ideal.

The rational state is assumed to contribute to world peace. However, Fichte says nothing about how to peacefully realise the rational state based upon its *natural frontier*, how to peacefully draw or discover *natural frontiers*, and whether a state based upon *natural frontiers* can really be self-sufficient. Nonetheless, he believes that his rational idea should be put into practice (Reiss 1955: 11-22). His rationalism in politics will encourage radicalism and even political fanaticism, of which Hegel is afraid. Moreover, the idea of the rational state and the *natural frontiers of realms* could easily be used as the excuse for aggressive policies: wars to redraw the borders of states according to the *natural frontiers* and change the world order rationally. Fichte's utopian idealism, which appears to be more peaceful than Hegel's realism, would arguably prove quite deadly.

5. A Systematic Theory for Economic Nationalism

We have seen that Hegel's political economy is integrated into his system of legal, ethical, political and social theory, and provides a scientific account of the relationship between the modern economy and the nation-state. According to his theory, both capitalism and nationalism are the product of the state: the state emancipates human capacity by providing the individual right to create a dynamic economy, while liberated individuals are reintegrated into the nation through the function of the corporation as an intermediate association. The emancipated human capacity of subjective will is the driving force of a dynamic economy, and nationalism as subjective will is the source of the power of the nation-state. Hegel thus succeeds in situating the role of the nation-state at the centre of political economy.

Modern political economists consider the state or the political and institutional aspect of the nation-state in economies, yet have likely neglected the nation as a cultural entity. However, Throwing light upon the communal aspect of the nation-state, Hegel argues that the modern form of the state, which actualises the right of subjective will, is required to have a communal character and then be the nation-state. Therefore, the subjective will to identify its right with duties toward the modern state, which plays a central role in his system, should be understood as nationalism rather than merely statism. Hegel also thinks that national consciousness is generated by the historical process of the framework of the state. In this respect, it can be said that Hegel shares conservative nationalism with Hume, Burke and Hamilton.

A further point of interest to modern political economists is Hegel's sociological analysis of the contradiction of capitalism. According to him, capitalism by its nature generates

overproduction and alienation, because isolated individuals in modern society rush into obsessive overwork to gain recognition through economic success. Hegel's solutions, especially the role of the corporation and the social solidarity of the nation-state, are worthy of examination as an alternative to Keynesian macroeconomic policy.

Hegel's political economy relies upon his scientific method of comprehension or interpretation. Differences in methodology separate Hegel and Fichte. Fichte also connects the social theory of the nation with economics, but his methodological rationalism leads to an unrealistic and even dangerous conclusion. By contrast, Hegel's interpretive approach to social analysis paves the way to a scientific understanding of the relationship between the modern economy and the nation-state. Put another way, he contributes to the theorising of economic nationalism as a systematic science. Though originating in the early nineteenth century, Hegel's system thus deserves serious consideration in the attempt to construct a new political economy for this century.

Part IV

Economic Nationalism: Theory and Practical Implications

9. Theorising Economic Nationalism

The aim of the final part of this work is to construct a general theory for economic nationalism as an analytical model for understanding contemporary economies and politics (chapter 9), and to consider some of its practical implications (chapter 10).

I have defined economic nationalism as *the view that the primary aim of economic policy is to establish, maintain or strengthen the power of an actual or potential nation*. Considering what has been discussed in the previous parts of this work, I think that requirements for a theoretical basis for economic nationalism can be summarised in the following way:

1. Its primary unit of analysis should be the nation or the nation-state, rather than either the state, race, ethnic and other social groups, or atomised individuals.
2. Its main object of analysis should be the power of nations rather than their wealth, utility or efficiency.
3. It must provide a coherent account of the interdependence between the political and economic power of the nation-state.

In order to satisfy these requirements, a systematic integration of political, economic and social theory is necessary. For this purpose, I shall use Durkheim's sociology as an analytical framework, since this includes both a political sociology of the power of the state, which is applicable to the analysis of the nation-state, and an economic sociology of the dynamics of industrial capitalism. In his political sociology, he describes how the authority of modern states, civic institutions and especially intermediate associations contribute to the integration of modern society. In his economic sociology, he emphasises the significant role of customs, morals, institutions, and

intermediate associations in economic activities, and throws light on the process of economic development and its impact on social solidarity.

These distinctive features of Durkheim's social thought are significantly shared with List, Hume, Burke, Hamilton and Hegel.¹ Like them, Durkheim criticises individualism and presents the holistic account of society. He would agree with Hume's, Burke's and Hamilton's critique of social contract theory. Like Hume, Durkheim focuses upon the role of the sacred, symbols and authority in social order. Durkheim's economic thought is as cultural, institutional and dynamic as Hume's, List's and others' economic nationalism. In particular, the affinities between Durkheim and Hegel are noteworthy. Both consider the dynamic character of the modern economy and both its positive and negative impact on social life, and Durkheim's conception of occupational associations is very similar to Hegel's idea of the corporation, discussed in the previous chapter. In terms of philosophy of social science, Durkheim also has much in common with Hegel and Hume. His holistic approach, which is opposed to methodological individualism and formalism, is close to the interpretive approach.² Thus there is good reason to expect that Durkheim's sociological framework will provide a suitable basis for a general theory for economic nationalism.

Another reason to choose Durkheim is that his social inquiry is more applicable to the contemporary world than that of these classical figures. Hume, Burke, Hamilton, Hegel and List certainly present significant theoretical foundations for economic nationalism. However, we will

¹ In addition, Durkheim's thought has much in common with Schmoller's. Durkheim was influenced by the political economists and jurists of the German Historical School such as Albert Schäffle, Adolf Wagner and Schmoller, who attempted to establish the science of moral life. (Giddens 1971: 66-70).

² Durkheim's methodology has been regarded as positivism which supposedly contradicts the interpretive approach. However, considering his epistemology and his sociological analyses (see Rawls (1996) and Rawls (1997)), I believe that his approach actually deserves to be called interpretive.

need a theoretical scheme, which can absorb the recent achievements of social analysis more easily. In this respect, Durkheim's social theory is more advantageous, because it is one of the most important sources of contemporary economic sociology, and in particular, nationalism studies. Several influential scholars in the field of nationalism studies, especially Ernest Gellner and Anthony Smith, are also profoundly influenced by Durkheim, despite the different conclusions they reach. However they are primarily influenced by Durkheim's sociology of religion (Gellner 1983: 56 and Smith 1991: 77). By contrast I shall draw mainly upon Durkheim's sociology of the state in his *Professional Ethics and Civic Morals*. Few studies of nationalism have paid attention to this work. But I shall argue that Durkheim's sociology of the state can be modified to provide a theory of the *nation-state*, and that after this 'Durkheimian' theory of the nation-state is merged with his economic sociology, we will get at least much nearer to an adequate theoretical basis for economic nationalism.

In the following discussion, I shall first consider Durkheim's political sociology of the state and his economic sociology of industrial capitalism. I will then try to modify these to construct an analytical model for economic nationalism. Durkheim's political sociology of the state will be translated into that of the nation-state by drawing on recent contributions to the study of nationalism. His economic sociology will then be supplemented by Karl Polanyi's work. Polanyi's framework is helpful in connecting political sociology with economic sociology because he focuses upon the political and social aspects of the economy. Finally I shall examine the nature of economic nationalism in terms of this Durkheimian model.

1. Durkheim's Sociological Framework

Durkheim defines the state as 'a special organ whose responsibility it is to work out certain representations which hold good for the collectivity' (Durkheim 1992: 48). 'Representation' belongs to Durkheim's special terminology. When the state makes a decision, it is more or less in touch with the people, but the decision of the state is not always the same as the will of the people as a whole. This is because secondary organs such as parliament and the government reflect upon decisions, and these are often different from the opinion of the masses. There is a gap between the state and the governed. To some extent the state is autonomous.

Durkheim identifies three main elements of the state. First of all, the state has established authority. Although the decision of the state is not the same as the opinion of the people, it is valid for them. There is a relationship between authority and those subject to it: Durkheim calls this relationship 'political society'. Secondly, the state is connected with a given territory. The scope of the authority of the state is defined by its geographical boundaries. Thirdly, political society comprises secondary groups and communities. Political societies are 'of necessity polycellular or polysegmental' (Durkheim 1992: 47). The authority of the state integrates these different sub-societies.

Durkheim clearly assumes the well-centralised modern state in his theory, and he associates the nature of the modern state with individualism. However, he denies that modern individuals establish the state in the way that social contract theory assumes. On the contrary, it is the state which 'creates' individuals. In the pre-modern era, the individual personality was lost in traditional communities. The scope of individual activities was strictly bound up with small-scale

and local communities. The modern state relieves individuals from these communal constraints and mobilises them by providing rights for the individual. For Durkheim, individualism is not a product of speculative theory but a social reality.

The rights of the individual are defined as social institutions by the state. Therefore, unlike liberal theory, the more developed the state, the stronger the individualism. So far as the state secures the rights of the individual for its people and defines them as members of political society, each of them can enjoy individual autonomy. Their autonomy thus depends upon the condition of political society. Put another way, in order to realise individual autonomy, the state has to impose civic duties upon individuals to respect the individual rights of others:

So the State does not inevitably become either simply a spectator of social life (as the economists would have it), in which it intervenes only in a negative way, or (as the socialists would have it), simply a cog in the economic machine. It is above all, supremely the organ of moral discipline. (Durkheim 1992: 72)

This view is based upon Durkheim's sociological understanding of morality. 'In fact, man is a moral being only because he lives within established societies' (Durkheim 1992: 73). For Durkheim, the source of moral discipline is society alone. Society can make sense of duty through its shared norms. Without a strong sense of belonging to a political society and accepting its authority, the sense of civic duty would disappear. The modern state needs a social bond with the people, and this, in a word, is patriotism. 'Now, patriotism is precisely the ideas and feelings as a whole which bind the individual to a certain State' (Durkheim 1992: 73). Through these ideas and sentiments, individuals accept the authority of the state. Individuals are liberated from the constraints of traditional communities and secure their autonomy by accepting the authority of the state. Patriotism integrates individuals and maintains political society.

A distinctive feature of Durkheim's theory of the state is his idea of representation. The state has secondary organs such as parliament and administrative bodies, and can, to some extent, make independent decisions that are not always the same as the collective opinion of the people. Durkheim distinguished between the decision of the state and the people's opinion, though they are closely related. The former, which is based on 'government consciousness', is centralised and organised in the government, while the latter comes from the collective mass and is diffused throughout them. Government consciousness is formed by deliberation³ and reflection, while the mere mass of individual consciousnesses is vague and disorganised. The degree of democracy is determined by the gap between the two extremes. The smaller the gap, the more democratic. However, even in its democratic form, the state has to have a strong organisation to keep individualism secure.

