

Nationalism, development and integration: the political economy of Ernest Gellner

Ugo Pagano*

In this paper, we show how in Gellner we can find a stimulating analysis of the institutional equilibria that characterise agrarian and industrial society and the conditions that make possible institutional change from one equilibrium to another. This allows a convincing account of the reasons why some countries industrialised before others and why nationalism had such an uneven impact on the development of market economies. We consider the relation between Gellner's analysis and other theories of organisation and point out how Gellner can help to solve some paradoxes that arise in these theories. We also argue that joining Gellner's contribution to the analysis of the positional nature of status and power reinforces his conclusion about the necessary stagnation of agrarian societies and the necessary (over)accumulation of different forms of capitalism. We conclude by examining the implications of his analysis for the process of globalisation and its challenge to national states.

Key words: Nationalism, Development, Bounded rationality, Positional goods, Globalisation, Gellner

JEL classifications: B3, N4, O3, P5

1. Introduction

The *Economist* of 25 November 1995 announced that 'Ernest Gellner social anthropologist and breaker of intellectual fences died in Prague¹ on 5 November aged 69'. According to the *Economist*, Mr Gellner could have repeated the boast of Max Weber: 'I am no donkey and I do not have a field.' The comparison of the *Economist* was appropriate. Gellner made important contributions on a broad variety of topics, ranging from anthropology and other

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Address for correspondence: Dipartimento di Economia Politica, Piazza S. Francesco 7, Università di Siena, 53010 Siena, Italy; email: Pagano@Unisi.it

* Università di Siena. I had the privilege of talking to Ernest Gellner (rarely) during my years in Cambridge and (very often) during the last year of his life when we were both teaching at the Central European University which, at that time, was based in Prague. While I have little doubt that I have greatly benefited from our conversations, the responsibility for any mistakes (including the misunderstanding of his work) is only mine. I thank Massimo D'Antoni and Frank Hahn, Antonio Nicita and two anonymous referees of the *Cambridge Journal of Economics* for their very useful comments.

¹ Gellner had also spent his youth in Prague. After the German occupation, he left for England where he completed his education at St Albans County School and at Balliol College. As a member of the Czech Brigade 'Gellner marched in the victory parade in Prague 1945, but was unable to re-settle in the city he loved' (Hall, 1998, p. 2). He went back to England where he became Professor of Social Anthropology and a Fellow of King's College at the University of Cambridge. He returned to Prague in 1991 to open a Centre for the Study of Nationalism for the newly founded Central European University.

social sciences (including economics) to philosophy and Islamic religion.¹ His studies on nationalism, which are the main topic of this paper, also broke down many intellectual fences. They should have attracted the attention of economists for the very fact that his theory was for him and for 'non-economists' an 'economic' theory of nationalism. However, this was not the case. Professional economists largely ignored his theory. Gellner used to say with dismay that a couple of famous economists had told him that his complex explanation of nationalism had little to do with economics. According to them, the proper 'economic' explanation was that individuals had (possibly 'rational') tastes for nationalism.

Gellner had been trained at Oxford 'largely in economics and philosophy'. According to him, during his undergraduate studies, 'the relationship between the style of thought prevalent in each of these disciplines on one hand and reality on the other was clouded in obscurity. Economic theory was largely deductive, and its premises postulated individuals with clear articulated, privately chosen ends, seeking to satisfy them in a world of limited means.' Gellner observed that he knew 'full well that such a condition if it ever applied at all, certainly did not apply to all men at all times, but the question of delimiting the zone in which this kind of economic theory could operate was hardly asked by economists. They seemed to think that it did apply to the parts of the world that mattered, and the rest was a kind of ontological slum unworthy of attention'² (Gellner, 1994, pp. 20–1).

Since his first studies in Oxford, Gellner perceived that the assumptions of exogenous preferences and rationality advocated by economists were, paradoxically, a serious obstacle to the understanding of the importance of economic factors. According to him, economic factors could often explain the endogenous change of preferences that took place with the advent of mobile industrial societies when many individuals developed a 'nationalistic' preference for the identification of political communities with ethnic communities.

In the next section of this paper, we consider Gellner's view of the limits to economic rationality and his endogenous explanation of its emergence. Gellner integrates the works of Durkheim and Weber and proposes an evolutionary explanation of the emergence of rationality. His approach is not only intended to provide an alternative to neoclassical economics but, more generally, to any Cartesian self-referential view of rationality. From the standpoint of this evolutionary approach, where (economic) rationality emerges from a precarious accident in the history of religions, Gellner also criticises the providentialist approach of Hegel, Marx, Popper and Hayek. According to Gellner, a shortcoming of these authors lay in a common tendency to believe that a return to a better world was somehow

¹ In spite of the variety of topics Gellner's works are characterised by a deep methodological unity. In his little book on *Postmodernism, Reason and Religion* (Gellner, 1997), he advocated a methodology of 'rationalist fundamentalism' which, in my opinion, is not far from that of 'critical realism' (see Lawson, 1997). Gellner observes how 'rationalist fundamentalism', while obviously refusing the idea typical of 'religious fundamentalism' that there is one revealed and definitive truth, shares with it 'the view that there is external, objective, culture-transcending knowledge' (Gellner, 1997, p. 75). Both views are therefore at odds with the post-modern relativist position that according to Gellner is only good for encouraging political compromise, while it fails to provide 'an account of the realities of our world and a guide to conduct' (Gellner, 1997, p. 96).

² At the same time, Gellner thought that Oxford philosophers were affected by the opposite problem: 'If the economists were uncritical pan-modernists, the philosophers were becoming equally un-critical pan-romantics, though they did not so describe themselves' (Gellner, 1994, p. 21). The claim of Oxford philosophers was that 'the correct way to proceed in philosophy was by observing and accepting the conceptual customs of one's community, because such customs alone enshrined in the habits of speech, could authorise our intellectual procedures' (Gellner, 1994, p. 21). The criticism of this position was going to characterise some of Gellner's important later contributions. Besides *Postmodernism, Reason and Religion* (Gellner, 1997) one can refer to *Language and Solitude. Wittgenstein, Malinowski and the Habsburg Dilemma* (Gellner, 1998B), where he considers the contrast between the 'atomic' and 'organic' vision of knowledge as a typical dilemma of the intellectuals of the Habsburg empire when it was facing the uncompromising claims of the various cultures.

guaranteed by a primitive stage where the genuine essence of human activity had been somehow defined.

In the third section, we shall see how Gellner was able to explain how, besides economic rationality, the emergence of industrial societies required the coexistence of another set of fortuitous circumstances. Economic development was also born of the marriage of a national high culture and a national state. The marriage delivered a homogeneous culture. Cultural standardisation decreased the costs of the high mobility that is necessary to the workings of industrial societies. Nationalism (i.e., the idea of a necessary identity between ethnic and political community), which was almost absent in stagnant agrarian societies, became an important characteristic in dynamic industrial societies. We shall try to clarify Gellner's insight by showing how agrarian societies and industrial societies can be characterised as two self-reinforcing institutional equilibria and that the movement from the first equilibrium to the second requires very special circumstances. Gellner's theory also provides a complex explanation of the different 'time zones' of industrialisation and the emergence of national feelings that distinguished the different European countries. Or, in other words, Gellner gives also an endogenous explanation of the different development paths that characterised the European economies.

In the fourth section, we explore the relations between Gellner and some economic theories of organisation. First, we argue that his theory of the division of labour is different from the classical theories of Adam Smith and Charles Babbage. Second, we maintain that Gellner's theory anticipates many of the themes that have later been considered by New Institutionalists. Indeed, his analysis of the relations between specificity, culture and safeguards provides a useful critical integration of New Institutionalism because it shows how mobile markets require safeguards and institutional pre-conditions that are ignored by this school. Finally, we argue that, in many respects, Gellner's theory fits in the tradition of the works of Schumpeter and Keynes and that it can help the integration of the economic analysis of institutions with that of sociologists like Durkheim who placed the endogenous explanation of preferences at the centre of their analysis.

The starting point of the fifth section is Gellner's distinction between the distribution of power and the distribution of wealth that characterise agrarian and industrial societies. We argue that the stagnant nature of agrarian societies and the process of growth typical of industrial societies can be associated with the different relations between wealth and power existing under these two social arrangements. We observe that, while globalisation and integration may replace the nationalistic drive of the early times, capitalism is still characterised by the fact that the quest for status and the drive for power are associated with the (over)accumulation of wealth.

