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Economic History and Nationalism

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At its meeting in Chicago in December 1934, the American Economic Association organized an "Economic History Round Table" on the subject of nationalism. There were two circulated papers, of which one, by the Chicago economist Frank H. Knight, became the basis for Knight's famous (or notorious) essay, "Economic Theory and Nationalism."[1] The object of the initial paper, Knight said at the round table, had been to "bring out the seriousness of the situation;" it was understood, he conceded, as an attempt "to try to close the door against any hope for liberty."[2]

Liberalism, or the "nineteenth-century system," had become impossible, in Knight's account, because of "two fundamental oversights or falsities." The first was that "power can be used to get more power," such that there was a cumulative tendency towards "gross inequality." The second was that "personal influence" or persuasion had, with the development of "advertising and selling technique," become the dominant form of power both in "economic life" and in politics.[3] "Nationalism, under the general character of what is called fascism, seems to be the next stage in the political evolution of the liberal democracies, including the United States," Knight concluded in his draft of 1934; and again, in the extended essay published in 1935, "fascist-nationalism, then, seems to be clearly indicated as the next stage in the political evolution of the liberal democracies, including the United States."[4]

[1] F. H. Knight, "Nationalism and Economic Theory: An Essay in Institutional Economics" (1934), annotated typescript, Frank Hyneman Knight Papers, University of Chicago Library, Series IV, subseries 1, Box 13, folder 8, p. 9; Knight, "Economic Theory and Nationalism," in Knight, *The Ethics of Competition*. I am most grateful to the staff of the Special Collections Research Center at the University of Chicago for their help in locating the 1934 draft. On Knight, whose lectures were considered "an act of political alchemy often cited as the origin of the Chicago School," see Burgin, *The Great Persuasion*.

[2] Innis, "Nationalism," 136.

[3] Knight, "Nationalism and Economic Theory," 8–9, in Knight Papers.

[4] Knight, "Nationalism and Economic Theory," 16, in Knight Papers; Knight, "Economic Theory and Nationalism," 319.

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Knight's prediction about the United States was wrong, and he was unconvinced by what he described as "non-economic theories of economic life," including those of the "historical" economists.[5] But he was trying to provide an explanation, in the long term of economic history, for the nationalism of the times—a nationalism that, in the words of the other writer who contributed to the December 1934 round table, the economic historian Max Handman, had come to be "stated in economic terms in addition to the political and the cultural."[6] Knight sought to take economic nationalism seriously as a condition of importance for the methods of economics and for economics as a subject that was "essentially relevant to political action."[7] It is of importance for history too.

"What makes a nation *is* the past," Eric Hobsbawm wrote in 1992, and "historians are the people who produce it."[8] Economic history, even more than other varieties of history, has been from the outset an inquiry into nations and their destinies. One relatively innocuous reason is that economic history, like economics, is "essentially" a science concerned with policy, and policy is for the most part the policy of nations. The subject of American economic history "ought to be *the wealth of nations* in the literal sense of that phrase," according to an early contribution to the *American Historical Review*, and this presumption still echoes in surveys of global economic history: "her subject is the nature and causes of the wealth of nations [or] 'why are some countries rich and others poor?'"[9] The most widely read or cited articles on economic history over the past two decades have included regressions of gross domestic product (GDP) per capita for large numbers of countries over long periods of time.[10]

A second reason for the national orientation of economic history is also innocuous. Economic historians like to count (in general), and the basis of economic statistics is still national. The greatest period of institutional

[5] Knight, "Nationalism and Economic Theory," 6, 23–24, in Knight Papers.

[6] Max Handman, quoted in Innis, "Nationalism," 136. The "politico-cultural phase" was clearly antecedent, for the participants in the round table, to an eventual economic version of nationalism with "economic beneficiaries"—a "nationalist-capitalism." Innis, "Nationalism," 136, 138. See also Knight, "Economic Theory and Nationalism," 320; Handman, "The Sentiment of Nationalism."

[7] Knight, "Nationalism and Economic Theory," 5, in Knight Papers.

[8] Hobsbawm, "Ethnicity and Nationalism," 3.

[9] Callender, "The Position of American Economic History," 88; Allen, *Global Economic History*, 1.