Durkheim summarises the features of normal democratic states as: '(1) a greater range of the government consciousness, and (2) closer communications between this consciousness and the mass of individual consciousnesses' (Durkheim 1992: 88). When this cultivated government consciousness penetrates into society as a whole through close communications with the mass of individuals, the state can have a powerful influence upon the people and respond to change flexibly and deliberatively. The democratic state is more powerful than any other kind of polity. Durkheim compares the absolutism of Louis XIV, which is conventionally regarded as powerful, with modern democracy. Louis XIV had no power to modify established laws and customs against the privileges of church, town and guild. By contrast, in the modern democratic state, every day

³ What Durkheim means by deliberation is reflectiveness or thoughtfulness. It does not connote the Habermasian sense.

new legislation or modification of laws is enacted in the spheres of religion, economy, education and so forth (Durkheim 1992: 87).

Durkheim broadly endorses the democratic form of the modern state. It liberates individuals from traditional constraints by providing the civic rights of the individual. The institutionally defined individuals can be more autonomous and expand the scope of their activities. The state creates an active and dynamic society. In addition, through close communications with the people, the state can be flexibly and deliberatively responsive to dynamic changes. However, Durkheim is critical of communications between the state and the people which are too close and direct. Government consciousness can be deliberative due to its secondary organs and the intermediate groups between the state and individuals. Without secondary organs, the state would fail to achieve deliberative government consciousness and would depend instead upon the unreflective thought of the masses. It is true that closer communications with the people make more flexible change possible. However, too frequent changes will result in the loss of overall dynamism. 'It often happens that all these day-to-day modifications cancel each other out and that in the end the State remains utterly stationary. These societies that are so stormy on the surface are often bound to routine' (Durkheim 1992: 94). Too close communications between the state and individuals weaken the virtues of the modern democratic state.

For Durkheim, the most important features of the state is that it is responsible for working out certain representations. Thus if the state loses autonomy through direct communications with the people, it loses its *raison d'être*. 'It is true there must be continuous communication between government and all the other social organs, but this must not go so far as to make the State lose its identity. The state must have a relationship with the nation without being absorbed in it, and

therefore they must not be in immediate contact' (Durkheim 1992: 101). If the state is absorbed into the masses and disappears, the individuals defined by it disappear as well. In effect, Durkheim suggests that mass democracy will fall into totalitarianism.

We should notice that what Durkheim celebrates as the individual released from tribal society by the modern state is not the isolated individual suffering from *anomie* as he articulates this in *Suicide*, but the individual still embedded in a certain kind of small social unit. Here Durkheim follows a Tocquevillian idea of civil society (Nisbet 1993: 158-61). The following quotation shows that Durkheim has in mind not only parliament and the administrative body but also several kinds of intermediate associations as indispensable elements for a sound form of the modern state:

The inference to be drawn from this comment, however, is simply that if that collective force, the State, is to be the liberator of the individual, it has itself need of some counter-balance; it must be restrained by other collective forces, that is, by those secondary groups we shall discuss later on... It is not a good thing for the groups to stand alone, nevertheless they have to exist. And it is out of this conflict of social forces that individual liberties are born. Here again we see the significance of these groups. Their usefulness is not merely to regulate and govern the interests they are meant to serve. They have a wider purpose; they form one of the conditions essential to the emancipation of the individual' (Durkheim 1992: 63).

For Durkheim, the normal form of the modern state is that embodying civil society, and this Durkheim's political sociology of civil society is echoed in his economic sociology. He accepts that social bonds and moral power in modern societies tend to be weaker than in traditional communities. For example, the 'professional ethics' of work in the medieval guilds cannot be expected in individualistic societies, but he does not argue against modern individualistic society itself. In terms of its economy, large-scale industry and trade in modern capitalism expand beyond

the restraints of the guilds and can no longer be regulated by traditional forms of professional ethics. In pre-modern societies, the traditionalism of the guilds thoroughly dominated people and hindered innovations. The condition of traditional economy and society is static and simple. By contrast, modern economy and society are too large and too diverse to be inert. The scale of innovative and industrial economy is at the national level. 'The unification of the country, leading to the emergence of large-scale industry, resulted in a widening of perspectives and so to the awakening of a man's consciousness to new wants as to new ideas' (Durkheim 1992: 38).

Durkheim approves of the dynamic nature of the national economy and industrial society, rather than the static condition of traditional and small-scale economies. The development of the division of labour in the former will create a modern form of social solidarity, which Durkheim calls organic solidarity, contrasted with mechanic solidarity in the latter. Within the framework of organic solidarity, individuals are free from the conventional restraints of local communities, but united enough to keep a certain social order. However, Durkheim rejects the premise of economic liberalism that the aggregation of economic activities of atomic individuals would automatically attain the harmony of social order. It is true that individuals need to bind one another by contract to co-operate through the division of labour in modern economy and society, but only atomic individuals cannot keep a contract. 'The conditions for their co-operation must also be fixed for the entire duration of their relationship. The duties and rights of each one must be defined, not only in the light of the situation as it presents itself at the moment when the contract is concluded, but in anticipation of circumstances that can arise and can modify it... Thus it is necessary for the allocation of both rights and obligations to be prescribed in advance, and yet this cannot take place according to some preconceived plan.' (Durkheim 1997: 160) Contractual relationships need to be

supported by 'non-contractual relationships' (Durkheim 1997: 155), which confers rights and imposes duties upon individuals. Durkheim argues that 'non-contractual relationships' are the product of 'society and tradition' (Durkheim 1997: 161). In short, modern economic activities, which are based on contractual relationships, require a society as a precondition for them.⁴

Secondly, atomic individuals fail to be ethical because moral discipline is the product of a social group, the members of which share moral norms. Durkheim thus proposes that occupational associations should be substituted for the guilds. But while stressing the importance of occupational associations and the professional ethics embodied in them, Durkheim does not regard these as sufficient for social order. He introduces the state and civic morals or patriotism, as a supreme and overarching framework for integrating society as a whole. Here his economic sociology is merged with his political sociology (Holton 1992: 194).

To sum up, the ideal form of political society is a large-scale and plural fabric consisting of intermediary groups and professional ethics as the woof, and the civic form of the state and civic morals as the warp. 'It would be a structure that was comprehensive and national, uniform and at the same time complex, in which the local groupings of the past would still survive, but simply as agencies to ensure communication and diversity' (Durkheim 1992: 38).

⁴ Robert Nisbet points out that in spite of his distinction between pre-modern mechanic and modern organic solidarity, Durkheim thinks that the institutional stability of modern society has to be deeply rooted in the continuation of pre-modern one (Nisbet 2000: 85). In this respect, Durkheim can be seen as conservative. On Durkheim's conservatism, see Nisbet (1965: 23-8).

2. National Power

What Durkheim calls 'political society' is a society of individuals obeying the sovereign authority of the state and sharing the institutions of citizenship within a given territory, which is larger than a traditional community. What he means by patriotism is the idea and feeling of accepting the authority of the state. Political society and patriotism are not necessarily, however, the nation and nationalism respectively. For example, the Soviet Union is a political society as defined above, but it is difficult to call it a nation. As many commentators suggest, the nation is an essentially 'subjective' concept: what a nation is, depends on what people believe is a nation (Conner 1994: 93). When people do not believe that the political society to which they belong is a nation, that political society is not a nation. Without any reference to a nation, the idea and feeling of allegiance to the state is not nationalism.

Nonetheless, Durkheim's model of the state and patriotism seems to be easily translated into a model of the nation-state and nationalism through some modification. Durkheim assumes that through the civic institution of rights, the state creates individuals in the modern sense, who are free from traditional communities and equals within the territory of the state. The political society consisting of such equal individuals is larger and more changeable than in preceding societies. It is easy to associate the social and economic condition of this political society with industrial society, or a modern economy in more general terms, which is the main element in Ernest Gellner's theory of nationalism. Gellner argues that in a modern economy or society, people are no longer restrained by custom, local community or traditional status. They can communicate with each other in a wider area. High mobility and communicability require people

to share a standard language and homogeneous culture; a homogeneous diffusion of high culture can be achieved by the uniform education system of the state. Gellner concludes that nations can be defined only under the modern condition of homogeneous high culture imposed by the state (Gellner 1983).

Charles Taylor supplements Gellner's theory with the idea of the social imaginary, generated from the direct relationship between modern individuals and the modern state. He argues that the modern notion of citizenship realises direct access of individuals to the state. Inspired by Benedict Anderson's idea of nations as 'imagined communities', Taylor insists that the notion of direct access to the state generates the imagined sense of belonging to a common public sphere as a nation. Democracy especially requires such a strong commitment of the people to politics that a strong sense of identity with the polity is likely to be born (Taylor 1998). In other words, the imagined community is generated by communications between the state and individuals who are detached from the boundaries of local communities, as in Durkheim's model.

The relationship between the state and the nation is not only a causal phenomenon as Gellner and Taylor maintain. The legal and political institutions of the state must presuppose a certain social group, which will include social and cultural components to varying degrees. From the perspective of legal theory, for example, H. L. A. Hart argues that legal authority depends upon the members of the group who accept the rules as guides to conduct. His legal theory suggests that the legal system requires a society in which its members share common understandings, customs, institutions or culture (Hart 1994). The nation is not necessarily such a society, but a highly plausible candidate. In terms of political theory, the policies and institutions of the state can be successful so far as people share a developed sense of trust and understanding about the demands

made by the state (Barry 1983). The nation especially is necessary for the state to implement national policies effectively, because nationalism has a strong power to stimulate people's emotions and can make the state powerful (Conner 1994: 196-209). The nation functions like a battery, generating popular power for rapid mobilisation (Canovan 1998: 72-5). Above all, the democratic form of the state, which depends upon the will of the people, will require a high degree of trust. A shared homogeneous culture and the social solidarity of the nation can be powerful sources of trust. As David Miller suggests, it is hardly accidental that historically, the idea of democracy coincides with that of national self-determination (Miller 1995: 89). The power of the state in democracy is supported by the nation. However, this does not imply that the state cannot act autonomously. Rather, Durkheim suggests that the state is at least partly autonomous owing to secondary organs in representative democracy. Several empirical studies have observed autonomous state actions in policy making in liberal democratic, constitutional polities (Skocpol 1985: 11-4), though these actions may not always be as deliberative as Durkheim expects.