2. The emergence of (economic) rationality

Gellner considers the emergence of economic rationality and its positive implications for economic development in the context of an extensive analysis of the role of reason in human history and of its relation with culture.

In the philosophical tradition of Rationalism, which starts with Descartes, human reason is a force to be contrasted with that of tradition and culture. Thanks to human reason, individuals can build from scratch knowledge of the world and of the knowing self that is free from the prejudices inherited from the past. The individual should not take for granted all past traditional beliefs but rather should carefully reconsider their validity. Even the existence of the knowing self had to be subject to this re-examination. '*Cogito ergo sum*' was a

famous result of this radical rational analysis of all the certainties inherited from the past. With this sentence, Descartes intended to show the way in which individuals could come to true conclusions by the means of 'inner conceptual compulsions' providing them 'with the liberation from the accidental, unreliable convictions rooted in nothing better than social precedent and pressure' (Gellner, 1992, p. 29). This inner compulsion was related to a natural 'repugnance' to conceive that what thinks does not exist at the very time it thinks. The existence of doubt clashes with the doubt of existence.¹

However, according to Gellner, one should also explain the origin and the nature of this rational inner compulsion. This is a special type of selective compulsion that constrains the individual to rely on slow deliberation, separation of issues, consistency, thoroughness, accountability and auditing. Gellner observes that this special compulsion does not characterise most individuals in societies and arises as a dominant tendency only in modern industrial societies. This creates a serious problem for the philosophical tradition inaugurated by Descartes, which does not explain why this type of compulsion emerged only in particular societies and at certain stages of human history. Descartes advocates a rationality that can justify itself independently of human history which, according to him, was often 'polluted' by the forces of tradition and prejudice. However, the inner compulsions characterising human reason come to the individual as data and not as products of their rationality. Thus, the emergence of human reason has to be explained by referring to the 'pollution' that characterises human history (Gellner, 1992, p. 5).

Gellner anticipated the present growing consensus that '[i]f rational behaviour is to be assumed, then its evolution has to be explained' (Hodgson, 1998, p. 189).

According to Gellner, a successful explanation of the emergence of rational behaviour could be based on the contributions of Durkheim and Weber. Their joint achievements help us to understand how human reason and economic rationality could have evolved from the elementary forms of religious life and, later, from the more sophisticated monotheistic religions. Durkheim's theories explained how communal ritual could be 'the progenitor of the pan-human rationality of conceptual thought', while Weber's analysis of puritanical monotheistic monocratic religion elucidated how this type of religious experience could be 'the progenitor of orderly symmetrical rationality, which alone makes a modern economy possible' (Gellner, 1992, p. 139).

In Gellner's view, the value of Durkheim's contribution is best appreciated starting from the observation that, while the association of ideas can be boundless, unconstrained and undisciplined, our concepts are usually astonishingly well disciplined. It is true that, in a few cases, such as the psychoanalyst's couch, free association is not only allowed but is even made obligatory. However, usually, we do not think as we please and we do not associate everything with everything else. In other words, 'associations are born free, but are everywhere in chains. Society would hardly be possible otherwise' (Gellner, 1992, p. 34). Therefore, a satisfactory theory of society must explain the origins of the inner compulsions defining these chains.

Durkheim's explanation relies on the hypothesis that our conceptual and moral compulsions are instilled by ritual. While ritual is not identical in all societies, its underlying role remains the same. It imprints the required shared ideas and those collective representations that make individuals concept-bound, constrained and socially clubbable. 'The morning after the rite, the savage wakes up with a bad hangover and a deeply internalised concept.

¹ This contrast may simply show that one should also be doubtful of the doubt. It does not necessarily allow us to get rid of it (as Descartes tried to argue with his complex philosophical construction). Gellner (1992) shows how Hume and Kant were aware of this limitation of human reason.

Thus, and only thus, does ritual make us human (Gellner, 1992, p. 37). Individuals cooperate because they think alike and they think alike thanks to ritual.¹ Gellner observes that Durkheim's version of the social contract has the merit of not being circular. Durkheim does not assume rationality and social obligation between those who set up social order. Rather, it shows how those who lack either can be induced to acquire them.

Gellner observes that, if Durkheim is right, the inner conceptual compulsions that allow the formulation of arguments such as '*cogito ergo sum*' have their roots in rituals that are a blend of rigid custom and emotional excess. In this case, Descartes has entrusted himself to those forces of custom and example to which he wished to elude by relying entirely on human reason.

According to Gellner, Durkheim's theory has some limitations that make it only a partial objection to Descartes' blend of rationalism. Durkheim argues that a particular rationality, that allowing discipline of concepts and communication between individuals, had evolved from traditions and rituals.² Men become rational in the sense that they learn to think in severely circumscribed, shared and demanding concepts, rather than in terms of privately assembled and perhaps widely diverging associations. When one accepts this view of rationality, it is possible to accept that human reason has evolved from early forms of religious life. However, Durkheim's theory cannot explain the emergence of a 'superior' type of rationality, that is, the scientific and instrumental rationality which characterises modern industrial societies. In other words, it cannot explain why some cultures and some individuals (like Descartes!) are more rational than others and claim that they can test the rationality of other individuals.

Gellner demonstrates that the integration of Durkheim's theory with that of Max Weber allows us to explain also the evolution of instrumental rationality and of systematic scientific cognition.³ In other words, Gellner shows how Durkheim's primary type of rationality could evolve in the more sophisticated Weberian instrumental and scientific rationality.

'Assume a community of men rational in Durkheim's primary sense', Gellner (1992, p. 42) argues, 'and exemplifying his theories: the community subdivides into groups whose diverse statutes are ritually confirmed, and hence very deeply internalised . . . But suppose now,' Gellner continues, 'that for some reasons this community becomes part of a wider one, which contains the cult of a High God. This deity happens to be a jealous deity.' Under these conditions, the struggle of the literate priests of the central and exclusive cult against the local practitioners may lead to the suppression of particular traditional ritual occasions and to an extension of ritual solemnity to all aspects of life. A written revelation may convey by legal prescriptions, more than by exemplary stories, the shared meanings and obligations to the faithful and encourage systematisation and theoretical justification. The exclusive

¹ This observation stimulates a new question: where do rituals come from? An evolutionary explanation might help. The greater fitness in war of the tribes adopting gods and rituals favouring cooperation between the members of the tribe (especially in wars with other tribes) may favour the diffusion of these gods and rituals. Similarly to genes, Gods and rituals can be seen as memes that maximise their fitness by means of the individuals carrying them. On this point, see the last section of Pagano (1995).

² This form of rationality is often overlooked in economics, where rationality is often identified with the maximisation of a certain objective function. In an earlier work, Gellner (1985, p. 73) maintained that humans are gaffe-avoiding animals 'who are not maximising anything or striving for some concretely isolable end but are simply eager to be included in, or remain within, a continuing play. The role is its own reward, not a means towards some further end-state.' In this respect, human rationality finds some of its most important expressions in the ability to participate in forms of social life, in the mastering of a language, the use of a code, or participation in a conversation.

³ Weber perceived the uniqueness and distinctiveness of rationally pervaded civilisation, and the manner in which it constituted a break with the principles normally governing agrarian societies. He saw this emergence as a mystery that required explanation (Gellner, 1992, p. 138).

deity is declared to be all-powerful and all-knowing, with the consequence that the salvation and the damnation of the single individuals must have been willed by the deity from the very start.

Under these conditions a more sophisticated type of rationality may evolve for two reasons. In the first place, the sacred no longer endorses this or that crucial concept. The all-powerful deity may instil respect for the formal properties of all concepts. It is evenly spread out rather than concentrated in specially sacred times and places. Hence, it no longer sacralises specific institutions, but rather an orderly, symmetrical, rule-bound general manner of proceeding and thinking. In other words, it encourages a behaviour of rational investigation where all the pieces of evidence (for instance, *cogito*) and their possible implications (*ergo sum*) are treated symmetrically and carefully examined.

In the second place, the sacred does not imply that the faithful should indulge in much special ritual activity. They should really treat all aspects of life as sacred. In this case, the best sign of election by the all-powerful and all-knowing deity is the person's sober and successful performance. Thus, the faithful would not turn profit into pleasure or power in this world, or salvation in the next, 'but carry on working disinterestedly and would reinvest rather than turn it into status, power and enjoyment' (Gellner, 1992, p. 47). The accumulation of wealth becomes an end in itself, and individuals develop a habit of careful rational calculation of the means that are best suited to the achievement of this goal.

