General perception of the doctrine of economic nationalism had been changing during the centuries of the world’s economic history. During the heyday of early mercantilism the policy of economic nationalism was claimed by economists as the only possible way for a nation to reach prosperity and become truly rich. The 16th, 17th, and 18th centuries involve the birth and consolidation of the modern concept of the national state. The economic policy of that period, in particular the regulation by the state of external trade on behalf of national power was aimed at wealth accommodation within the country and colonial expansion. However, that wide recognition of nationalistic policy changed to the spreading of free trade policy, advocated primarily by Adam Smith, so classical economics, and later by neoclassical economists, especially by adherents of the Manchester School. Classical economic theories were universal, applicable to all countries equally. Probably, that caused the rise of a new tide of economic nationalism. German economist Friedrich List claimed that Smith’s universal theory worked well for developed countries, namely England, but could not be implemented in less developed countries like Germany. Later, nationalistic policies were proposed by economists belonging to German Historical School of economics. Alexander Hamilton and his “infant industries” argument is another example of new protectionism. But one should notice that together with economic nationalism and measures like protectionism for the sake of weakening competition, liberal principles for social organization were proclaimed. In the XX century those liberal principles became a core value and came to the fore, especially in the continental Europe. European integration and trade organizations establishment put nationalist ideas behind. A phenomenon that we are observing nowadays, in the XXI century is another new tide of economic nationalism. Great Britain and the USA examples are the most striking ones, and upcoming elections in France may become the next link in this chain. Current situation in Russian international trade is another illustration. The most striking evidence is such a measure as import substitution, implemented by Russian Industry and Trade Ministry. The idea of national superiority over foreign goods is spreading because of mass-media influence.

The situation provokes worries among the most famous professional economists and ordinary people. For instance, Nouriel Roubini in one of his of his most recent articles commented the USA events as: “Today a US turn to isolationism and the pursuit of strictly US national interests may eventually lead to a global conflict”. But if such a policy is taken as an evil in the society of modern leading economists, why has it been pursued at least once in almost all the countries? Why is this movement emerging nowadays in the globalized world? Indeed, should we blame policy makers for irrational behavior or is there any underlying rationale in nationalism policy pursuing?

We are not going to give an irrefragable answer. The following /presentation/ is an attempt to formalize the phenomenon of economic nationalism and to explain it from the position of rationality. First of all let us clarify what do nationalism and then economic nationalism mean. Here we cite Gellner’s definition of nationalism, expressed in Marvin Suesse’s words: Nationalism is the belief that distinct people exist and that they should be organized into distinct states. Then we define economic nationalism using expression from “Omnipotent government” by Ludwig von Mises: the domestic policies of a nationalist state inspired by the aim of improving the conditions of some groups of citizens by inflicting evils on foreigners and those citizens who use a foreign language.

Let us examine what does economic nationalism mean in practical terms. We highlight the following ways of conducting nationalistic economic policy:

• Protectionism in foreign trade. This is the most common form of economic nationalism, aimed at the reduction in the number of foreign competitors in internal markets. The first attempts to substantiate protective laws in economic science formed a direction called mercantilism. Here
we recall Philipp Wilhelm von Hornick and his famous “Oesterreich uber alles, wann es nur will” in 1684. In Russia a vivid example of a treatise on mercantilist economic policy is the “Book of poverty and wealth” (1724) by Ivan Tichonovich Pososhkov. This doctrine was advocated by many economists from the 16th to the 18th century.

- Reduction in the share of capital owned by “foreigners”. This measure is usually aimed at protection of profitable industries. For instance, in October 2005, Natural Resources Minister Trutnev stated that Russia should limit foreign participation in three main areas: 1) auctions for natural resources that are scarce, such as diamonds, uranium, and quartz; 2) large mineral deposits; and 3) fields close to military sites.

- Investing in nationality and ethnicity. An example of such an investment is provided by Albert Brenton in his paper “The Economics of Nationalism”, published in 1964 in the “Journal of Political Economy”. One of his examples is a Canadian law regarding magazines. "Only a truly Canadian printing press, one with the 'feel' of Canada can give us the critical analysis, informed discourse and dialogue which are indispensable to a sovereign society" (Royal Commission on Publications, 1961, p. 2). It would have helped in the development of Canadian periodicals industry but increase the cost of advertising to Canadian business. However, the proposed measure was ideological in nature, aimed at maintaining national mass media instrument. Investments in national defense and military expenses may be also attributed to investing in nationality.

The most challenging task is to determine the criterion of rationality. Here we will claim that policy is rational if it leads to gaining some monetary or non-monetary benefits. The second group is very important and may further help us to provide the major part of the proof of rationality. Here we list the most significant sources of both types of benefits. Namely, lowering competition in the local market, high salaries for national elites, supporting local investment projects, gains from nationalization as monetary gains; and the country's image on the world stage, national security, satisfaction of such a need as national pride, easy interests coordination within a country as non-monetary gains. Indeed, ethnic fragmentation and the lack of a national identity make it difficult to agree on public goods such as infrastructure and education (Easterly and Levine, 1997; Alesina, Easterly, and Matuszeski, 2011)

Now let us look at economic nationalism from different points of view. In the beginning one should establish a theoretical framework of a state. Here we may distinguish two cases: 1) considering a state as a mere sum of individuals, namely its citizens; 2) considering a state as a self-sufficient economic agent.