This modified model of the nation-state, which I shall call the Durkheimian model, may be criticised for its Western-centric view. The model may be merely the Western or 'civic' model of the nation whose main features are historic territory, legal-political community, legal-political equality of members, and a common civic culture and ideology. This model excludes a non-Western or 'ethnic' model of the nation characterised by its emphasis upon community of birth and native culture rather than civic institutions (Smith 1991). It is true that what Durkheim has in mind is the Western state. However, if we understand the Durkheimian model of the nation-state not as an account of the *causal* relationship between the nation and the state in the historical process, but as that of the *structural* relationship between the nation and the state within the

nation-state, it seems still to be valid. For whether it is civic culture or ethnic culture that is appealed to, the modern state needs a common culture and social solidarity as a source of power to build and sustain its legal and political institutions. Ethnic culture contributes to that source, especially in non-Western countries. In the 'ethnic' model of the nation-state, a dominant native culture plays an important role in creating and enforcing the social imaginary of a nation in order to establish the legal and political system of the modern state.⁵

Indeed, even the 'civic' model arguably depends upon the cultural elements of a nation.⁶ For example, the government of the United States, which is typically regarded as a 'civic' nation, requires all the citizens not only to obey the Constitution but also to learn the English language and American history (Kymlicka 1999). Durkheim himself notes the connection between civic institutions and symbols. He argues that the right of property and of contract are protected from invasion by the power of symbols which appeal to the collective imagination to respect them, just as religion is protected by sacred symbols and taboos. He does not explicitly refer to the relationship between the civic and ethnic aspects of the nation. However, inspired by Durkheim's sociology of religion, Anthony Smith emphasises that national symbols and ceremonies play a central role in any type of nation. They evoke emotional aspirations and social imagination from all the members of the nation (Smith 1991: 77-8). It can be said that whether in the civic or ethnic

⁵ This point is important throughout this work. In the previous chapters, I have explored the idea of economic nationalism in the social thoughts of List, Hume, Burk, Hamilton and Hegel. However, it might sound odd that these five thinkers are categorised as the same school of nationalist thought. For Hume, Burke and Hegel think that the legal-political framework of the state creates national consciousness, while Hamilton and List attempt to establish a new state upon existing national culture. However, I have argued that it is the *structural* rather than the *causal* relationship between the legal-political and cultural-symbolic components of the nation-state, which is one of the important ideas shared by these five thinkers.

⁶ The 'civic'/'ethnic' model of the nation is ideal-typical. Smith points out that both the two models have both civic and ethnic elements.

model, the legal-political system of the modern state is likely to be associated with cultural and symbolic components of the nation. Thus, in the case of the United States, at the core of American national identity are historical symbols such as Puritanism, the Revolution, the Constitution and the Founding Fathers. They can be regarded as sacred myths for the American (Smith 1991: 149-50).

The Durkheimian model can show how not only the political and legal but also the economic system, especially the establishment of the national market and industrialisation, can be linked with nationalism. Firstly, the state needs to appeal to nationalism for modernisation, because the supreme power of the state is required for providing civil rights of the individual, diffusing standardised literacy and lowering barriers to mobilisation.⁷ Unlike the claim of economic liberalism that the market emerges spontaneously, historically it was the state which undermined the local economy and traditional institutions such as guilds and created the national market (Polanyi 1957: 65). A large part of the national market is historically shaped by the state through the monetary, legal and education systems, transportation and information networks, trade policies and so forth. Especially in backward economies, the role of the state is vital for economic development (Gerschenkron 1962: 16-22). It is true that the state without the nation could be powerful enough to abolish the old institutions which are obstacles to economic modernisation. For example, Peter the Great promoted several reforms for economic development through the

⁷ As has been noted earlier (chapter 1, section 2), Simon Kuznets argues that secularism, egalitarianism and nationalism are necessary for economic growth, yet that nationalism severely limits egalitarianism. However, egalitarianism is compatible with nationalism in that legal and political equality is included in the definition of a nation (Smith 1991: 8-15).

strong power of absolutism. However, as I have argued, the people's support is necessary for the state to get rid of traditional privileges and spread uniform institutions more successfully.

Secondly, as Gellner argues, expanded mobilisation and communication, promoted by the state, create or enforce the social imaginary of the nation. Alexander Gerschenkron stresses that emancipation of the peasants from serfdom and railroad building were prerequisites for industrialisation (Gerschenkron 1962: 19). Gellner would insist that these policies are prerequisites for nation-building as well. In short, the nation makes the national market, and the national market builds the nation.

Thirdly, not only does the state appeal to nationalism and enhance national consciousness through its actions, but nationalism itself shapes economic policies and a national economy. In authoritarian nation-states, elites, motivated by nationalism, will manage the national economy and decide on economic policies in terms of national interests. In democratic nation-states, nationalism also significantly influences economic policies, because the power of democratic nation-states depends upon the nation, as the Durkheimian model shows. Nationalism will often encourage the nation-state to prefer its own political and economic autonomy, competitive advantage and cultural identity, to international and even national economic prosperity and efficiency. Even economic liberal policies, which have been conventionally opposite to nationalist ones, are often motivated by nationalism. Eric Helleiner argues that many proponents of economic liberalism in the nineteenth century endorsed free trade policies for nationalist reasons (Helleiner 2002: 319-322). By the same token, Stephen Shulman shows that Quebec, India and Ukraine pushed for free trade and international economic integration, because they judged that these policies could promote national autonomy, unity and identity (Shulman 2000).

Fourthly, not only the state as a political system but also the nation as a cultural phenomenon will influence the modes of a nation-state's economic system. The form and performance of the political and legal institutions of the state are significantly influenced by the character of the people who accept and obey them as guides to conduct. Even similar political and economic institutions and policies will show different economic outcomes according to the culture, tradition and history of nations. As Durkheim's economic sociology emphasises, economic co-operations are regulated by 'non-contractual relationships' as the product of society. Drawing upon this view, we can assume that the pattern of economic activities and industrial organisations will be shaped differently by different societies. Therefore, national values and ethos which affect people's behaviour, interpersonal relations and way of life will produce national differences in the size, style and performance of economic organisation. In particular, as Simon Kuznets points out, the application of scientific knowledge to economic technology – the main factor of economic growth – significantly depends upon the cultural values and attitudes of a nation. National cultures may thus cause national differences in growth rates (Kuznets 1966: chapt.1; Abramovitz 1989: 41-79).⁸

I am not, however, claiming that the national economy must be culturally uniform. Most national economies are fragmented by unevenness of economic development, social strata, and ethnic groups, and hence they show diversity. Nonetheless, it is reasonable to assume that uniform political and legal institutions will have a strong impact on economic and social culture and that an integrated domestic market within a certain territory will help to form a certain common character

⁸ In spite of the popular image of globalisation, national markets remain the main economic arena. In the bigger national economies, more than eighty percent of production and investment is still for the domestic market and most companies and workers are deeply rooted in their home countries (Wade 1996).

for the national economy. As the Durkheimian model suggests, the overarching framework of the state is required for politically integrating society through the cohesive power of the nation, and it can create a social imaginary shared by the members of the state. David Miller calls this social imaginary 'a public culture' (Miller 1995: 68-9). A public culture is co-existent with and shared across private cultures of communities and ethnicities. For example, the United States has a public culture generated by its political and legal framework, in addition to its cultural diversity of ethnic groups and regions. Its public culture seems to contribute to the common character of its economic system and activities at the national level without removing cultural diversity within a national economy.⁹

Finally, economic development itself can play a role as a national symbol. Since the economic system is embedded in the nation, as has been seen above, its performance can influence the social imaginary of national identity. This point is made by George Crane. He extends Anthony Smith's ethno-symbolism to political economy and argues that common economic experiences play a part in the formation of national identity. For example, economic success in nineteenth century Britain or in Japan after World War II is one of the major sources of national pride in each country (Crane 1998: 68-73). Not only the legal-political but also the economic system can be associated with symbolic elements of the nation.

The Durkheimian model articulated above shows the positive relationship between nationalism, democracy and economic development. However, we should notice that Durkheim's own model of the state has another important feature. Durkheim attaches importance to secondary

⁹ Studies on the different types of national economies are extensive. Examples include Gerschenkron(1962), Katzenstein(1985), Gourevitch(1986), Fukuyama(1996), Dore(2000), Hall and Soskice (2001).

groups through which the masses of individuals communicate with the state. Without secondary organs, deliberation and reflection in decisions by the state would fail and civic institutions of individual rights would be in danger. It is true that intermediate groups are not necessary for nationalism. Rather, direct communications between the state and individuals could promote and even radicalise national consciousness. However, in the absence of a deliberative state and civil society, the political and social condition of the nation-state would be devastated. It would be far from the civic form of the nation – the nation embodying civil society. In short, it would be totalitarianism. Radicalised nationalism is indeed likely to be self-defeating. Comparing several cases of the relationship between nationalism and democracy, Jack Snyder concludes that in nations without mature conditions of civil society, nationalism tends to be belligerent and rushes into reckless international conflicts or civil wars (Snyder 2000). In Durkheim's terms, unmediated communications with the masses fails to generate deliberative government consciousness.

With respect to economics, secondary organs and intermediate groups are also necessary for the sound development of a national economy. Firstly, without deliberative and reflective management by the state, economic development would be difficult, at least in the long term. A state dominated by mass democracy would change its policies and decisions too frequently; the consequent increase in instability and uncertainty would confuse economic activities and damage the economic system. In such a condition, economy and society would lose their dynamism, because change had become routinised. Especially after the Keynesian Revolution, the condition of the national and even international economy depends significantly upon the state and its relationship with society (Gourevitch 1986: 227-35). The maladministration of the modern state would cause serious economic disasters. Secondly, without intermediary associations and

professional ethics, social order would fail to be maintained. As Karl Polanyi argues, a market economy unbounded by social institutions would undermine social life. Not only social life, but also economic activities would face difficulty without social order. Polanyi argues that the economic system must always be partly directed by non-economic motives rather than specific economic interests (Polanyi 1957: 46-7). If the context of social life were destroyed, the driving forces of capitalism would lose any source other than purely economic motives such as speculative mania, and, as a result, economic development would cease. In particular, the stability of the monetary system is necessary for economic development. 'It was equally true that central banking and the management of the monetary system were needed to keep manufactures and other productive enterprises safe from the harm involved in the commodity fiction as applied to money' (Polanyi 1957: 132).