In both cases, because of the dominance of the jealous, all-powerful and all-knowing single deity, Durkheim's primary rationality, based on elementary forms of religious life, evolves into the more sophisticated Weberian type of rationality. Thus, scientific investigation of the world and economic calculus are not free from the marks of an irrational past. Even parricide, which reason can later carry out against all forms of religions, cannot cancel the original sin: reason was born from unreason. Human reason cannot find a complete self-referential justification of the inner compulsions that characterise its way of handling the world.¹

In Weberian theory, the application of reason to systematic scientific inquiry and to production occur as a contingent fortuitous event in the life of a particular religious tradition.

In this respect, the Weberian explanation of the rise of modern industrial society is a great deal different from that of the providentialist Hegelo-Marxists who saw the emergence of our particular world, with all its qualities, as the manifest destiny of all mankind, as an inherent continuation and culmination of a long and universal development, bound to arise sooner or later whatever happened.

According to Gellner, 'the siege mentality introduced by Max Weber—it all emerged by a precarious accident and the cost is great—is incomparably superior to the complacency of the Hegelo-Marxian tradition'. We need 'to understand both our precariousness and our options, and their price' (Gellner, 1992, p. 182).

For similar reasons, Gellner criticised Popper's view of human cognition and Hayek's individualism. Both theories paradoxically shared some aspects of the Hegelo-Marxian

¹ Gellner's rationality is definitely a 'bounded rationality'. Gellner (1992, pp. 132–3) considers a 12-point checklist of reason-bashing that gives us many dimensions of the directions along which rationality is bounded. Perhaps one important difference from the economic theories of bounded rationality is that, in Gellner's view, one can best appreciate the bounds of rationality (as well as its enormous power) by considering *The Historical Role of Rationality and Rationalism* (which is also the subtitle of his beautiful book *Reason and Culture*). In this book (p. 159), Gellner also shows awareness of the fact that the attempt to have a self-referential system of inclusive rationality leads to an infinite logical regress. A similar infinite regress arises when maximisation seeks to include maximisation costs in the calculation of the optimal solution. On this point, see Pagano (2000B).

tradition that both authors had so fiercely criticised. Whereas, together with Durkheim and Max Weber, Gellner maintains that chance and discontinuity characterise the emergence of reason and rationality, Popper believes that a fundamental unity and continuity characterise all forms of life from the amoeba to Albert (Einstein). All living organisms are engaged in a similar activity of problem-solving. Also, the growth of our knowledge is the result of a process of selection of hypotheses¹ closely resembling Darwinian natural selection. According to Popper, what distinguishes scientific knowledge from animal and pre-scientific knowledge is this: 'that the struggle of existence is made harder by the conscious and systematic criticism of our theories' (Popper, 1979, p. 261).

Gellner criticises Popper because deeper differences characterise these two types of selection. The selection of *packages* of useful characteristics is the central outcome of the struggle of existence between natural species as well as between pre-scientific theories. In the latter case, their 'survival depends on their satisfaction of a wide variety of human and social requirements, amongst which theoretical truth is not very prominent . . . [They] may be useful because they are not true' (Gellner, 1985, p. 53). By contrast, science tests suitable isolated elements and unpleasant truths may survive, even if they are not useful. For these two reasons, Gellner criticises the view that science is some form of rediscovery of a genuine process of accumulation of knowledge that had prevailed in the natural world and had been temporarily suspended in the closed societies advocated by Plato, Hegel and Marx.² There are no evident natural roots for the modern accumulation of scientific knowledge that make it the unsurprising final victory of an open society. According to Gellner, this has rather evolved as a fortuitous event within a certain religious tradition.

Gellner maintains that Hayek (1967) also can be criticised for a similar providentialist approach. Hayek finds the roots of the individualistic order that he advocates in the early stage of humankind where the individuals were not yet corrupted by the collectivism that characterised their tribal stage of development. Humankind had better shed this bad habit as quickly as possible, in the interest of returning to its own best nature as well as of economic advance.³

These criticisms of Hegel, Marx, Popper and Hayek show how strongly Gellner disliked explanations of the emergence of (economic) rationality that were based on a manifest destiny of humankind (especially when this destiny was also inscribed in some necessary return to an uncorrupted primitive natural stage). In some deep respects, his approach was genuinely Darwinian. The most innovative aspects of Darwin's theory shared the same 'siege mentality'. In natural selection also, there is no *ex ante* teleology inscribed in natural history or in human nature, and the human modern world emerges through some precarious accidents.⁴

¹ 'Our Knowledge consists, at every moment, of those hypotheses which have shown their (comparative) fitness by surviving so far in the struggle for existence; a competitive struggle which eliminates those hypotheses that are unfit' (Popper, 1979, p. 261).

² According to Gellner, the emergence of a closed society in an originally healthy world 'resembles a form of theodicy—why did an angel fall, why is there evil in a basically good world?—but it is perhaps aggravated by a certain inelegance and asymmetry in so far as the Fallen Angel is given such a short run, a few millennia only' (Gellner, 1985, p. 50).

³ 'From the viewpoint of this kind of normative (or crypto-normative) individualism, such strong social morality itself is an ethically deplorable weakness, absent in the jungle and again in a post-Enlightenment world, but holding a temporary and deplorable sway in the intervening Dark Age' (Gellner, 1985, p. 50).

⁴ While Darwin stressed the accidental nature of changes, some unilinear interpretations of his work implying some sort of necessary evolution from the amoeba to Einstein, have also been advanced. On this point, see Pagano (2000B). Pagano (2001A) considers the implications of the Darwinian approach for the evolution of human institutions.

In the next section, we shall see that Gellner's own theory of nationalism shares and reinforces this 'siege mentality' by adding other sets of fortuitous circumstances that, besides economic rationality, are necessary to the emergence of the modern industrial world. These will include other factors that are usually excluded from rationality and sometimes defy it, notably the emergence of nationalism.

3. Economic development and the formation of nations

When the Austro-Hungarian Empire collapsed, there was very little surprise at its disintegration.¹ The Austro-Hungarian Empire looked like a ghost that had survived beyond the time of its natural death. It was widely considered to be an artificial construction that had put together different peoples who had little or nothing to share: they had no common traditions, no common languages and no common culture.

According to 'nationalists', the Austro-Hungarian Empire had always been an artificial construction that had denied the 'natural' rights of their ancient nations. However, the Austro-Hungarian Empire would have been far from being considered exceptional two or three centuries before its downfall. Before the French Revolution, wars and dynastic policies (in particular, marriage policies!) often determined the composition and size of political communities; there was no particular feeling of identity among the temporary members of political communities, who often spoke different languages and shared different social customs. In spite of the sense of antiquity or even of eternity of many nations, the identification of 'political communities' with ethnic groups, that is the central idea of nations and nationalism, did not characterise human societies before the 18th century.²

Why were the multiethnic political arrangements that were the rule in predominantly agrarian societies considered to be unnatural arrangements in industrial societies?

Gellner's answer to this question relies on a clear distinction between the fundamental characteristics of agrarian and industrial societies.

In traditional agrarian societies, the risks of specialisation are considerably lower than those of industrial societies. In agrarian societies, the incentives to innovate and to exploit the profit opportunities that arise from the application of innovation are very weak. The level of productivity is low, and most commodities satisfy basic needs for local markets, for which demand is unlikely to be volatile. Because of the absence of innovation and of the relative stability of demand, these societies are stationary. Thus, in agrarian societies, the activities of the individuals can safely repeat themselves over time. Individuals rarely change their occupations, which can be (and often must be) passed on from parents to children. In this situation, each occupation can develop its own idiosyncratic culture by which the skills, the 'secrets' and the ethical codes are transmitted from one generation to the other.

¹ As Gellner observes, during its 'terminal decades' the Empire 'failed to satisfy the ethnics. It wasn't so much that it was rigid and unwilling to accommodate itself to their requirements: on the contrary many of them did exceedingly well. It was rather that, given the complexity of the ethnic map, and the distribution of the ethnic groups both on the map and in the social structure, there was simply no way of satisfying them all . . . The Empire could only satisfy the demands of some by infuriating others. It could easily infuriate all of them and only with luck accommodate *any*' (Gellner, 1998B, pp. 33–4). However, as Gellner (1998B, p. 34) observed, the terminal decades of the Empire 'were not known to be terminal, for few anticipated or even desired its demise'. The empire looked so terribly outdated only after its sudden collapse.