[10] Acemoglu et al., "The Colonial Origins of Comparative Development."

creativity in economic accounting came in the course of World War II and under the extreme necessities of national wartime mobilization, especially in Britain and the United States. The invention of international accounting in the postwar period was founded on this work, as well as on the work of the League of Nations and on the international statistical congresses that were such an ornament of nineteenth-century globalization. The "fundamental principles" of international statistics are the "fundamental principles of national official statistics."[11]

Statistics of the global economy and global population are constructed by aggregating the statistics of national economies and populations. Their most conspicuous public uses have been to compare different national experiences—as in the United Nations Development Programme's Human Development Reports, which are the object of political scrutiny in part because they seem to show something about India in relation to Bangladesh, or about infant mortality in Chile in relation to infant mortality in Costa Rica or Cuba. The national basis even of international statistics is, in this sense, very difficult to avoid. Only national governments have the revenues to support statistical offices on any substantial scale. Only national governments, too, have the coercive power with respect to residence, customs, excise, incorporation, taxation, and other economic activities on which the collection of statistics depends.

The third reason for the national orientation of economic history is itself historical. It is a consequence of the methodological nationalism that has been associated with the discipline, or subdiscipline, since its origins in the 1840s. This is the view of historical understanding—by analogy with Robert Nozick's definition of "methodological individualism" as the claim that "all true theories of social science are *reducible* to theories of individual human action"—that sees all historical insight as reducible to histories of nations.[12] Political economy was itself a science whose subject, or whose object of theoretical inquiry, was the nation.

"Our aim is the representation of what nations have thought, willed, and discovered in the economic field," the German economist Wilhelm Roscher wrote in his 1843 *Grundriss*, the founding manifesto of the historical school of political economy. It was to be a science organized according to the "historical method," "whose business it is to pass judgement on and rule over

[11] UN Statistics Division, "Fundamental Principles of National Official Statistics," https://unstats.un.org/fpos/.

[12] Nozick, "On Austrian Methodology," 353.

men."[13] The first full-length work of historical political economy was published in 1848 by Bruno Hildebrand, who was elected a few weeks later to the Frankfurt parliament, the first national assembly of Germany, where he spoke (for the politically left faction) about free trade, the meaning of the word "independent," and the nature of historical knowledge.[14] Political economy was to be what Hildebrand described as "national-economic-cultural history," concerned with the context or the *Zusammenhang*, the "political and legal development of nations and statistics."[15]

The conflict between historical (or national) and abstract (or universal) political economy continued until the 1920s, in India, Germany, Hungary, Japan, and the United States. But the aspirations of the national or historical economists—of those whom Frank Knight described as "certain so-called economists, notably the 'historical schools' of Germany and England"—were meanwhile institutionalized in the new discipline of economic history, and, at least in Germany, in the organization of national statistical offices.[16]

The incipient nationalism of economic history was contested from the outset. There were other possibilities. The French economic historian and sociologist François Simiand, writing in 1902 about historical method and social science, was sharply critical of the conception of "le *Zusammenhang* social," or the capacious social context, on the grounds that it perpetuated the "traditional grouping of human facts according to country, nation, political unit."

The "affection" of historians for the *Zusammenhang* was derived, he surmised, from a mistaken view that the entirety of a society was in some sense more concrete or real—less of an abstraction—than an institution, for example, or a distinct social phenomenon. It would be perverse, in Simiand's view, to study "economic life" on the basis of national economies, and there were other, more promising inquiries in the connected world of the early twentieth century. The production of wheat in France, for example, was far more dependent on wheat production in other countries than on industrial production in France; a good way to understand French industry, in turn, would be through the "parallel and comparative study of American trusts, German and Austrian cartels, and syndicates of French producers."[17]

[13] Roscher, "Preface," 101.

[14] Hildebrand, *Nationalökonomie*; Wigard, ed., *Stenographischer Bericht*, 5285–87.

[15] Hildebrand, "Vorwort," 3.

[16] Knight, "Economic Theory and Nationalism," 286–87; see Goswami, *Producing India*; Grimmer-Solem, *The Rise of Historical Economics*; Grimmer-Solem and Romani, "The Historical School, 1870–1900."

[17] Simiand, "Méthode historique et science sociale," 136, 138, 144, 147.