Moreover, the destructive forces of the market economy would cause totalitarianism because it would undermine society, which is the basis not only of a national economy but also of liberal democracy. Polanyi stresses this as well. Society destroyed by the international financial market, which is the product of the cosmopolitan creed of economic liberalism, will cause the movement towards belligerent nationalism. 'In truth, the new nationalism was the corollary of the new internationalism' (Polanyi 1957: 198). Polanyi argues that the movement of social protection against the market economy is linked with popular democracy and resorts to fascist solutions (Polanyi 1957: chapt. 19 and 20). His insight into the political and economic origin of totalitarianism is based upon his synthetic view of politics and economy.

Let us now summarise the relationship between the political and economic power of the nation-state elucidated by the Durkheimian model. On the one hand, when the state can

successfully derive its power from the nation, political power is augmented. However, if the power of the state depends too much upon the nation, in other words, if the state communicates directly with the masses without secondary organs, nationalism will be radicalised and the political power inspired by it will become too strong and ruin itself. Therefore, the political power of the nation-state is maximised when it embodies civil society. On the other hand, a powerful state is necessary to create a national market and promote industrialisation. Economic development forms and enhances the idea and sentiment of the nation, which increases the political power of the state. However, if civil society was to be weakened by market forces, economic development would lose its basis and suffer from stagnation and instability. In short, the Durkheimian model implies that the economic power of the nation-state is maximised under the same condition as its political power is, and *vice versa*.¹⁰ We can call this combination of political and economic power derived from the nation 'national power'.

3. Economic Nationalism and Economic Policy

I have argued that a prospective theory for economic nationalism will have to offer a coherent account of the interdependence between the political and economic power of the nation-state. The Durkheimian model of national power systematically spells out the nature and basis of this interdependent relationship, and can thus be said to provide a theory for economic nationalism.

¹⁰ Linda Weiss argues that the experience of Germany and Japan after World War II suggests that social solidarity is more appropriately viewed as the friend rather than the enemy of economic development (Weiss 1998: chapt. 5).

The aim of enhancing national power will guide the range of policy options which economic nationalists would choose. Economic nationalists prefer to mobilise the resources of the nation as a whole and spread the benefits beyond the boundaries of class. In other words, they avoid economic policies which may undermine the unity of the nation. This is one of the distinctive features of economic nationalism in comparison with both economic liberalism and Marxism. In *Politics in Hard Times*, Peter Gourevitch argues that economic liberalism implicitly, and Marxism explicitly, perceive the economy in class terms – capitalists and workers. The policies of economic liberalism are disadvantageous for workers, and those of Marxism for capitalists. This is why the classical version of both ideologies failed to be supported by the people in democracy. Gourevitch argues that there are other conceptions of policy which have emerged in economic crises. These other views, in which he includes protectionism, the demand stimulus of Keynesian macroeconomic policy and industrial policy (which he calls mercantilism), regard the economy not as a zero-sum but as a collective game between capitalists and workers (Gourevitch 1986: 42-53). These are based on a conception of political economy in terms of nation rather than class. We can call them ‘economic nationalism’. Instead of economic liberalism and Marxism, ‘politics in hard times’ relied upon economic nationalism to overcome economic crises.

An important point to notice is the relationship between economic nationalism and Keynesian policy. It is certainly debatable whether Keynes himself was an economic nationalist, but the goals and effects of Keynesian macroeconomic policy are closely related to the nation and nationalism. Keynesian policy aims at activating the dynamism of a national economy through stimulating aggregate demand and distributing income to promote investment, production and

consumption. Fiscal policy consists of deficit spending by the government. Both its costs and its benefits are shared by the people of the whole nation-state. It affects the whole economic life of the people through manipulating the national currency. The implementation of Keynesian policy stimulates not only demand but also national consciousness. These macroeconomic policies require an integrated national economy and a powerful and deliberative administration supported by national power, as the Durkheimian model shows. In short, Keynesian policy is economically nationalistic: it depends upon the political aspect of national power, targets the economic aspect of national power, impacts upon the nation beyond class boundaries and has the effect of enhancing national consciousness.

The national currency is especially important among policy tools from the standpoint of economic nationalism. Karl Polanyi argues that the currency depends upon the monetary policy of the state and hence upon politics. 'The state, whose Mint seemed merely to certify the weight of coins, was in fact the guarantor of the value of token money, which it accepted in payment for taxes and otherwise. This money was not a means of exchange, it was a means of payment; it was not a commodity, it was purchasing power' (Polanyi 1957: 196). The national currency is linked with all aspects of economic life managed through it. Polanyi denies the assumption of economic liberalism that money belongs to a purely economic sphere and that transactions are carried on between individuals without nations in a world economy. 'The great institutional significance of central banking lay in the fact that monetary policy was thereby drawn into the sphere of politics'(Polanyi 1957: 197). The national currency secured and controlled by the state is the safeguard of the domestic economy and society against the fluctuation of prices and uncertainty about the future in the world market. (Polanyi 1957: 202). Moreover, the currency is closely

related to national identity. Polanyi points out that the national currencies play the role of shared symbols for forming national identities. 'Land, labor, and money, each played their part, but while land and labor were linked to definite even though broad social strata, such as the workers or the peasantry, monetary protectionism was, to a great extent, a national factor, often fusing diverse interests into a collective whole. Though monetary policy, too, could divide as well as unite, objectively the monetary system was the strongest among the economic forces integrating the nation' (Polanyi 1957: 203-4). He concludes, 'politically, the nation's identity was established by the government; economically it was vested in the central bank' (Polanyi 1957: 205).

Economic nationalism has been often associated with the ideal of autarky. However, the goal of economic nationalism is not autarky but national unity, autonomy and the augmentation of national power. While often associated with protectionism, economic nationalists will prefer free trade, if it increases national power. Both Hamilton and List acknowledged the benefits of free trade under certain conditions. The promotion of autarky is not an essential part of their thought (Harlen 1999). In particular, small-scale nation-states are likely to prefer free trade, since they would not survive without access to international markets, because their domestic markets are too small to make them self-sufficient. Their pursuit of free trade is rooted in nationalism.

More importantly, their apparent economic liberalism in the international economy does not necessarily lead to *laissez-faire* policies in the national economy. On the contrary, political intervention in the domestic economy is necessary for smooth international liberalisation. Peter Katzenstein's case studies of small-scale, social democratic states in Western Europe show that these states have provided domestic compensations, such as incomes policy, industrial policy and the corporatist process of bargaining, which can mitigate the negative aspects of

internationalisation. Through state intervention and social democracy, they have been able to promote flexible industrial adjustment to economic change while maintaining a high degree of political autonomy (Katzenstein 1985). More generally, Peter Evans argues that statistics suggest that a greater share of trade in GDP is associated with a larger size and increased role of government rather than a diminished one, because a high degree of state power is required to provide social protection and acquire a competitive advantage in a globalised economy (Evans 1997; Weiss 1998). The Durkhemian model suggests that such a positive role of government will help to encourage national consciousness.

Economic nationalists tend to think that military security and economic prosperity are mutually reinforcing (Viner 1964). Military power is vital for securing the national territory as the main arena of economic life and an advantageous position in the international economy, while the achievement of industrialisation, national wealth and economic autonomy are necessary for national security and meaningful participation in international politics (Sen 1984: chapt. 2). Economic policy and military strategy have to take each other into account in the modern world. Military-oriented economic policy is connected with nationalism in two ways. Firstly, the impact of the Military Revolution transformed war from rivalry between nobilities to a 'people's war'. After the eighteenth century, geopolitical rivalries became highly relevant to all aspects of the lives of the people beyond class boundaries. The people had to share the cost as taxpayers and as combatants, and demanded the benefits for compensation. In order to mobilise them for warfare, the state needs to have mass support, organise the people into national citizens and develop their loyalty to the nation (Mann 1988, and Mann 1992). The state appealed to nationalism to mobilise manpower and resources for fighting wars. In short, national security depends upon national power.

Secondly, the state uses policy tools in order to protect and foster strategic industries for military ends: direct subsidy and tariffs for protection, public ownership, preferential procurement, education and research and so forth (Sen 1984: 87-9). These policy tools not only contribute to national security, but also play the role of catalytic stimuli in economic development (Sen 1984: chapt. 3). In addition, as we saw, protectionism, the demand stimulus of Keynesian policy and industrial policy depend upon and enhance national power.

The relationship between the nation and technology is also noteworthy. First, technological progress is vital for national security and independence, because technology is a significant source of military advantage and economic development. In other words, national power hinges upon technological progress. Second, state policies and the network of institutions and actors in the public and private sectors of national economies, which Christopher Freeman calls the 'national system of innovation,' significantly affect the degree and patterns of technological development (Freeman 1987; Nelson 1996). Third, culturally, technology can play the role of a national symbol. Considering these three points, Gabrielle Hecht shows the mutual construction of technology and national identity in her case study of nuclear technology in France. In post-war France, policy makers saw technological superiority as the source of geopolitical power, while they worried that adopting the American standard of technology, even though it was technologically and economically better, would threaten not only the political and economic independence, but also the cultural specificity, of France. They thus pursued a distinctively French technology. Hecht suggests that technology shapes national identity and that national identity politics significantly influences the direction and pattern of technological development (Hecht 2001).

Economic liberals tend to criticise economic nationalists for protecting or fostering industries in terms of their symbolic value of national identity, and for disregarding economic welfare and efficiency, which the market mechanism could achieve without state interference. It is true that governments often pick up a particular industry and technology for promotion simply because they want to create a 'national' industry, and that many such industrial and technology policies have failed economically. However, some targeted industries, such as aerospace in the U.S and electronics in Japan have actually developed because of these industrial policies. The effect of industrial and technology policy has provoked a great deal of controversy (Johnson 1984). Although more extensive study of this topic lies outside the scope of this work, there is one possible explanation for the success of industrial policy. Innovative activities are in nature so uncertain that there are numerous options for development. In reality, it is impossible to compare R&D projects in terms of economic success, *ex ante*, because by definition the outcome of innovation cannot be known. Some scholars of innovation argue that certain social and institutional factors operate as a 'focusing device' (Rosenberg 1976) or 'technological trajectory,' (Nelson and Winter 1977: Dosi 1982), which can select technological targets and determine the direction and procedure of development. Technological trajectories can provide confidence in future prospects and encourage innovative activities (Freeman and Perez 1988). Public or political forces often play a significant role in the establishment of a particular trajectory. In particular, military and space programs affect such trajectories (Dosi 1982: 155). Large-scale national programs, especially military ones, are likely to operate as symbolic expressions of national identity. It can be hypothesised that national symbols play a powerful role in technological

trajectories and contribute to successful innovation, though this needs to be investigated empirically.