² Hobsbawm (1992) and Hobsbawm and Ranger (1983) unravel how the idea of the old origin of nations and other traditions have often been invented in the process of nation building.

In traditional agrarian societies, cultural differentiation can even be useful. Culture can specialise to satisfy the specific needs of a particular trade and to favour the cohesion of its members. Cultural differentiation enhances the stability of society. In agrarian societies, the language of the people in power is often different from the language of the workers. The written language may not be spoken or be spoken only by priests, bureaucrats and intellectuals. This diversity of languages does not cause particular problems. Rather, it contributes to the institutional stability of society because it provides a clear sign of the position that is to be occupied by each one of its members. The low level of spatial mobility also enhances linguistic and ethnic differentiation. In turn, again, because of the local system of transmission of knowledge, this is not a problem but may rather contribute to the 'spatial stability' of society and link each peasant to his/her community and feudal lord. Thus, the division of labour in traditional societies and the internal differentiation of their cultures can both be fairly complex.

Unlike agrarian societies, modern industrial economies are characterised by frequent technological innovations and greater volatility of demand; this implies that workers often have to move from one job to another; the content of jobs changes frequently, and the division of labour must often be redefined. In this situation, specialisation can cause greater risks¹ because the skills acquired performing a particular job can easily become redundant. However, the risks associated with specialisation in modern dynamic economies can be greatly reduced if the individuals happen to share a general common culture.²

A common culture allows people to retrain more easily if they must change jobs. For this reason, in an industrial society, the occupational and spatial cultural idiosyncrasies that characterise agrarian societies can no longer be easily accepted. They limit the mobility of people between the different positions of a mutable division of labour. By contrast, a homogeneous culture reduces the risks associated with specialisation and favours the exploitation of the advantages of the division of labour in a changing world. Nationalistic policies favouring the homogenisation of culture can favour the development of the type of mutable division of labour that is associated with market economies. In this sense, nationalism³ may favour the development of the economy and the emergence of an industrial society.

Turning many job-specific investments into investments in general culture may decrease the risks associated with the division of labour. In this way, many of the old idiosyncratic secrets of a particular trade can be expressed in a clear language that becomes accessible to all the individuals belonging to the same culture. Written language and a general culture cease to be the exclusive domain of a certain caste of individuals. They become the bread and butter of all individuals, because only the individuals who master these general skills are able to enjoy the learning-by-doing advantages of the division of labour. Only the

¹ This point is somehow related to theory of irreversible choices under uncertainty involving specific investments. On this issue, see Dixit and Pindyck (1994) and, in particular, ch. 8 of their book.

² The need for a general common culture is also due to other reasons. As Gellner (1983) pointed out, the nature of work in modern society is more 'semantic' than physical. It presupposes the capacity to communicate with occupants of other positions, and this requires a shared general culture. The whole of education focuses much more on this shared general culture than on the special skills that are required later. One may think that different educational systems contribute greatly to the evolution of different national cultures. On this issue, see also Green (1997).

³ Thus, in this respect, 'nationalism is, essentially, the general imposition of a high culture on society, where previously low cultures had taken up the lives of the majority, and in some cases of the totality, of the population. It means that generalised diffusion of a school-mediated, academy supervised idiom, codified for the requirements of reasonably precise bureaucratic and technological communication' (Gellner, 1983, p. 57). In other words, it is 'the very opposite of what nationalism affirms and what nationalists fervently believe' when they conquer 'in the name of a putative folk culture' (Gellner, 1983, p. 57).

individuals who have acquired a general culture¹ can carry (at least part of) what they have learnt by doing from one occupation to another.

However, the nation is not only associated with the development of a general national culture. It is also an 'imagined community'² whose members feel a particular solidarity, and this 'organic solidarity'³ can also be related to the dynamic nature of the division of labour of a modern economy.

Even if a common national culture can reduce the risks associated with the division of labour, these risks are still very considerable in a modern economy. Some learning will still be job-specific and will be impossible to employ elsewhere. Some form of risk sharing (or some form of organic solidarity) becomes necessary to exploit the benefits of a mutable division of labour. The existence of institutions of national solidarity, such as unemployment benefits and subsidised retraining, becomes necessary to induce people to take the risks of specialisation.

Thus, economic factors can provide some explanation for the fact that nations and nationalism emerged together with the diffusion of capitalism in the 17th century. In a world characterised by mobility across occupations, a homogeneous national culture and national solidarity have much economic importance, and contribute to the wealth of nations. Intolerance of the multiplicity of ethnic groups and cultures (a multiplicity that characterised the former dynastic states) may also have a similar economic rationale.

We shall try to emphasise the importance of Gellner's views for economists by observing that, in his work, we can identify two different self-sustaining circles that are characterised by two different mechanisms of cumulative causation. Whereas the self-sustaining vicious circle of agrarian societies includes the necessity of economic stagnation, the process of cumulative causation operating in industrial societies is associated with economic development and frequent structural changes.

In agrarian societies, economic stagnation allows an unchanging and immobile division of labour that favours fixed ranks and vertical and horizontal cultural differentiation between individuals who cannot have any feeling of national solidarity. In turn, when access to jobs and to consumption is given by fixed ranks and cultural differentiation, there is no reward for effort and productive innovation. In a self-sustaining vicious circle (see Figure 1), the absence of these rewards causes economic stagnation.

In industrial societies, economic development brings about a mobile division of labour that is incompatible with fixed ranks and cultural differentiation. In turn, access to jobs and

¹ General culture can be thought of as something applicable to more contexts. It also enhances our ability to learn in some contexts by making us understand what these contexts are and which experiences of other contexts may be applicable. It allows a 'learning of a higher order' in the sense that it is about contexts and not simply within contexts. Such a 'learning of a higher order' is very important in a dynamic society where contexts are often changing. On the concept of 'learning of higher order', see Bateson (1972).

² The term 'imagined community' was coined by Anderson (1991). It is meant to emphasise that the feeling of solidarity comes from a common attachment to certain symbols and is unrelated to the actual knowledge of a relevant percentage of a certain community. The need that individuals have to consume this type of symbolic utility comes from the fragility and other limits of human existence and the advantages of redefining individual identities within the framework of a solid, possibly everlasting mechanism. In this sense, nationalism can be a substitute for religion (and a certain type of Marxism), which can also provide a sense of mission to individual life. For this reason, Anderson (1991) observed that the rise of nationalism could be explained by the crisis of religion. Pagano (1995) considers the merits of this theory and its relation to the neoclassical theory of 'rational economic man'. In a seminar that Pagano gave at the Prague Centre for Nationalism, Gellner criticised Pagano for his appreciation of what in a rather dismissive way Gellner defined a 'consolation theory of nationalism'.

³ On the difference between the 'mechanical solidarity', existing in backward societies, and 'organic solidarity', see Durkheim (1933), where he considers the relationship between these types of solidarity and the division of labour.

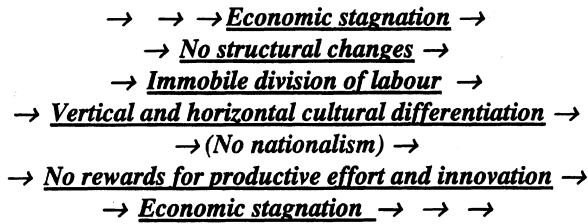


Fig. 1. Institutional equilibrium of the agrarian society.

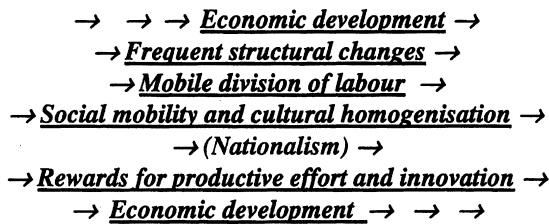


Fig. 2. Institutional equilibrium of the industrial society.

to consumption given by wealth and skills (and unrelated to permanent blood ranks) give a strong incentive to work effort and productive innovation which, in a self-sustaining virtuous circle (see Figure 2), causes economic development.

Because of its cumulative causation mechanism, the agrarian society may be stuck forever in a situation of stagnation. Thus, in this framework we find one of the most important intellectual puzzles about institutional change: how could the transition from one society to the other ever occur or how and where it was more likely to occur.¹ The solution of this puzzle is one of the most stimulating contributions of Ernest Gellner.² His theory explains also the different 'time zones' that have characterised European industrial development and the different ages of nationalism.

