

From Pennsylvania to Verdun: Friedrich List and the Origins of World War I



World War I, or the “Great War” (as most Europeans still call it), was one of the biggest disasters in human history. It not only killed and maimed millions, the cream of a generation, it also destroyed the liberal, cosmopolitan system that had been created in the nineteenth century. It was, moreover, the direct cause of both the Bolshevik revolution of 1917 and the coming to power of Hitler in 1933, and all of the terrible consequences that followed from those events, not least another, even more terrible, war. In many ways, we have only just begun to recover from its effects.

All this makes the origins of the war a matter of concern for us all. One central part of the explanation bears repeating: the part played by bad economic ideas, and in particular the ideas of one man. This man, a mild, bespectacled German professor, can truly be seen as the progenitor of the great catastrophe of 1914–1918. His name was Friedrich List.

List (1789–1846) was a professor of political economy at Tübingen. A liberal in politics, he was forced to leave Württemberg in 1825 and emigrated, like so many of his countrymen, to Pennsylvania. There he became a journalist. He also became acquainted with the distinctive American tradition of economic nationalism and its leading advocate, Henry Charles Carey. In 1827 List published *Outlines of American*

Political Economy. After his return to Germany in 1832 he further developed his ideas in his main work, *The National System of Political Economy* (1841). List killed himself in 1846 while terminally ill, but his ideas lived on and had enormous influence.

By 1850 the pressing question for all statesmen was that of the best route to economic modernity. The main model was the one put forward by classical economists such as Smith, Ricardo, and Say, which was based on the historical experience of Great Britain. The central prescriptions were for honest and effective but limited government, development driven and funded by private investment decisions, and free trade. This was the policy followed by successful economies, such as those of Britain, Belgium, France (after 1830), and much of Germany. The major counterexamples were the United States (in trade policy) and despotic Paraguay. It was these that List drew on.

List argued that the free-trade and limited-government policy of Adam Smith was impractical, utopian, and dangerous. His central idea was that nations, which stand between the human species and the individual, are the real actors in history and economics. Thus their interests are paramount. In a world of competing nations, the prime purpose of trade and production is the maximum power and prosperity for each nation’s own citizens.

List argued that it was better for a nation to have a strong manufacturing and capital-goods sector rather than to rely on agriculture, services, or raw materials, even if the

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return was lower in the short or medium term. This meant that industry had to be protected from foreign competition and that capital had to be politically forced or induced toward the industrial sector. He was not against trade as such, but argued that it could only exist between nations equal in economic development. Otherwise, nations should seek to import raw materials and export manufactured goods.

These ideas became increasingly influential, particularly in his native Germany after the rise of Bismarck. By 1878, when free trade was finally abandoned, the entire Listian program had been adopted. The essential elements were protection for industry and agriculture; state provision of infrastructure; and state direction and encouragement of investment through “soft” loans, guarantees, and even direct investment. Heavy industry was particularly encouraged. Also important were a welfare system and state education, both intended to promote national consciousness and loyalty. A large military establishment was also important.

At first this policy was apparently successful. Germany grew rapidly and by 1900 was the world’s second largest producer of steel and the largest of bulk chemicals. However, a number of serious problems had appeared. A central part of the policy was to direct investment by artificially reducing the cost and inflating the returns for certain kinds of investment. This led to substantial malinvestment and to much fundamentally uneconomic capacity; that is, the output could not be sold at a price that would yield a return. This was made worse because domestic demand was depressed by taxes, tariffs, and high prices, so that the process depended increasingly on exports (particularly to Britain, which had remained loyal to free trade). But that became difficult as protectionism made it hard to give goods in exchange.

Moreover, Germany’s “success” had led many other nations to follow suit, notably Italy and, above all, Russia. The closing of

those markets to German goods led to increasing conflict. The effect of all this was that the loans which the state had underwritten became less sound and the fiscal position of the German government deteriorated sharply, to the point that by the spring of 1914 it was facing the prospect of major cuts, not least in the navy.

Changed Perception

The most serious result of List’s ideas, however, was a change in people’s thinking and perception. Instead of seeing trade as a cooperative process of mutual benefit, politicians and businessmen came to regard it as a struggle with winners and losers. Germany’s leaders, instead of seeing Russia’s rapid growth after 1890 as an opportunity and blessing, agonized over it as a terrible threat. Their response was the idea of “MittelEuropa,” a customs union including Germany, Austria-Hungary, and the Balkans, which would supply Germany with raw materials while providing a captive market. The leaders also advocated colonies outside Europe and a “blue water” navy. This provoked a similar and hostile response from other powers, especially from Russia. The result was a clash of imperialisms in the Balkans, and in July 1918 the German elite took the (insanely foolish) decision to fight a war with Russia and France. Had they seen the world differently this would not have happened.

The ideas of Friedrich List have been widely followed to this day, in Japan and the Far East for example. The results have been the same: rapid growth, followed by overinvestment, declining returns, and fiscal and/or currency crises. The worldview that these ideas lead to is still common in the United States, as much comment about China’s rapid growth indicates. We must devoutly hope that today’s leaders do not make the same kind of errors that List’s German and Russian disciples made in the years before 1914. □