Economic nationalism is often associated with industrialisation. Industrialisation is certainly important for national power, but it is not the supreme goal of economic nationalism. The ultimate end is the augmentation of national power for national unity and autonomy rather than the maximisation of economic welfare or military power. In terms of economic self-sufficiency and autonomy, economic nationalists may hold back on industrialisation and make much of agriculture. Neither Hamilton nor List ignored the importance of agriculture (Hamilton [1791]1934a: 198; List [1840]1999: vol.2, 43). Rather they insisted upon a balanced development of the national economy for economic independence and a peaceful harmony of agricultural interests and industrial interests for national unity. Economic nationalism is not industrialism but nationalism. In addition, economic nationalists in the process of industrialisation and nation-building may adopt social policies in order to avoid conflicts between classes and attain national unity (Polanyi 1957: 175). For example, Bismarck promoted industrialisation by strong state intervention and enhanced military power. His policies and attitudes are typically those of an economic nationalist. At the same time, he adopted social policy for the unification of the Second Reich, while suppressing the socialist movement.

By the same token, technological progress is not the supreme goal of economic nationalism. It is true that economic nationalists are eager to promote technological development by government intervention such as economic planning in a technocratic manner. However, technocrats are not necessarily economic nationalists. Rather the idea of technocracy is often associated with anti-nationalist ideology and sentiment. From Saint-Simon to some French and

European technocrats today, there has been a tendency to expect that technocracy could have the power of transcending the boundaries of national politics (Hecht 2000: 139).

4. Economic Nationalism and Its Modes

Having established the analytical model and considered its implications for economic policy, I will conclude by considering the classification of different kinds of economic nationalism. The first and most common form of economic nationalism is modernist. In the early modern era, or more recently in the latecomer countries, the main concern of economic nationalists is nation-building, state-making, modernisation and industrialisation. While the powerful and centralised state promotes modernisation and industrialisation from above, the state appeals to nationalism to gain power strong enough to destroy the old regime and achieve national unity and autonomy. Modernisation is necessary for creating the national market. The large-scale national market is expected to create a common social imaginary for the nation politically, and to promote industrialisation economically. Modernist economic nationalists are often sceptical about democratisation because rapid democratisation before the maturity of secondary organs and new intermediary associations will cause governance too imprudent to promote modernisation and nation-building successfully. However, they do not typically reject liberal democracy itself, because the democratic form of the nation-state is in principle more powerful than any other kind of polity. Rather, they think that the state should make the transition to liberal democracy gradually and deliberatively, according to the appropriate stage of nation-building and modernisation. The ideal form of liberal democracy for them is representative democracy, in

which the state can be deliberative, flexible and autonomous. Modernist economic nationalists are sceptical about economic liberalism because they believe that the national market is not born spontaneously but built by the state, at least initially. They often advocate protectionism to build the national market and promote exports to foster domestic industries. The domestic market will be opened after domestic industries have grown enough to be competitive in the world market.

The second form is the economic nationalism characteristic of advanced countries. In nation-states which already have a civil society mature enough to enjoy deliberative liberal democracy and industrial development, economic nationalists tend to be conservative. Their main concern is to protect established secondary organs and intermediary associations as the source of national power. Politically, they prefer representative democracy under constitutional order, to prevent the abuses of mass democracy. Economically, they endorse social protection against market forces. In economic crises, they implement Keynesian macroeconomic policy. Advanced countries have the integrated national economy and well-developed administration necessary to implement Keynesian policy.

Certainly even economic nationalists in the most developed economies, as well as in developing economies, may adopt protectionism or industrial policy to foster strategic industries which are important for national security or long-run prosperity. For example, the United States and Europe compete to increase the international competitiveness of their aircraft industry and to attain the 'commanding heights' of the international economy by state assistance and regulation. These national economic policies, which are called neo-mercantilism, are often associated with economic nationalism in advanced economies. However, the Durkheimian model shows that not only strategic industrial policies but also social protection can contribute to the augmentation of

national power and especially to the unity of the nation. There the principle of economic nationalism is closely identified with 'the principle of social protection aiming at the conservation of man and nature as well as productive organization' (Polanyi 1957: 132). Economic nationalists in advanced economies may thus advocate protectionism in order to defend society and productive industries rather than to foster infant industries. They may even be opposed to further industrialisation if this is seen as threatening stable social order. Many policies advocated by conservative economic nationalism in advanced economies have a close affinity with socialism.¹¹

We should notice that these two forms of economic nationalism are ideal-types. Political societies and national economies in reality are so complex that there are numerous variations between the two types. For example, some nation-states may be politically advanced but economically backward, while others may be economically industrialised but far from liberal democracy. The former may be politically more conservative but economically more modernist. The latter may be politically more modernist but economically more conservative. However, in terms of national power, politics and economies are closely interrelated. Any form of economic nationalism will share the conviction that a nation-state which embodies secondary organs and intermediary associations is desirable, since such a nation state will be most powerful, both politically and economically, in the long term.

The Durkheimian model also suggests a third form of economic nationalism. According to this model, if the state is too closely connected with the masses of individuals without the autonomy of secondary organs and intermediary associations, the state becomes imprudent, violent

¹¹ Many socialists tend to see the idea of national community negatively. However, socialist thought is not necessarily incompatible with nationalism. See Miller (1988-9).

and dominated by self-defeating nationalism. In this pathological form, economic nationalism will pursue the expansion of national power in an imperialist way (Gilpin 1987: 32). The typical example of imperialist economic nationalism is the economic policies of Nazi Germany. Certainly the economic policy of Nazi Germany was economically nationalist. The Nazis acquired mass support by appealing to nationalism, broke with economic orthodoxy with their monstrous political power and achieved the dramatic success of overcoming a serious recession through extensive demand stimulation (Gourevitch 1986: 140-7). However, we can say that this form of economic nationalism is pathological, just as totalitarianism is conceived as the dark side of nationalism. Firstly the Durkheimian model shows that totalitarianism would result from the failure of economic nationalism to achieve its objective – building the nation embodying civil society, or protecting it from the pressure of mass democracy or the forces of the market economy. Secondly, this form of economic nationalism is self-defeating. Totalitarianism would undermine the autonomy of secondary organs and intermediate associations as the basis of national power in the long term by resorting to oppression or rushing into reckless wars.

Based upon a Durkheimian framework, I have thus provided a general theory of economic nationalism. This theory can elucidate the reciprocal relationship between the political and economic power of the nation-state. In particular, it throws light upon the role of economic policies in nationalism, to which the study of nationalism has paid little attention. The economic policies advocated by economic nationalists, especially trade and social protection, industrial policy, Keynesian policy, a national currency and military-oriented economic policy, can influence not only economic conditions but also national cohesion.

The Durkheimian model also implies that economic development requires nationalism and national unity. I believe that this model paves the way for answering the research agenda recently posed by Eric Helleiner: 'in what ways do national identities and nationalism influence economic policy and processes?'(Helleiner 2002: 326). In order to mobilise economic resources, create an integrated national market and effectively implement economic policies, the state needs to acquire the people's support by appealing to nationalism, and to be based upon the unity and cohesion of the nation.

Economic nationalism has been associated with different kind of policies and attitudes in different times and places, and these are not strictly derivable from a systematic body of political and economic theory. However, the Durkheimian model sharpens the analytical concept of economic nationalism by providing a systematic theory. It makes it possible not only to define economic nationalism in terms of its nationalist content, but also to explain and justify the general character of its policy prescriptions: economic nationalists will choose economic policies which promote economic development without threatening national cohesion, and whose costs and benefits are shared by the people of the whole nation-state. Another implication of the theory of economic nationalism for political economy is that it helps us to understand the important role played not only by the state but also by the nation in the economy. This is something both economic liberalism and Marxism ignore.

10. Beyond Economic Nationalism?

Globalisation is a phenomenon which is widely regarded as generating serious problems for the contemporary world – such as global warming, the international drugs trade, global terrorism, the spread of mass destruction, North-South inequality, the instability of global financial markets and so forth. Economic liberalism, the hegemonic ideology of modern political economy, is frequently criticised not only for being unable to solve these problems, but indeed also for being largely responsible for them. For example, John Gray argues that the global free market is created by specific policies based on ideological commitment to economic liberalism, rather than being spontaneously generated, as economic liberals themselves believe. He sees the ideal of the free-market order as nothing but a ‘false dawn’ (Gray 1998). An alternative to economic liberalism is thus required.

One possible candidate is cosmopolitanism. For example, David Held proposes cosmopolitan democracy – the multilayered and co-operative institutions of local, national, regional and global democratic governance – as the best means for coping with global political and economic problems (Held 1993, 1995, 1998, 2002a and 2002b). Held rightly points out the defects of economic liberalism and asserts the necessity of a new paradigm (Held 1995: chapt.11). More importantly, unlike utopian cosmopolitan thinkers, he endeavours to base his proposal upon a sophisticated and comprehensive analysis of contemporary globalisation (Held *et al.*, 1999).

However, drawing on key elements of the theoretical basis for economic nationalism which has been developed in this work, I shall criticise Held’s proposal of cosmopolitan democracy, and argue that the best way of coping with global problems is to utilise the power of

the nation-state and develop the existing international order. In doing so I shall not attempt to make specific policy prescriptions or proposals for institutional reform, but will confine myself to a broader defence of the pivotal role of the nation-state system for governing a globalised world.

Before starting the main discussion, it may be useful to remove some common misunderstandings about the nation-state system. First, I do not support the view of the world which is called 'neo-realism' in the international relations literature. Neo-realists maintain that the world is characterised by anarchy and a zero-sum game among states seeking their national interest, and that there are no international political or moral obligations beyond the borders of nation-states. However, there is no reason to suppose that the nation-state is in its nature nothing but a selfish and exclusive agent. On the contrary, keeping treaties between purely selfish states would be impossible without any higher, moral authority, just as promise-keeping between selfish individuals without a convention is impossible, as John Austin, and David Hume long before him, emphasise (Austin 1962; T 490). Existing international laws and customs without the coercive power of a global state imply that a certain international rule is shared (Hart 1994: chapt. 9; Nardin 1998). Moreover, international moral norms such as those concerning human rights exert a significant influence upon world politics and constrain the selfish activities of states, even if not yet to a sufficient extent. Nation-states can co-operate with each other bilaterally, regionally and multinationally beyond their narrow national interests in order to maintain international laws, establish international organisations and develop the international order for the global common good and transnational justice.