The transition from one mechanism of cumulative causation to another requires the abolition of the vertical and horizontal cultural differences that characterise agrarian societies. This transition is relatively easy when, in the agrarian society, a homogeneous high culture dominated already on given territory, while it is relatively difficult when many ethnic groups have competing claims to become the dominant high culture. Moreover, transition between the two institutional equilibria can be greatly favoured by the pre-existence of a centralised political authority somehow associated with an ethnic group. A national state

¹ Thus Gellner's theory of economic development shares the same 'siege mentality' that, according to him, characterised Weber's explanation of the emergence of economic rationality. Only a set of fortuitous circumstances can precipitate the breakdown of the mechanism of cumulative causation that characterised the institutional equilibrium of agrarian societies.

² The theory of nationalism was first developed in Gellner (1983). Later formulation of his theory, such as Gellner (1998A, 1999), explained in a more satisfactory way why industrial societies and nationalism emerged at different time in different places, dividing Europe into different 'time zones'.

can easily act on behalf of the individuals that favour the dominance of a particular high culture in a certain territory especially when the first condition—the existence of a homogeneous high culture—is also satisfied.

Such a transition is greatly favoured when both conditions pre-exist as an accidental outcome of the history of agrarian societies. To use the colourful expression of Gellner, the new social arrangement is born thanks to a marriage between state and culture. One can, therefore, distinguish three situations.¹

- (1) *State and culture are both available.* This is the situation that characterised the agrarian societies of England and France before their early take-off. This was mainly due to the accidental pre-existence of a culture-bride and of a state-groom ready for the marriage. Also, these agrarian societies were characterised by a great deal of vertical and horizontal cultural diversification and authority was considerably decentralised to feudal lords. However, in the cases of these countries, there was little dispute about the identification of the dominant high culture and the dominant central authority. In this situation, the marriage between national state and national culture was not difficult. The state could soon promote a process of cultural homogenisation favouring the transition from the institutional equilibrium of an agrarian society to that of an industrial society. While the process led to the suppression of some local dialects and traditions, this type of nationalism was not associated with intolerance or violence. It was rather based on the principles of national solidarity and fraternity mixed with some complacency about the noble and ancient origins of the Nation.
- (2) *Culture-bride is available but there is no groom ready for the marriage.* While, over a certain territory, a high culture dominates, there is no state that can popularise, diffuse and develop this culture. In other words, there is no state that can create those conditions of vertical and horizontal mobility favouring the transition to the institutional equilibrium of an industrial society. This was the case of Germany and Italy. They had had a well-defined dominant high culture for a long time but lacked a central authority that could help the birth of the new social arrangements. Nationalism expressed itself in a process of unification involving the states where Italian or German high cultures dominated. Also, in this case nationalism was rather benign and was not associated with violent ethnic conflicts. The early availability of a 'bride' implied that these countries could very soon follow the examples of the countries where both the groom and the bride had been ready for marriage for rather a long time.
- (3) *Neither culture nor a state is available.* In these countries, there is a patchwork of cultures and languages, and it is exceedingly hard or, sometimes, even impossible to say where one dialect ends and another begins, or what is a language and what is a dialect. The pre-national states, when they exist, are only loosely connected with particular ethnic groups. This was the case of Eastern Europe, where all in all, there were neither national states nor national cultures. In this situation, moving from the institutional equilibrium of an agrarian society to that of an industrial society was particularly difficult. Nationalism could neither become the unifying flag under which the vertical and horizontal cultural differentiation of the agrarian society could be overcome nor the flag for a homogeneous society favouring mobility and growth. If the nationalist imperative—one state, one culture—was to be satisfied 'both political and cultural

¹ As Gellner (1994, p. 22) recognised, his explanation of nationalism and his periodisation of its phases was influenced by Carr (1945).

engineering were required. And the material on which the engineers were to work was such as to call for some rather brutal earth-shifting.' In many cases, this earth shifting was likely to take the form of ethnic cleansing. According to Gellner, 'violence and brutality seem to have been inscribed into the nature of the situation. The horror was not optional, it was predestined' (Gellner, 1998A, p. 54).

Gellner's theory explains why an industrial society based on markets, social mobility and nationalism started in those countries such as England and France, which were already characterised by well-identified high cultures and by a centralised state that could act as their protector. As in Weber, 'it all emerged by a precarious accident'. In those countries, fortuitous circumstances, which occurred in the agrarian societies, rather easily made the potential groom and bride meet and generate the new mobile industrial society. The theory explains also why countries such as Germany and Italy could easily imitate the same model of economic and institutional development. These countries had a well-defined high culture and had simply to create national states that could promote the vertical and the horizontal diffusion of their cultures. Finally, the theory explains also why in Eastern Europe the imitation of the 'nationalist' model turned to be so difficult and, at the same time, the 'take off' of an industrial society so much harder to achieve.

4. Ernest Gellner and economic theory

From Adam Smith to Oliver Williamson, the advantages of the division of labour, the specificity of human capital and the nature of modern market economies have been central themes in the economic theories of the organisation. In this section, we shall try to emphasise how Gellner's theory can contribute to both old and new theories of economic organisation and can help to integrate economics with other social sciences.

Adam Smith attributed the 'Wealth of Nations' to the division of labour that was, in turn, determined by the extent of the market economy. Smith's analysis relied on the fact that the division of labour would favour learning by doing: workers could improve their job-specific skills if they specialised in one single activity. Nations should eliminate all obstacles to trade if they wanted to enjoy the full advantages of the division of labour.¹

Charles Babbage (1832) analysed the division of labour from a different viewpoint. Whereas Smith saw skill differences as a result of the division of labour, Babbage assumed that individuals were endowed with different skills and had different comparative advantages in various activities. According to Babbage, specialisation was advantageous because it made it possible to exploit the comparative advantages of individuals.

The 'Babbage Principle' is similar to that used by Ricardo to explain the advantages of the division of labour between nations. Unlike Smith, Babbage (and Ricardo) saw the differences in skills (and other factors affecting productivity) more as a cause than as a result of the division of labour. However, this is not the only difference between Babbage and Smith.

¹ List (1909, p. 121) pointed out how the principle of the division of labour also required 'a confederations or union of various energies, intelligences, and powers on behalf of common production. The cause of productiveness of these operations is not merely that division, but essentially this union.' According to List, 'Adam Smith well perceives this himself when he states, "[t]he necessities of life of the lowest members of society are a product of joint labour and of co-operation of a number of individuals" (*Wealth of Nations*, Book I. ch. 1)'. 'What a pity,' List adds, 'that he did not follow this idea (which he so clearly expresses) of united labour.' By contrast, List followed this idea and anticipated some considerations on the role of the nation in the organisation of the division of labour that have been later independently developed by Gellner (1983, 1987). The role of nations in creating and sustaining market economies was also the focus of Polanyi (1944).

Smith argued that the division of labour maximised the learning that is acquired by doing. By contrast, Babbage maintained that the great advantage of the division of labour lies in the minimisation of the learning that it is necessary to acquire before doing: the narrower the content of a job, the less it is necessary to learn before production.

Smith's and Babbage's arguments imply the 'optimality' of different degrees of specialisation. Smith's principles imply that specialisation should not be extremely narrow, otherwise it could prevent, rather than favour, learning by doing. By contrast, Babbage's principles imply that extreme specialisation and job de-skilling may be convenient because they always decrease the learning required before the doing and allow a better exploitation of given comparative advantages. Moreover, the Smithian principles point to the advantages of a horizontal division of labour, where everyone enjoys the learning-by-doing advantage. The 'Babbage Principle' has instead strong hierarchical implications. We can obtain the greatest savings on training when the most skilled tasks are separated from unskilled tasks and only the people with the greatest comparative advantage are trained for the skilled tasks.¹

Even if Babbage and Smith principles are different, their joint application is, at least in theory, certainly possible. Their arguments could be integrated to a certain extent by observing that, within certain limits, the division of labour can decrease the learning that is required before doing, increase the learning that is acquired by doing, and exploit innate skills and comparative advantages. These principles give the reasons for the wealth of nations in the double sense that both the division of labour between the individuals of a nation, and between nations, increase productivity.²

In spite of all these benefits, national or individual specialisation has the disadvantage that individuals do not diversify their human capital investment risks. If, as Smith maintains, the division of labour maximises the development of very specialised skills, it also greatly increases the risk of losing much human capital if a particular occupation becomes redundant. Mobility between occupations is perhaps the most typical characteristic of market economies. However, this characteristic would, paradoxically, imply that the extent of the market could limit rather than enhance the incentive to specialise in particular occupations.