The criticism has continued ever since, and it is certainly the case that much of the interesting and important recent work in economic history is not at all national, far less nationalist. It is micro and local, or hyper-macro and beyond national. But the most widely read works of economic history remain the large studies of origins. There are regressions of "French or British legal origins" and "nonabsolutist initial institutions," or of "why nations fail."[18] There are studies, as in Hildebrand's idyll, of cultural-economic history, or of "culture [as] a set of beliefs, values, and preferences, capable of affecting behavior," "Europe's pluralism," and Europe's "accelerated rate of cultural development" ("a culture of growth.")[19] There is a demand for inquiries that "speak to the imaginations of a broad public"—which is itself, as so often, political or national—and there is a supply.[20]

Frank Knight's predictions of 1934 and 1935 are distressing in the aftermath of Brexit ("we used to run the biggest empire the world has ever seen"), "make America great again," and the rise of nationalist parties across Europe.[21] "We pass by way of a crushing competitivism to a worship of emotional unity, and by way of intolerable insecurity to a morbid craving for security," Knight wrote; there is "faith in 'strong' individual *leadership*" and in leaders who believe that "all opposition reflects immoral motives, or hopeless stupidity."[22] There had been a "loss of interest in liberty" in the United States, Knight wrote in the 1934 draft, in a passage that did not appear in the longer essay of 1935; there was a "contempt for truth, which is replaced by pragmatic conceptions of what it is wise or expedient or remunerative to say on any subject."[23]

Knight's own prescriptions were poignantly slight: "general discussion" and the "friendliness and good humour, and the sense of a basic human equality" that had, in his view, characterized "commercialism, while it lasted."[24] But his conviction that nationalism was of importance—was serious—for economic thought is still compelling. For the essential stories of the nationalism

[18] Acemoglu and Robinson, *Why Nations Fail*; Acemoglu et al., "Colonial Origins"; Acemoglu et al., "The Rise of Europe."

[19] Mokyr, *A Culture of Growth*, 8, 216, 291.

[20] De Vries, "The Industrial Revolution and the Industrious Revolution," 249.

[21] Boris Johnson, "There Is Only One Way to Get the Change We Want—Vote to Leave the EU," *The Telegraph* (March 16, 2016), http://www.telegraph.co.uk/news/newstopics/eureferendum/12167643/Boris-Johnson-there-is-only-one-way-to-get-the-change-we-want-vote-to-leave-the-EU.html.

[22] Knight, "Economic Theory and Nationalism," 322–23.

[23] Knight, "Nationalism and Economic Theory," 11, in Knight Papers.

[24] Knight, "Economic Theory and Nationalism," 322, 325–26.

of our own times are narratives, in effect, of economic history. They are filled with facts and falsehoods—details about change over time in manufacturing employment and "[our] dizzyingly fertile manufacturing sector."[25]

Economic historians have an essential role in these difficult times: to tell the truth about economic history. The task is to examine narratives of immigration and where immigrants work; to investigate the history of manufacturing, imports, and the cost of living; to tell the history of protectionism and trade wars; to tell the history, too, of economic integration. It is to tell the history of insecurity and of its unequal distribution. It is to defend even the possibility of truth by defending the production, publication, and critique of sources of the government statistics on which so much economic history depends—statistical series that have in the past become the playthings of political conflict.[26]

It is the best of times for economic history: a time of inventiveness in micro-history and micro-economics; of a methodological pluralism with space for the economic history of cartels, or notarial acts, or serf estates, or dust bowls, or potash, or Walmart, or diasporas; of an extraordinary expansion of easily available statistical series, so luxuriant that it is as though they grow on websites; of unimagined access to the qualitative and quantitative archives of economic life. The best of times, in times which are not the best.

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[25] Boris Johnson, "There Is Only One Way to Get the Change We Want."

[26] The US Department of Commerce's integrated environmental or "'Green GDP'" accounts, for example, were suspended in legislation introduced in 1994; *Making Appropriations*, 61. On U.S. government statistics and funding since 2016, see "Data and Statistics about the U.S.," https://www.usa.gov/statistics#item-37157, and Steve Pierson, "Final FY16 Spending Bill Provides Increases for NIH, Census, Statistical Agencies," *AMSTATNEWS: The Membership Magazine of the American Statistical Association* (February 1, 2016), http://magazine.amstat.org/blog/2016/02/01/finalfy16/. On international statistics, see The World Bank, "Trust Fund for Statistical Capacity Building (TFSCB)," http://www.worldbank.org/en/data/statistical-capacity-building/trust-fund-for-statistical-capacity-building.

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