Second, it is commonly believed that sovereignty is a claim to unlimited and supreme authority, but no state in history has had such unlimited authority that it could control all activities

and determine its fate within its own boundaries (Hirst 2000). Following Wittgenstein's suggestion that one should attend to the use of a word in order to determine its meaning, then, we should redefine 'sovereignty'. I think that Noël O'Sullivan's definition fits its use: '*a moral ideal, asserting the claim to self-determination through authorized representatives, rather than demanding self-sufficiency [my italics]*' (O'Sullivan 2000: 139). State sovereignty is not absolute and unlimited authority, but *final* authority within the state. It is true that the authority of international law and custom, political and economic interdependence and what Susan Strange calls 'structural power' in the world significantly limit the agenda-setting and problem-solving capability of a single state (Strange 1995). However, this does not mean that the claim of state sovereignty can no longer meaningfully be maintained.

Third, I take the nation-state as a general form of political, legal and social institution, not limited to the particular ways in which this has so far been expressed in actual political communities. For example, some hope that the EU might come to supersede the nation-state by enforcing political and economic integration and generating a new European identity. However, in my terms this would mean not the replacement of the nation-state, but the development of a nation-state on a larger scale: the nation-state of Europe (Canovan 1998: 119). By the same token, the fragmentation of presently existing nation-states into smaller, politically autonomous units would imply not the eclipse of the nation-state, but the reduction of the nation-state to a more local level (Mann 1997: 494-5).

In the following discussion, I shall first question aspects of Held's analysis of the contemporary world, drawing on elements of the theory of economic nationalism. In the following section, I shall argue that Held's proposals for the 'institutionalisation of cosmopolitan principles'

could at best fail to realise his ideal, and at worst cause undesirable consequences which he does not anticipate. In the final section I will turn to the practical implications of economic nationalism. In the spirit of conservatism, I shall recommend improvement rather than replacement of the nation-state system and the international order.

1. Cosmopolitan Realities?

Unlike optimistic cosmopolitan thinkers, Held does not accept the 'hyperglobalist' claim that globalisation is an irreversible or a linear historical process and that the new force of globalisation will completely eclipse the regime of the nation-state. Globalisation neither minimises nor dissolves state power, but transforms its nature (Held *et al.*, 1999). However, Held maintains that five 'disjunctures' between the nation-state and globalisation have arisen. First, the idea of a community of fate – of a self-determining national collectivity which forms the political good and political outcomes – can no longer be simply located within the borders of a single nation-state. Second, nation-states are embedded in complex global and regional systems. Third, a new form of government and governance is emerging which is changing the Westphalian regime of state sovereignty and autonomy, i.e., the conception of state power as an indivisible, territorially exclusive form of public power. The remarkable growth in the number of new forms of political organisation, i.e., international governmental organisations (IGOs) such as UNICEF, UNESCO, and the WHO, and non-governmental organisations (NGOs), reflects new forms of multilateral politics. Fourth, co-ordinated and multilateral political actions at the national, regional and global level are increasingly required. Political authority is diffusing beyond state sovereignty. Fifth, the

distinction between domestic and foreign affairs is no longer clear cut in many significant areas of policy (Held 2002a: 62-3). Held insists that these five disjunctures between globalisation and state-based democracy require cosmopolitan democracy in order to solve issues such as the international drugs trade, the management of nuclear waste, the spread of weapons of mass destruction, global warming, the regulation of global financial markets and so forth.

In addition, Held identifies emerging cosmopolitan realities, which help to open up the possibility of a cosmopolitan democracy. Although he never assumes that globalisation simply represents the formation for a global society, he insists that cosmopolitanism – the principles of egalitarian individualism, reciprocal recognition and impartial reasoning – already defines a set of norms and legal frameworks of regional and global governance in certain respects. His examples are the 1948 UN Declaration of Human Rights, the 1966 Covenants of Rights, the International Bill of Human Rights, the statute of the International Criminal Court and so on. In short, the cosmopolitan idea – all human beings require equal respect and concern, not defined by geographical or cultural location – is already embedded in significant legal and political developments since the Second World War. Cosmopolitan ideas are working as the principle of the activities of IGOs and NGOs. Moreover, new social movements at the global level, such as the environmental movement, the women's movement and so on, reflect an emergent 'transnational civil society' (Held 1998: 24).

For Held, the development of a transnational civil society and the institutionalisation of cosmopolitan principles are still at an early stage, but ongoing in reality. He proposes to encourage these trends in order to establish a cosmopolitan democracy. In his plan for the new global order, he does not seek to replace state-based democracy entirely by cosmopolitan

democracy. Rather, he stresses the new transformation from a community of fate within the boundaries of the state to *overlapping communities of fate* (Held 1998: 24). The nation-state will remain as one locus of communities of fate. However, the growth of global interconnectedness is challenging the capacity and accountability of the sovereign state at the local, regional and global levels, and therefore, multilayered and co-operative institutions of governance corresponding to overlapping communities of fate are required.

Before examining Held's description of cosmopolitan realities, drawing on the work of Michael Mann, I conceptually distinguish five social-spatial networks of social interaction: local, national, international, transnational and global. The distinction between international, transnational and global networks is crucial in my argument. International networks are relations between states, including not only the 'hard geopolitics' concerning war, peace and alliances, but also the 'soft geopolitics' concerning negotiations about more peaceful matters like tax treaties, air pollution, and so forth. Transnational networks are formed beyond national boundaries, being unaffected by them. Global networks cover the world as a whole or at least most of it. Mann divides the conception of global networks between a single universal network and a more segmented series of networks. For example, the feminist movement is of the latter type, because it may cover almost all countries, but only among particular groups (Mann 1997).

Considering these distinctions, I think that Held tends to exaggerate 'cosmopolitan realities'. It is true that the direct expression of cosmopolitan principles can be found in the legal and political statements of the UN, as Held emphasises. However, firstly, it is noteworthy that although the UN is certainly the largest organisation, and a multinational one, it is *international*, not global. It works transnationally and certainly declares the cosmopolitan idea, but it is built

upon an *international* treaty. As David Miller points out, IGOs have to do with relations between states and nothing directly to do with 'cosmopolitan citizenship', even 'citizenship' itself (Miller 1999: 74). Held certainly acknowledges that the UN is an *international* organisation. Nonetheless, he stresses that the UN has developed an innovative system of global governance (Held 2002b: 38). However, secondly, the UN Charter also declares the principle of national self-determination, which contradicts cosmopolitanism. It is hard to imagine that the UN could be maintained and developed without the principle of national self-determination. Thirdly, the principle of national self-determination is much more universally accepted than that of universal human rights. I mean not only that there are still non-liberal democratic states which do not respect human rights, but also that even liberal democratic states in reality endorse only the rights of their own national citizens. Strictly speaking, no state realises the principle of universal human rights. For universal human *rights* should correspond to universal human *obligations* to secure the basic rights of everyone else, but the people in advanced countries do not fulfil such obligations for those in the least developed countries. For example, the Japanese government is obliged by her Constitution to secure, as a universal human right, the right of enjoying no less than the minimum standard of living in Japan, which is much higher than the level of basic human needs for the least developed countries. However, although Japan in fact fails to do so, and prioritises her national citizens, she is not legally charged with violating her Constitution, the UN Charter and the Covenants of Rights (cf. Miller 1995: 58-65). By contrast, the principle of national self-determination is almost universally accepted. We are facing nationalist realities rather than cosmopolitan realities.

I do not maintain that this nearly universal acceptance of the principle of national self-determination means its normative superiority to that of universal human rights. My point is rather

that both the nationalist principle and the cosmopolitan principle have encouraged the development of international order after World War II, even though these two principles are at odds with each other in many respects (see Mayall 1990). Moreover, it can be said that the principle of national self-determination is in some respects more vital for the UN. For the UN could work without cosmopolitan principles – for example, as a merely multinational alliance for international security, without the promotion of universal human rights. By contrast, many countries including major powers such as China, would not join and support the UN without the principle of national self-determination. The principle of national self-determination enables different state regimes to participate in a common arena. It is a prerequisite for international order. What Held refers to as cosmopolitan realities are dependent upon nationalist ones.

As to the other IGOs, Held tends to underestimate nationalist realities. He insists that new forms of economic coordination are indispensable to overcome the fragmentation of state-based policy-making in solving the problems of a global economy. What he refers to as examples of such coordination are the IMF, the World Bank and the OECD. However, these organisations are *international*, even though they can exert an influence transnationally and globally. Their achievement of transnational economic coordination and their impact upon the global economy result from their internationality rather than their cosmopolitanity. The efficacy of IGOs depends upon the broad-based support of nation-states, which appeal to their people to assist IGOs. As Paul Hirst points out, IGOs need the legitimacy of the support of democratic governments, since technocratic elites are vulnerable (Hirst 2000: 185-6). Held maintains that the possibility of creating a new economic agency at the global level is not fanciful, considering the recent

establishment of the WTO (Held 1995: 259; Held 2002: 71-5). However, there is still a huge gap between the feasibility of creating a new *global* agency and a new *international* organisation.

Held's overestimation of cosmopolitan realities derives from his narrow conception of the state. He argues that the emergence of overlapping communities of fate in processes of globalisation has demoralised the efficacy of the state as the only community of fate. However, the state as the only community of fate – a self-determining national collectivity shaping its own agenda and life conditions, located only within the borders of a single nation-state – is too narrow to characterise the nature of the nation-state. The state presupposes international relations and locates itself in international society, because international mutual recognition among states is indispensable for their existence. The state cannot be defined as a political community all of whose political agendas and outcomes are self-determined. Rather, it needs certain overlapping communities of fate.

Held also exaggerates the cosmopolitan aspect, and underestimates the nationalist aspect, of what he sees as an emerging 'transnational civil society.' First of all, as Mann points out, 'new social movements' encourage not only *transnational* but also *international* networks of interaction. The activists and agencies of new social movements must accept the regime of nation-states, because the most effective way to achieve their aim is to persuade or pressure national governments to fulfil the international common good (Mann 1997: 489-492).