The problem becomes clearer when it is stated in the context of the Schumpeterian view of market economies. According to this view, a process of 'industrial mutation . . . incessantly revolutionises the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists of and what every capitalist concern has got to live in' (Schumpeter, 1952, p. 83). The problem may, then, be reformulated by saying that the fear of future 'destruction' may seriously inhibit the 'creative' element of capitalism. Specialising in new skills and equipment may be inhibited by the fear that they will soon become old and redundant.

Keynes perhaps offers an even better way of understanding the same problem. According to him, one piece of capital equipment will differ from another '(a) in the variety of the consumable in the production of which they are capable of assisting, . . . (c) in the rapidity with which the wealth embodied in them can become "liquid", in the sense of producing

¹ On the analysis of the principles of the division of labour, see Pagano (1985, 1991, 1995).

² In these theories, there is a perfect similarity between nations and individuals. In international trade theory, nations are simply areas within which factors, and in particular individual skills, can move between different uses without meeting the obstacles that they would find when they try to move factors from one nation to the other. Individuals are very much the same: they also define areas within which skills can move between different uses without meeting the obstacles that they find when they try to move skills from one individual to the other. It is not surprising that the same principles, such as comparative advantage, apply to individuals and nations, even if the nature of the boundaries of individuals and nations are, of course, very different.

output, the proceeds of which can be re-embodied if desired in quite a different form' (Keynes, 1973, p. 240). Extending the Keynesian concept of (lack of) liquidity to human capital, the problem may be reformulated by saying that, in a mobile economy, the lack of liquidity of specialised (human and non-human) capital may inhibit specialised investments (in both human and non-human investments). For this reason, the Smithian advantages that rely on maximisation of specialised learning may be sacrificed for less specialised and more liquid learning.¹ Or, in other words, the Smithian advantages may be forgone for the advantages suggested by Babbage according to whom the division of labour should minimise the learning required for doing and create unskilled and 'liquid' labour-power.

In recent times, this problem has re-emerged with particular emphasis in New Institutional Economics. In particular, Williamson (1985) has emphasised the importance of safeguards for specific investments. The degree of specificity of investments is measured by the percentage of these investments that cannot be redeployed to alternative uses, and it is not substantially different from the concept of (lack of) liquidity considered above. When complete contracts are not possible, agents who make specific investments cannot defend themselves against opportunistic behaviour by moving their investment to alternative relations with new partners. According to the New Institutional Economics, job rights and safeguards can be interpreted in a new light: they are not necessarily inefficient limitations to market mobility, but rather can be efficient ways of encouraging human capital investments. A paradoxical implication of Williamson's work is that the mobility of the market economy could inhibit the 'specific' investments in human capital that are typically associated with the Smithian advantages of the division of labour. A market economy would find itself in the following dilemma: either give up the productivity improvements that come with the learning by doing Smithian advantages, or give up that mobility between occupations that is the most typical characteristics of markets.

Gellner's analysis offers a way out of this dilemma. He shows that there are institutions complementary to market institutions that can increase the degree of compatibility of the advantages of Smithian specialisation with those of market mobility.² The way out is not to be found in the market economy as such but in the institutional pre-conditions of a mobile industrial society.³

In the first place, Gellner's analysis shows how investing in a national culture and creating national markets can decrease the degree of specificity of investments to the various

¹ This would mean an extension to human capital investment of the following Keynesian proposition: 'That the world after several millennia of steady individual saving, is so poor as it is in accumulated capital-assets, is to be explained, in my opinion, neither by the improvident propensities of mankind, nor even by the destruction of war, but by the high liquidity-premiums formerly attaching to the ownership of land and now attaching to money' (Keynes, 1973, p. 242).

² In other words the 'liquidity' of human skills depends on the existence of many institutions. This parallels the approach of Keynes, who said: 'The conception of what contributes to "liquidity" is a partly vague one, changing from time to time and depending on social practices and institutions' (Keynes, 1973, p. 240). In this sense, Keynes differs from 'New Institutionalists' who do not emphasise the idea that the specificity (illiquidity) of assets depends on the institutional context. A much greater emphasis on the historical nature of the institutions characterised the work of the 'Old Institutionalists' like Veblen and Commons. On this point, see Hodgson (1998).

³ The institutional pre-conditions necessary to the mobility of individuals are ignored in the literature concerning the endogenous determination of 'the number and size of nations' (see, for instance, Alesina and Spolaore, 1997). Here, each individual can freely move to form nations together with the individuals that are the closest to their own taste (as long as the advantages of the provision of the public goods close to individual tastes are not overcome by the large individual share of costs that characterises small nations). The literature does not seem to take sufficiently into account the obvious point that unrestricted differences between jurisdictions could upset the low (zero in the models!) mobility cost assumption—that is the fundamental ingredient allowing the 'endogenous' formation of 'number and size of nations'.

organisations. If each region, each trade or each organisation develops its own idiosyncratic language and culture, the market economy fragments. In this case, the horizontal and vertical mobility of society is seriously limited. Each job becomes specific and the risk of specialisation become very high. In other words, the state can decrease the risks of mobility by decreasing cultural specificity and promoting common cultural standards; in some cases, this is tantamount to carrying out a 'nationalist' policy of cultural homogenisation. In general, a common legal ordering,¹ education, codes common to all the firms of a particular sector and all sorts of formal training can greatly decrease the specificity of particular jobs and make it possible to transfer an increasing proportion of what has been learnt in one employment to another one.

In the second place, Gellner shows how the risk of job-specificity can be decreased by various institutional means such as unemployment benefits and subsidised retraining. In this respect, national solidarity² is an institution complementary³ to a market economy. Market mobility requires some redistributive egalitarianism to decrease the costs of mobility and promotes it because people do not know their future positions in society.

Finally, Gellner shows how some of the arguments applied by New Institutionalists to the organisations existing in a market economy should be applied to the market itself. Markets themselves require some specific investments and some corresponding safeguards which, in many cases, could be successfully offered by national states. The investments in 'general culture', which are necessary for the working of markets, are general only in the sense that they can be applied to many jobs. However, they are specific to a particular culture. If a particular culture fails to develop and, even, to survive, one may lose many valuable investments in human capital. General investments that are specific to a particular culture may be inhibited by these risks. Political safeguards,⁴ such as the existence of a state that safeguards ethnic investment, can reduce the risks of culture-specific investments. These safeguards not only protect 'sunk' ethnic investments; they also favour new investments in ethnicity—which, in turn, makes it convenient to invest in new political safeguards. A cumulative causation process between cultural and political nationalism then takes place.

National culture and national solidarity can greatly be enhanced and sometimes invented by a national state. Thus the emergence of both cultural and political nationalism can be explained by the advent of capitalism.

¹ Markets are also based on the public ordering of the state and on the investments that public officials make in completing and enforcing contracts between individuals. The degree of completeness of markets that public officials can or should try to achieve is an issue that is largely ignored by orthodox economic theory. Standard theory treats the economy as a 'Swiss Cheese' that is characterised either by smoothly working costless markets or by holes of incomplete markets. Thus, economists have not adequately appreciated the public and private orderings that are the necessary institutional complements of markets. On this point, see Pagano (2000A).

² The role of solidarity in the nation had been stressed by Renan (1882), who also 'believed nations to be a peculiarity of Europe as it developed since Charlemagne' (Gellner, 1987, p. 6).

³ National cultures and social protection are, in many ways, themselves complementary and self-reinforcing. A common national culture helps the solidarity on which social protection is based and, at the same time, a common system of social protection helps the formation of a common culture. However, national culture and social protection can also be seen as alternative social insurance devices. The risks of human capital-specific investments can be decreased either by increasing their liquidity (achieved by greater cultural standardisation) or by introducing safeguards against the risks of their illiquidity (obtained by introducing more social protection). The view of cultural standardisation and social protection as alternative insurance devices is developed by D'Antoni and Pagano (2002).