In the former case we primarily recall ideas of Adam Smith, Jeremy Bentham who belong to the abstract canon of economic science. They argued that the nation’s main goal was to provide the greatest happiness of the greatest number. And the role, assigned to a government was one of the supporter and night-watchman. Smith’s theory was universal for all the nations. Therefore there was no room for nationalism. However, there were scholars who were not agreeing with the concept of state as a sum of citizens. And it brings us to the second framework, namely to considering a state itself as an economic agent which is represented by governing elites, who pursue their own political and economic goals. Here the concept of nation comes to the fore, like in treatises of mercantilists, who considered interests of a state being a supreme value. Only the nation and its interests should be defended; the nation should impress the whole world with its power and welfare. If in this case population receives less income it does not matter. This doctrine is advocated by Ivan Pososhkov in Russia and, in a manner, by Friedrich List in Germany. He tried to revive the national idea in economics, opposing universal theory built by
Smith. It was important for List to draw the attention of policy makers that each national state had its own historical background and that it was impossible to establish the same economic laws in progressive England and in retarding Germany of that time. Mordvinov

If we adhere to the abstract canon, in other words, the concept of social welfare maximization, economic nationalism should be claimed irrational because it eventually leads to high opportunity costs. But on the other hand, we understood that for a state the policy of economic nationalism is a rational one if state is not considered as a mere sum of individuals and state’s interests are different from the sum of individuals’ interests. Indeed, there is also political rationality, not only economic one, and that is what we call non-monetary benefits of governing elites. As we have already mentioned, a strong sense of national identity within a country helps government to control the population of the country, especially if the population is ethnically fragmented. It seems that economic nationalism is a politically rational for an authoritarian state.

Another idea is considering economic nationalism as a desire for independence of a state. Some governments consider economic dependence as a dangerous thing in context of constantly changing global markets. Dependency may also be sometimes taken for weakness. An example is Mordvinov’s ideas. The same idea was adhered by List and his “educative protectionism”.

Let us move to independence and its rationality. I claim that economic nationalism, implemented in order to reach a certain level of independency (we are not speaking about extreme cases as autarky) may be rational. More precisely, it could be rational in the past. For example, nationalistic economic policies in Russia and Germany, proposed by Mordvinov, Witte, List and Schmoller. They treated economic nationalism more like a positive measure, helping nation to overcome its backwardness. Historical background of the two countries was similar during the period under review, they were facing economic, social and political obstacles retarding their advance in comparison with other more developed nations (like, England of that time, for instance). Sergei Witte emphasized this similarity and adhered to the similar vision of overcoming those obstacles, implementing the “positive” economic nationalism measures. By “positive” nationalism he meant that one of Otto von Bismark, which is “healthy, dedicated, strong, and therefore is not afraid to defend historical heritage of a nation”. Witte distinguished another way of pursuing nationalistic policy: egoistic, driven more by furious passion than by intellect, and the example of such a behavior, according to Witte was Abdul Hamid, the 34th Sultan of the Ottoman Empire. That was actually the first attempt to rationalize economic nationalism. Also Ludwig von Mises provided some explanation of “good” and “bad” way to implement the policy of economic nationalism (“liberale oder pazifistische Nationalismus VS militante oder imperialistische Nationalismus”).

List’s’s nationalism was characterized by Witte as the positive one. The German economist was always defending freedom as a general idea, noting that protectionism in the international trade does not eliminate liberty of the society, for example, freedom of speech and democratic political regime. These conditions were necessary for the establishment of a strong self-reliant state with national morale and were productive forces of progress. Therefore, the kind of economic nationalism, as observed in Russia and Germany, could be a characteristic of a country, feeling its underdevelopment, but a great potential at the same time. But nowadays in the age of information technologies and exponentially growing complexity of networks being independent means losing information that can be used to increase productivity. We pay attention to ideas outlined in the book “Globalized economy: from hierarchies to networks” by Natalia Smorodinskaya. Here we would like to cite N.Roubini again: “The historical record is clear: protectionism, isolationism, and “America first” policies are a recipe for economic and military
disaster”. This disaster may happen because of strong established interconnections between countries in the modern world. If we consider rationality of economic nationalism as a desire for self-sufficiency through the prism of integration, it turns out that the more a country is involved into global affairs, the less rational it is for the country to implement nationalistic economic policy.

Conclusion:

For a clear interpretation of rationality we need to establish a particular theoretical framework.

Another modelling options:

- Short run vs Long run
- Economic nationalism as discrimination
- Small open economy vs Large open economy
- LDC’s case