Second, what Held regards as an emerging 'transnational civil society' is generated by national civil societies which require the state. Generally speaking, those who live and are educated in civil society and enjoy individual rights of speech and action secured by their mother countries, can afford to engage in new social movements more positively. Following liberalism,

Held assumes the separation of state from civil society (Held 1993: 24). However, civil society could not flourish without the positive role of the state. The powerful capacity and positive actions of the state do not necessarily imply a threat to civil society and individual autonomy as liberals assume. Rather, as the Durkheimian model shows, it is the state which secures the rights of the individual and protects a basic social condition. Ideally, while civil society is, to use Michael Walzer's phrase, a 'setting of settings' for the good life, the state is a 'setting of a setting of settings' (Walzer 1995: 98). Referring to historical and empirical evidence, Peter Evans shows positive-sum relations between the effectiveness of civic associations and state capacity. A move toward less capable and involved states will make it more difficult for civic associations to achieve their goals (Evans 1997: 78-82). The nightwatchman state is not enough for civil society. Rather, civil society is formed by the continuous interaction between state and society, or 'state-society synergy' in Evans' phrase (Evans 1997: 81; Hall 1995: 15-7; Walzer 1995: 98).

It is true, that there are numerous examples of the state violating individual rights and destroying civil society. However, as Alexander Hamilton once said, 'Powers must be granted, or civil Society cannot exist; the possibility of abuse is no argument against the *thing*' (Quoted in Kramnick (1988: 27)). Thus, just as civil society could not develop without a state, a transnational civil society could not emerge independent of states. New social movements should be regarded as the external aspect of the development of state-based civil society.

In short, what Held sees as cosmopolitan reality is not the emergence of a cosmopolitan or global order, but the ongoing development of the *international* order. This evolution of the international order comprises functionally transformed nation-states, the intensification of local, national and international networks, and the growth of transnational and global networks

accompanying that of national and international networks. The development of international and transnational networks is more noteworthy than that of global networks, and these three developments are encouraged by the nation-state system (see Weiss 1998: chapt.6 and 7).

2. The Institutionalisation of Cosmopolitan Principles?

According to Held, though cosmopolitan principles have already become embedded in the present international order, which he calls the liberal international regime of sovereignty, the international order faces the following five problems. First, the impacts of the political and legal changes of the international order are not experienced uniformly by all states and regions. Second, in the international order, the political leaders of a state-based polity, even a liberal democracy, tend to be so arrogant and selfish that they pay little attention to global and transnational problems. An example is George W. Bush's refusal to ratify the Kyoto agreement on greenhouse gas omissions in 2001. Third, while democracy remains rooted in nation-states, regional and global problems have arisen and escaped from national democratic control. Fourth, existing IGOs are insufficient to resolve these problems, because geopolitical and geo-economic interests often dominate them and even threaten their legitimacy. Fifth, the international order has serious deficiencies in the implementation and enforcement of international law, in particular, universal human rights. In order to overcome these difficulties of the international order, Held insists upon the necessity for the institutionalisation of cosmopolitan principles. He articulates seven cosmopolitan principles: 1. equal worth and dignity, 2. active agency, 3. personal responsibility and accountability, 4. consent, 5. reflexive deliberation and collective decision-making through voting procedures, 6.

inclusiveness and subsidiarity, and 7. avoidance of serious harm and amelioration of urgent need (Held 2002b: 24).

However, what Held means by 'the institutionalisation of cosmopolitan principles' is not clearly defined. In practice, I suggest, he uses this phrase in two different senses, without explicitly recognising the difference between them. Firstly, and perhaps primarily, it means the establishment of administrative capacity and independent political resources at global levels as a complement to those at a local, national and regional levels, such as the creation of a new, international Human Rights Court and an international military force in the short-term, and a global parliament in the long term. Secondly, and less ambitiously, the institutionalisation of cosmopolitan principles implies that key associations and local, national, international and regional political authorities accept and institutionalise cosmopolitan ideas as rules (Held 2002a: 72-3). I shall call the first of these 'the global institutionalisation of cosmopolitan principles', and the second 'the national and international institutionalisation of cosmopolitan principles'.

Held lays more stress upon global institutionalisation than upon the national and international institutionalisation of cosmopolitan principles. Let us examine the former first. Drawing upon the republican conception of citizenship, Miller criticises Held's idea of citizenship in a cosmopolitan democracy for the absence of the preconditions for responsible citizenship such as relationships of reciprocity and mutual trust. It is therefore difficult to expect cosmopolitans to behave as responsible citizens (Miller 1999: 77). However, Miller's critique is somewhat inappropriate. It seems to me that Held more or less assumes the preconditions for responsible citizenship at the global level in his conception of *overlapping communities of fate*. *Overlapping communities of fate* imply that, at the global level in the layers of communities of fate, everyone on

this planet shares a feeling of belonging to the same community, which comprises the relationships of reciprocity and mutual trust at the global level.

What matters for making a cosmopolitan democracy work is the degree of 'thickness' of these relationships. Held seems to expect that globalisation could encourage the thick relationships of a global community. However, even though contemporary globalisation is characterised as 'thick globalisation' in comparison with pre-modern and modern globalisation (Held *et al.*, 1999: 21-7), it is obviously far from sufficient for a workable cosmopolitan democracy. Unlike neofunctionalists who contend that economic union could increase levels of transnational cooperation and lead to deeper political integration, Held himself rightly admits that globalisation can promote both unification and fragmentation, and that processes of globalisation alone do not lead to growing global integration (Held 1993: 38). Moreover, ironically, some 'new social movements', which Held refers to as symptoms of a 'transnational civil society,' have arisen in negative response to globalisation, as the recent anti-globalisation demonstrations in Seattle, Washington, Genoa and elsewhere have shown (Bello 2002: 41-2). It is, then, only political wills and powers which could nurture a global community of fate 'thick' enough for a cosmopolitan democracy. But which powers? One candidate, which is perhaps Held's answer, is a new global political authority. However, without 'thick' relationships of reciprocity and mutual trust at the global level, such a political authority could be much more coercive and even more despotic than Held expects. The 'thickness' of a global community would be a precondition for the global institutionalisation of a cosmopolitan democracy, not the other way round.

Another possible candidate might be the existing political authorities in the evolving international order, such as nation-states and international organisations. However, those who are

so sceptical of the capacity of existing political authorities as to insist upon the necessity of a new global polity, could hardly expect states or IGOs to nurture the 'thick' relationships of global reciprocity and mutual trust. Further, it is likely that the only political agency in the present international order capable of creating a 'thick' global community would be a hegemonic state, and one might reasonably worry that such a hegemonic power would justify its imperialism in the name of building global governance.

Even if we could instead expect the benevolence of a new global political authority or of a hegemonic power, we have to consider the risk in creating a thick global community in the global institutionalisation of cosmopolitan principles; namely that of cultural homogenisation. Held insists that globalism and cultural diversity are compatible, since different cultures are already linked and interrelated as a global web of relations (Held 1993: 44). However, it seems that Held again fails to distinguish between the existing, evolving international order and his ideal of a cosmopolitan order. He may observe a global web of relations linking different cultures in the former. However, a cosmopolitan order would require further cultural homogenisation, since greater cultural homogenisation is indispensable for the creation of a larger-scale political community and the institutionalisation of more concrete normative forms. Considering the processes of cultural homogenisation in the formation of the modern nation-state, it is not hard to imagine that the global institutionalisation of cosmopolitan principles would force further cultural homogenisation at the global level.

Even if the global institutionalisation of cosmopolitan principles was realised, with the sacrifice of cultural diversities, there are some serious problems in Held's model of cosmopolitan democracy. First, the efficacy of a new global agency would be debatable. There are many

examples of IGOs which are unsatisfactory or even problematic. For example, for anti-globalisation protestors, the IMF and the WTO are the cause rather than the solution of global problems. The European Commission in Brussels is also notorious for the abuse of international technocracy. Whether a global agency could work better than the existing IGOs is open to question. A global agency would face the problems of technocracy, which are observed in national governments and in IGOs. For example, IMF economists are criticised for inappropriately applying to developing countries the principles of economic liberalism, which they regard as global standards, neglecting the national systems of political economy (Feldstein 1998). It is hard to expect that cosmopolitan bureaucrats in a new global agency, which is assumed to be more powerful so as to contain national claims and to be freer from the constraints of national interests, would give greater consideration to national diversities than the 'cosmopolitan' economists of the IMF.

Second, Held points out that political elites in a territorially based liberal democracy, geared to domestic elections and interest groups, are often so arrogant and selfish that they ignore global and transnational interests. However, it seems likely that a global democracy would be geared to elections and interest groups at multilayered levels. This implies that a global democracy might well suffer from more complicated and larger-scale forms of so-called 'rent-seeking activities' than a state-based one.

Third, in Held's model of cosmopolitan democracy, regional, national and local 'sovereignties' are subordinated to the overarching framework of cosmopolitan law. But within this framework, which level of 'sovereignty' would deal with what sorts of issues is indeterminate. Held proposes three criteria for assigning issues to different levels of authority: the tests of

extensity, intensity and comparative efficiency (Held 1995: chapt. 10). However, whatever the criteria are, it is not difficult to imagine that endless disputes among potentially related authorities would arise about what issues ought to be dealt with at what level (Saward 2000: 36-7). A world in which political authority is diffused would face the classical 'Hobbesian Problem': governance without final authority is hardly possible.

Finally, although political authority is assumed to be diffused, the subordination of regional, national and local 'sovereignties' to an overarching legal framework seems to imply the final authority of cosmopolitan law, in other words, a global sovereignty. In addition, according to Held's plan, a global polity has a global parliament, military force, taxation mechanisms, a 'thick' global culture and globally shared consciousness of a community of fate. Although Held avoids using the phrase, a 'global state', these political, legal and cultural conditions are those of the nation-state model. Held believes that the nation-state would 'wither away' by degrading it from being the sole centre of legitimate power within its borders (Held 2002b: 33). However, in fact he proposes to establish the largest nation-state in history.

By contrast, what I have called 'the national and international institutionalisation of cosmopolitan principles', and distinguished from 'global institutionalisation', may be more plausible. Non-global political authorities could, and in a sense already do, share certain universal values, though the content of these universal values needs to be examined. For example, many liberal democratic nation-states declare the value of universal human rights in their Constitution.¹ The UN Charter, which is not a global but an international rule, is another example: the principle of universal human rights is nominally, and the principle of national self-determination

¹ See Jürgen Habermas's discussion of constitutional patriotism in Habermas (1989: chapt. 10), Habermas

substantively, institutionalised as a universal value in a particular international organisation. In this respect, the institutionalisation of cosmopolitan principles as 'standard setting' without new global agencies of enforcement, may not be impossible within the international order.