⁴ The role of these safeguards for ethnic-specific or culture-specific investments is similar to the role of the safeguards considered for firm-specific investments by Williamson (1985). This similarity becomes even more striking if we accept with Kreps (1990) that the development of a firm's culture is the key for understanding its nature.

If certain 'political entrepreneurs' can overcome the free-rider problems that characterise collective action, some investment in nationalism will take place and decrease the risks of the mobile division of labour that characterise market economies.

The existence of a mobile division of labour can make it convenient to invest in nationalism. However, the converse is also true. The existence of a national community can help to mitigate the risks related to a mobile division of labour.

Thus, nationalism and the mobility of the division of labour are self-reinforcing: the existence of a mobile division of labour induces investments in the institutions of a national community which favour a mobile division of labour and so on.¹ Durkheim's organic solidarity and Smith's advantages of the division of labour may feed each other in a self-reinforcing circle.

In this respect, the economic and sociological tradition stemming from Smith and Durkheim should be integrated in a single framework that analyses national capitalist economies as institutional equilibria. The institutions of nationalism re-create the conditions under which investments in nationalism are necessary through the division of labour of a capitalist economy. The institutions of capitalism re-create the conditions under which this form of organisation is convenient through the institutions of nationalism.²

It is in the nature of 'institutional equilibria'³ that a national capitalist economy, enjoying the Smithian benefits, may never take off.⁴

If the institutions of nationalism are missing, acquiring skills is too risky. But if people do not have skills, investment in the institutions of nationalism that safeguard these skills is not convenient. Many people who are not able to associate themselves in viable nations may be left on the periphery of the world economy, and at the bottom of a Babbage-type division of labour.

Moreover, it is in the nature of institutional equilibria that one may be stuck in a wrong 'nation'. Even when a nation of a different size could extend the scope for the division of labour and the efficiency of the economy, solidarity, trust and political safeguards may induce people to make investments that are specific to a certain national culture (and vice versa). This outcome may also arise because the benefits of nationality are unequally distributed. Small groups, enjoying large and possibly unequal benefits, may invest in the formation of nations that are otherwise 'inferior institutional equilibria' for the majority of the population.⁵

¹ Other self-reinforcing mechanisms do not work through the interaction with economic factors. Ernest Renan considered one of them in his pioneering lecture given in Paris in 1882. He claims that 'a nation's existence' is 'a daily plebiscite, just as an individual's existence is a perpetual affirmation of life'. However, the results of this plebiscite are self-reinforcing because a nation is 'a large-scale solidarity, constituted by the feeling of sacrifices that one has made in the past and of those that one is prepared to make in the future' (Renan, 1882, p. 19).

² The concept of 'institutional equilibrium' is a close relative of the concept of 'organisational equilibrium' developed in Pagano (1993) and Pagano and Rowthorn (1996). Organisational and institutional equilibria are characterised by 'institutional complementarities' such that what is optimal in one domain depends on what it is chosen in the other domain. On the notion of institutional complementarities, see Aoki (2001).

³ Pagano (1993) and Pagano and Rowthorn (1996) show that similar inefficiencies arise for the case of 'organisational equilibria'.

⁴ Whenever Gellner's approach is expressed in terms of robust 'institutional equilibria', the 'siege mentality' introduced by Max Weber emerges with striking evidence because only very special circumstances can provide shocks that upset these equilibria.

⁵ Breton (1964) pointed out this rent-seeking explanation of nationalism. Breton and Wintrobe (1982) and Milgrom and Roberts (1990, 1999) show how rent-seeking (or influence costs) also characterises private organisations. In some ways, all these approaches find some rationality in nationalism in the sense that the ultimate aim of nationalism is to make wealthier an entire ethnic group or a section of it. In this sense, nation building is

5. Power, wealth and the nature of capitalism

The main difference between the 'institutional equilibria' of Gellner's agrarian and industrial societies lies in the relation between power and status on the one hand and wealth and education on the other. In this section, we develop the implications of this view to come to the conclusion that inquiring into the economic nature of these goods reinforces Gellner's observations concerning the stagnant nature of agrarian societies and the dynamic nature of the societies characterised by the new institutional equilibria.

In an agrarian society, coercive power and status determine access to wealth and education. The positions of individuals in society in terms of power and status are relatively fixed and, usually, given by birth. The opposite direction of causality (from education and wealth to power and status) is much weaker, and it is often explicitly repressed.

In an 'industrial society' (this term, used by Gellner, can be interpreted as an 'intersection' of the elements of the various models of capitalism) causation often flows in the opposite direction. The positions of the individuals are not given in terms of power and status, while access to education, occupations and wealth accumulation is not explicitly forbidden to any individual. While status and power can sometimes favour access to some occupations and to the accumulation of wealth, this relation is rather weak and is not typical of an 'industrial society'. The opposite is true. The accumulation of wealth and of human capital is now the way by which individuals can acquire power and status.

We could simplify the argument by saying that, while in an agrarian society a given distribution of status and power determines the distribution of wealth and access to education, in an industrial society the acquisition of wealth and education determines the distribution of status and power. In other words, under the two social arrangements, causation between power and status on the one hand and physical and human capital on the other flows in opposite directions. The implications of these opposite flows of causation may become clearer when we consider the nature of goods such as status and power, with particular reference to their distinction from other traditional economic goods.

Power and prestige have some characteristics that distinguish them from other goods. We can easily imagine a society where everyone consumes large quantities of goods such as rice, cars and housing space. It is much harder to imagine a society where everyone consumes large quantities of power and prestige. Saying that everyone consumes power and prestige is tantamount to saying that nobody consumes these goods.

Any positive amount of power and prestige must be jointly consumed with negative quantities of it. It is impossible to exercise power if somebody does not undergo the exercise of this power or, in other words, it is impossible for somebody to dominate if somebody is not dominated: positive power must be jointly consumed with negative power.¹ In a similar way, it is impossible for somebody to consume prestige or 'social superiority' if others do

as rational as building private organisations. An alternative explanation is given by Anderson (1991). His explanation is based on the need of individuals to give a meaning to their life by defining themselves as parts of a wider being. In this sense, nationalism may arise as a substitute for religion in times of religious crises. Other explanations can be grounded on the sociobiological literature (Boyd and Richerson, 1985). For a survey of these theories of Nationalism, see Pagano (1995).

¹ Parsons (1986) disagrees but, as Aron (1986) maintains, he seems to be confusing power over somebody with power to do something. The former (and obviously not the latter) is a zero-sum good. This implies that the exercise of power may decrease overall welfare because 'one may well experience being subject to the power of another as a welfare loss' (Bowles *et al.*, 1999, p. 6). At the same time, the exercise of power can be Pareto-efficiency enhancing if its exchange is agreed in a competitive market and it helps to solve the problem of contractual incompleteness. On this point, see Bowles and Gintis (1999). On the concept of power, see also the other essays collected in Lukes (1986).

not consume some social 'inferiority'. Again, positive and negative amounts of the good must be jointly consumed.

Unlike traditional economic goods, power and prestige inevitably involve a particular relationship or position of one individual with respect to other individuals; for this reason, following Fred Hirsch's terminology, we can call goods such as power and prestige positional goods. In traditional economic theory, we usually consider two types of goods (and their intermediate combinations): private and public goods.

Private goods are characterised by the fact that other individuals consume a zero amount of what I consume. Other individuals are excluded from the consumption of my private goods.

This exclusion is impossible in the case of a public good. In the case of a pure public good, another agent consumes the same positive amount that I consume.

We may say that a pure positional good is a good such that another agent consumes the same but negative amount as that which I consume. In this respect, positional goods define a case that is polar to the case of public goods¹.

It is not surprising that the problems of positional goods are opposite to those of public goods. It is very likely that we shall have over-investment in positional goods when all the agents try to consume positive amounts of these goods. 'Positional competition' is much harder, and sometimes more violent, than competition for 'private' goods.

Consider the case where, if all individuals work harder, they may all consume more private and public goods. Even when this is not possible, and there is a problem of natural scarcity (so that some goods are in fixed supply) the egalitarian distribution of these goods is not incompatible with their positive consumption. The same is not true for positional goods such as power and prestige. If we all work harder, none of us can consume more of them; moreover, no positive and egalitarian distribution of them is simultaneously possible. In some ways, social scarcity constrains the welfare of human kind much more than natural scarcity.

The nature of positional goods allows a better understanding of the implications of the opposite flows of causation that characterise industrial and agrarian societies.