I would argue that the national and international institutionalisation of cosmopolitan principles is more desirable than the global one. It has three merits. First of all, it is more reasonable to utilise the existing, powerful political system of the nation-state for a benign purpose than to establish a more powerful political system with political and cultural risks. Secondly, Miller is right to pose the question: 'apart from a core of basic human rights which should be recognised globally, are democratic states not entitled to define the rights of their citizens in different ways, depending on the political culture of a particular national community?' (Miller 1999: 75) There are many disagreements, and serious ones, about the interpretation of what human rights are, even among liberal democratic countries: for example, about the degree of individual freedom and social equality in the US, Sweden, Italy and Japan. I do not discuss here what is 'a core of basic human rights' which could and should be agreed globally, but it must be too abstract to be globally institutionalised. Therefore national and international institutionalisation is not only more plausible but also more desirable, because it leaves room for reconciliation between cosmopolitan unity and national diversity (McCarthy 1999). Thirdly, and related to this, national institutionalisation can consider the different stages of democratisation. Radical democratisation and the rapid growth of a free press without a mature civil society tends to cause reckless international conflicts or civil wars. Jack Snyder reminds us of the recent genocide in Rwanda and Burundi in 1993 and 1994. The sudden democratisation and liberalisation of

(1994) and Habermas (1995).

Rwanda and Burundi through international pressure for human rights encouraged extremist movements leading to the massacre of over a half million people. By contrast, Malaysia has been able to contain extremist nationalism and national dissolution by a gradual process of democratisation and liberalisation (Snyder 2000). National institutionalisation can allow the appropriate speed and patterns of accepting cosmopolitan principles for each country.

Nonetheless, the national and international institution of cosmopolitan democracy shares with the global one the risk of cultural homogenisation. Held insists that while cosmopolitan principles are universal, the precise meaning of these depends upon their actual interpretation. He calls this position 'framed pluralism' (Held 2002b: 31-2). For example, he argues that the equal worth and dignity of individuals are observed in any society, referring to Bruce Ackerman's claim that 'there is no Islamic nation without a woman who insists on equal liberty, no Confucian society without a man who denies the need for deference, and no developing country without a person who yearns for a predictable patterns of meals to help sustain his or her life project' (Held 2002b: 25; Ackerman 1994: 382-3). It may be true that egalitarian individualism could be compatible with pluralism so long as its precise meaning is open to interpretive activity. However, among cosmopolitan principles, the principle of 'collective decision-making through voting procedures', without which government hardly deserves the name of democracy, obviously excludes non-democratic regimes and reduces the plurality of polities. There are Islamic nations, Confucian societies and developing countries which have a general claim to give equal moral value to individuals, but which make major political decisions without voting procedures.

Moreover, there are two problems from the cosmopolitan standpoint in the national and international institutionalisation of cosmopolitan principles. First, most cosmopolitan thinkers

would hardly agree that national and international institutionalisation by itself deserves the name of 'institutionalisation of cosmopolitan principles', since national self-determination remains as a primary political principle. Without global institutionalisation, there would be little difference between the ideal form of international order and a cosmopolitan order shaped only by the national and international institutionalisation of cosmopolitan principles. Second, political principles, embedded within national institutions, cannot help entailing nationally cultural elements, because political or civic institutions are inseparable from culture. Even abstract and universal political principles will play the role of national symbols, such as liberty, equality and fraternity for the French. In this respect, strictly speaking, it is hardly possible that the national institutionalisation of cosmopolitan principle can by itself realise a cosmopolitan democracy, since cosmopolitan principles would be symbolically nationalised by national institutionalisation.

In addition, whether with regard to global or national institutionalisation, it is difficult for Held's model to satisfy cosmopolitan principles completely so long as states and national democratic polities remain as one institutional layer, along with local and regional ones. Held supports the cosmopolitan idea that the boundaries of polities, which were historically arbitrary and often drawn by coercion and violence, cannot be regarded as a source of legal and moral significance (Held 2002a: 64; Held 2002b: 20). However, even though they consist in but one layer of global governance, states, whose boundaries are understood not to have legal and moral significance from the cosmopolitan viewpoint, remain as an important locus. How is legal significance to be ascribed to the boundaries of states? I think it philosophically difficult to reconcile the historical arbitrariness of national borders with all the demands of cosmopolitan ethics. And it is practically difficult to redraw the boundaries of states so that they are compatible

with cosmopolitan ethics (Miller 1999: 76-7). Thus while I agree with the necessity, and even the reality, of *overlapping communities of fate*, and that we are required to create institutions for governing a globalised world, this does not imply the necessity of a cosmopolitan democracy.

3. The Pillars of the International Order

In his presidential address to the American Political Science Association, Robert O. Keohane suggests that the challenge we face of designing working institutions for governance in a partially globalised world resembles that of the founding fathers of the United States (Keohane 2001: 12).

In his essay called 'Idea of a Perfect Common Wealth', which influenced James Madison (Adair 1976), Hume says:

To tamper, therefore, in this affair, or try experiments merely upon the credit of supposed argument and philosophy, can never be the part of a wise magistrate, who will bear a reverence to what carries the mark of age; and though he may attempt some improvements for the public good, yet will he adjust his innovations, as much as possible, to the ancient fabric, and preserve entire the chief pillars and supports of the constitution. (IPC 221)

Following Hume's advice, I think that we should improve the existing order while preserving its chief pillars. One of these is the nation-state as a powerful political system. The nation-state is capable of securing individual rights, developing civil society and increasing economic welfare, without neglecting cultural characteristics and appropriate stages and speeds of democratisation and economic development. It is also capable of promoting international cooperation, and establishing and supporting IGOs for solving international, transnational and global problems, though many commentators tend to neglect this aspect of state capacity. For example, Jonathan

Perraton, criticising for its optimism Paul Hirst's and Graham Thompson's proposal to restore confidence in the capacities for governance of the nation-state, insists that debate about the appropriate forms of international governance is urgently necessary (Perraton 2000; see Hirst and Thompson 2000). However, to be established and work effectively, such forms of international governance would need the capacities of nation-states. Another pillar is the *international* order. International laws and customs, built upon the principle of national self-determination, provide a common framework for the coexistence of culturally different communities, without the cultural homogeneity which cosmopolitanism demands (Nardin 1998: 31-2). The ideal international order is more compatible with 'framed pluralism' than with cosmopolitan democracy.

In order to support my view and avoid misunderstandings about it, it might be useful to answer possible objections. First, radical multiculturalists and radical republicans complain that the nation-state is too large, homogeneous and centralised, while cosmopolitans insist that the present international order is too fragmented and disharmonious. It is certainly open to philosophical question whether the cultural diversity and power balance of the nation-state system is appropriate for the good life. I do not discuss this philosophical question. However, I would like to give radicals some practical advice: radical multiculturalists and radical republicans should consider that small republics were in history warlike, as Alexander Hamilton points out in the sixth *Federalist*. A more recent example is provided by the ethnic conflicts in the former Yugoslavia, which were triggered by the dissolution of the overarching framework of the nation-state (Gellner 1998: 102-8). Cosmopolitans should also be reminded of the tragedy of Rwanda and Burundi in the early 1990s: the radical application of uniform political principles to real societies without

considering their cultural characteristics and political situations will lead to disastrous consequences.

Second, it could be argued that there is no moral foundation for the nation-state system and the international order which have historically emerged. However, following the view of legal positivism that there is no necessary connection between morality and rule, here I defend not the *morality* of nationalism, but the legal principle of national self-determination as the *rule* of international society (Nardin 1998).² Further, I argue for the nation-state system and the international order as the *necessary* condition or *pre-condition* rather than *sufficient* condition of world order. From this standpoint, I have criticised Held's idea of a cosmopolitan democracy, not because I normatively disagree with his cosmopolitan principles themselves, but because I think that the rules and institutions which he derives from his cosmopolitan moral principles would fail to maintain the world order as he wishes.³

Third, one may criticise the nation-state system and the international order as nothing but a parochial conception of European civilisation (Whelan 1998: 49-51). However, I do not accept this kind of argument. In this respect I agree with Held that the origins of ideas should not be confused with their validity (Held 2002a: 73-4).

Finally, many commentators are sceptical about the efficacy of the nation-state and the international order for solving global problems, even if they are not hyper-globalists. George W.

² Legal positivism has several strands. Here I refer to what Terry Nardin calls 'rule of law positivism'. Like other kinds of legal positivism, rule of law positivism sees law as a social practice. However, unlike John Austin's legal positivism, it asserts that laws must be distinguished from commands. For rule of law positivists such as H. L. A. Hart and Michael Oakeshott, laws are non-instrumental rules, not prudential maxims or commands of power. (Nardin 1998: 23-5)

³ It seems to me that Held's legal reasoning of cosmopolitan law is derived both from utilitarianism and the natural-law tradition. On the one hand, he argues that cosmopolitan law is required to solve global issues; on the other hand, he deduces cosmopolitan law from cosmopolitan moral principles. In short, he assumes that the legalisation of cosmopolitan moral principles can solve global issues (Held 2002b).

Bush's actions perhaps provide many examples to support this sceptical point of view, and it is certainly true that the existing order is far from perfect. However, I agree with Held that 'the question of feasibility cannot simply be set up in opposition to the question of political ambition' (Held 1993: 44). My political ambition is to improve the nation-state system and the international order, preserving its chief pillars. It is worth stressing that the nation-state system and the international order are still developing. The 'liberal international regime of sovereignty' has emerged only after World War II. The history of the nation-state is two hundred years for Western Europe, but less than fifty years for most non-western countries, many of which have not yet enjoyed the benefits of civil society. We should improve the nation-state system and the international order before drawing from the observed contemporary world the conclusion that an alternative system of governance is necessary.

It is true that new thinking and new institutions are urgently required, but in order to preserve the chief pillars of the international order. Many and various kinds of ambitious prescriptions for global governance have already been proposed by cosmopolitan thinkers, liberals, socialists, republicans, nationalists, functionalists, realists and so forth. Each proposal deserves to be discussed. However, the point I wish to emphasise is that in order to realise any kind of global governance, we will need the power of nations. Understanding that is a necessary first step.

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