In an agrarian society, the distribution of power and status is fixed by birth and determines access to wealth and education. For this reason, there is little incentive to innovate and to accumulate wealth, and society is stuck in the institutional equilibrium considered in Figure 1. Here, social scarcity constrains natural scarcity in a strong way because the fixed allocation of power and status positions destroys the incentives that can generate a process of economic development. The accumulation of human and physical capital is blocked by the constraint that it cannot be allowed to upset the fixed distribution of power and status. Thus, in welfare terms, we are likely to have an 'under-accumulation' of wealth.

In an industrial society, the distribution of power and status is not fixed by birth in the sense that there is no given percentage of blue blood that guarantees a given position in society and given access to the wealth produced by society. Rather, the opposite is true. Access to wealth via productive and innovative activities gives access to temporary positions of power and status. However, unlike wealth, power and status are zero-sum goods and the increase in the positive consumption of positional goods by some individuals brings about an increase in negative consumption by some other individuals. Here, social scarcity, far from limiting the incentive to produce and innovate, brings about a drive to accumulate

¹ This definition is given in Pagano (1999). A different definition, based on rank, is given by Frank (1985). Frank's definition is related to the definition of status and not to the definition of the exercise of power.

physical and human capital that is often unrelated to the aim of increasing present or future consumption of material wealth. While the desire for riches may well be limited by the human capacity to enjoy wealth, social scarcity may well bring about an unlimited drive to accumulate. When wealth is only aimed at the acquisition of positional goods, more wealth means a temporary advantage for somebody and a corresponding disadvantage for others that can be cancelled only by accumulating an even greater amount of wealth. The result is an 'over-accumulation' of physical capital that is in sharp contrast with the 'under-accumulation' that characterises agrarian societies.¹ A similar argument holds for the accumulation of human capital. While the necessity of keeping fixed ranks of agrarian societies limits access to education to the elite of these societies, in industrial society access to education is not only open to everybody but is one of the means by which one can access socially scarce positions. As observed by Fred Hirsch,² an over-accumulation of education may take place because only the relative level of education matters for access to a given social position. Thus, whereas agrarian societies are characterised by the under-accumulation of human and physical capital, modern capitalist societies may tend to over-accumulate both forms of capital.

Thus, an analysis of the 'positional' characteristics of power and wealth confirms Gellner's insights into the stagnant nature of agrarian society and the dynamic nature of industrial societies where positions can be acquired by investing human and physical capital. In spite of that, I guess that Gellner would have disagreed with the terms 'over-accumulation' and 'under-accumulation', which contain an inevitable reference to some optimal or, at least preferable, level of accumulation. He might well have had good reasons for his disagreement. While, in my opinion, these terms can be useful, they always come with some danger of a 'Nirvana fallacy', that is, assuming the 'existence' of a 'perfect world' to which our world should be compared. To my knowledge, Gellner never made that mistake. If 'true' economists must at least once (possibly often) make the assumption of a perfect world characterised by 'zero transaction costs', that might be a reason why most economists ignored his work.

6. Conclusion: globalisation and the attenuation of national feelings

Gellner's analysis clarifies that nations and nationalism have been a fundamental phase of industrial societies. Without national cultural homogenisation and solidarity, it would have been impossible to break the vicious circle that characterised agrarian societies. However, if the drive to (over)accumulation is the fundamental aspect of capitalism, after a certain level of development, the expansion of industrial society and of markets may well be limited by the type and extension of cultural homogenisation³ that natural cultures and national states have been able to produce. Further development requires cultures to standardise

¹ On these characteristics of capitalism, see Pagano (1999) and Screpanti (2001). Screpanti considers which aspects are common and which ones are specific to the different models of capitalism.

² See Hirsch (1977). The argument has been updated and developed by Marginson (1997).

³ Perhaps the increasing cultural standardisation of the world is the most important aspect of globalisation. Cultural standardisation is the cause and result of the mobility of individuals and goods. It is greatly helped by the increasing ease of communication to a level that often implies the 'death of distance'. As for the case of the type of cultural standardisation that occurred at national level, 'the most important and persistent message is generated by the medium itself, by the role which media have acquired in modern life. That core message is that the language and style of the transmission is important, that only he who can understand them or can acquire this comprehension, is included in a moral and economic community, and he who does not and cannot, excluded' (Gellner, 1983, p. 127).

beyond their national limits or, with an often (ab)used word, a process of cultural 'globalisation'.¹

In the 'nationalist' phase the standards, language and culture which prevail within a certain national state make a great difference to individuals belonging to different ethnic groups and can be the cause of great conflicts. The same types of conflict may well characterise the present phase, where the accumulation process produces increasing pressure for globalisation and international integration. Indeed, when some nations try to impose their standards and culture at a global level on other nations, nationalistic feelings may grow stronger. National states may often have to face increasing pressure to provide safeguards to those specific national high cultures that they helped to impose over their territory. Ironically, in this case, their prevalent role may now become to defend that cultural differentiation that they helped to overcome when facing the fading structures of agrarian societies.

Globalisation and increasing nationalistic conflicts, which are sometimes associated with religious fundamentalism,² may well go together. However, as Gellner observed, this is not the only possibility. The increasing semantic (as opposed to physical) nature of many jobs may put stronger pressure on the defence of national languages. However, at least in Europe and North America, some convergence of national cultures may be taking place. Gellner observed how

advanced industrial cultures may come to differ, so to speak, phonetically without differing semantically: different words come to stand for the same concepts. People who 'speak the same language' without literally speaking the same language, may be able to cohabit and communicate even in a mobile society committed to semantic work. Phonetic diversity without semantic diversity may lead to less friction, especially if, for work purposes, people are bilingual, or one language is the idiom of work. (Gellner, 1997, pp. 47–8)

These words point towards a possible attenuation of national feelings and some possible future integration of different nationalities.³ At the same time, Gellner's analysis also contains the possibility that international economic integration may contribute to domestic

¹ While there is a tendency towards the formation of a world homogeneous culture, 'globalisation' 'is not a unitary process or system' (Holton, 1998, p. 204). Multinationals are often embedded in national cultures. The 'global corporation' is often more a myth than a real life organisation (Doremus *et al.*, 1998) and corporate structures show substantial differences in different countries (Pagano, 1991; Pauly and Reich, 1997). Moreover, sometimes globalisation is little more than a useful ideology to show the impossibility of national industrial policies (for a useful criticism, see Hirst and Thompson, 1999; Chang, 1998). Finally, in some respects, the recent developments of information technology may even increase the 'biodiversity of capitalism' (Pagano, 2000B, 2001B).

² The rise of Muslim fundamentalism attracted Gellner's attention for at least two reasons. As we have already seen 'Muslim fundamentalism' represented a reaction to the 'rationalist fundamentalism' that, according to Gellner, prevailed in the West in spite of all the post-modernist relativistic fashions developed by academia. While rationalism is 'the continuation of exclusive monotheism by other means' (Gellner, 1997, p. 58), this secular variant, known as natural science, 'respects neither the culture, nor the morality, of either the society in which it was born, or of those in which it makes itself at home by diffusion' (Gellner, 1997, p. 59). In this respect, 'Muslim fundamentalism' has been a reaction against the modernity entailed by the rationalistic approach of modern science. At the same time, according to Gellner, 'Muslim fundamentalism' has been a modern variant of the popular diffusion of a high culture that, in many cases, took the form of nationalism. 'The trauma of the Western impact . . . did not amongst Muslim thinkers, provoke the intense polarization between Westernizers and Populists à la Russe . . . But the dominant and persuasive answer recommended neither emulation of the West, nor idealization of some folk virtue and wisdom. It commended a return to, or a more rigorous observance of, High Islam' (Gellner, 1997, p. 19).

³ However, it is not easy to see how a new marriage between the 'international high culture' and international institutions can provide a solution analogous to that generated in the past by the marriage between national culture and national state.

social disintegration¹ and, in this way, to new forms of nationalistic intolerance. Once again, we may conclude with Gellner that we need ‘to understand both our precariousness and our options, and their price’ (Gellner, 1992, p. 182)

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¹ Rodrik (1997) considers the economic reasons for which this may be the case. The first reason is related to the distributional consequences of the asymmetry between the groups that can directly or indirectly cross international borders, and those that cannot. The second concerns the pressure to homogenise, and often to undo, social arrangements that shape and constrain the domestic environment in which goods and services are produced. The third reason lies in the difficulty of providing social insurance in a globalised environment.

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