Revisiting Friedrich List's National System of Political Economy

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Abstract:

This paper traces a historical origin of the idea that the state (government) can and should implement a series of industrial policies to nurture domestic infant industries, in order to show how this economic theory sheds new light on contemporary debates regarding the proper relation between the state and market. Many scholars on the East Asian development experience have correctly focused on developmental states' industrial and trade policies for promoting outward, export-led growth. However, least attention was paid to (the historical origin of) the economic theory that justifies this highly unorthodox policy measures by the state. The author claims that the original idea in the history of economic thought is best exemplified by the early 19th century German political economist Friedrich List, and examines how his infant industry protection policy proposals have been widely used by almost all advanced economies. This historical investigation of economic thought and the survey of actual capitalist economic development process shows that the East Asian development experience is not unique to this region and virtually almost all advanced economies had relied on a certain forms of policy of protection that List once emphasized. In addition, the same policy measures for protecting particular domestic industries are frequently used by the government in advanced capitalist economies even nowadays.

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1. Introduction

There was a time when the 'East Asian development' became a buzzword in US academia. The government's powerful intervention in the emerging market—in the form of industrial, trade, and exchange rate policy for protecting domestic infant industries and promoting export-led growth—was considered one of the fundamental causes of the rapid industrialization in the second tier of East Asia (namely Korea and Taiwan, except Japan) since WWII.

Many prominent scholars on the East Asian development experience have correctly emphasized the important role of the interventionist state's export promotion and preferential industrial policies for domestic infant industries. Through the 'developmental' states' infant industry protection via tariffs and trade subsidies, domestic firms were able to acquire advanced production technologies and organizational skills that were necessary to catch up with foreign competitors in the global market arena (Amsden 1992, 2003a and 2003b; Chang 1996 and 2007; Evans 1995; Wade 1990).

However, less attention was paid to a historical origin of economic theories that guided such an activist state intervention. What was the source of such a highly unorthodox policy initiative and what kinds of economic theories guided East Asian economic planners? The goal of this paper is to trace the historical origin of the idea that the government can and should 'govern the market' as a way to promote domestic industrialization. This genealogy aims to provide new insights into the analysis of the East Asian development experience in particular, and to revive debates over the proper relation between the state and market in general.

From the perspective of history of economic thought, it was the 19th century German political economist, Friedrich List, who originally proposed the idea of infant industry protection for Germany, one of the most backward and underdeveloped countries at the time in European contexts. In this paper, the author will examine how List proposed such a policy of protection in the name of economic development and how his ideas have actually been adopted and implemented by many governments of developing economies in the U.S., Europe, and Japan followed by the 'East Asian tigers.' In addition, we will also discuss how his policy proposal is still relevant to understanding of contemporary policy analyses and debates even nowadays. The paper will argue that some of the characteristics of the U.S. federal government's (the Federal Reserve and Treasury in particular) unorthodox monetary and fiscal policies during the recent financial crisis of 2007-2009 can be best described by what List once called a 'mean tactic of kicking away the ladder.'

For this aim, we will begin our historical investigation by looking at the European socioeconomic context during the early 19th century, in which David Ricardo's comparative advantage hypothesis was considered the universal doctrine of foreign trade and economic growth (in section 2). After briefly discussing the ideological character of this hypothesis, we will move onto analyzing Friedrich List's economic theories, specifically focusing on what he called 'national system of political economy' and 'infant industry protection.' We will also critically examine List's Eurocentric imperialist view as a way to show historical limitations of his core arguments (in section 3).

The later part of this paper is devoted to discussing the contemporary relevance of List's theories. In the analysis of the East Asian economic success, orthodox economists have claimed that the effectiveness of the state's industrial policy was minimal during the entire period of industrialization in East Asia, and that the same or similar government intervention in the market would no longer be applicable in this financially globalized world. We will examine some of these claims in light of Friedrich List's theories in the last section. In this section, we will also discuss the Federal Reserve's and the U.S. Treasury's highly exceptional monetary and fiscal policy responses to the domestic financial crisis as a way to show that Friedrich List's policy prescription is not simply a forgone episode, but a still relevant guide for analyzing economic policy making practice in many advanced economies (in section 4).

2. The dominant economic doctrine in early 19th century Europe and the formation of Friedrich List's economic theory

Today's mainstream economic doctrines, especially in the area of international trade and development economics, heavily rely on the comparative advantage hypothesis that was originally put forth by the early 19th century classical political economist David Ricardo.

The main goal of Ricardo's *Principles of Political Economy and Taxation* was to extend Adam Smith's primitive labor theory of value into the analysis of the contemporary capitalist economy in his era. Ricardo wanted to show that the labor theory of value could be applicable to not only ‘the early and rude state’ of an economy that Smith mentioned, but also the modern capitalist economy.

However, in Chapter 7 of the book, Ricardo proposed a completely different theory of price that he said was only applicable to the domain of international trade. He argues that the classical labor theory of value—the idea that the value of a commodity is fundamentally determined by the labor (time) expended to produce the commodity—is no longer applicable in international trade (Ricardo 1996: 93). Instead, he maintains that comparative advantage (a term provided by subsequent economists) and the corresponding price system govern the price mechanism in international trade.

According to him, any two countries having different endowments of factors of production (and thus differential productivity) can gain mutual benefits by specializing in the production of a commodity that involves comparatively less production cost. By engaging in international trade, two countries can increase the use values that were previously unavailable domestically and can specialize the particular industry that they can produce better in (with less cost).

In putting forth this hypothesis, however, Ricardo did not explain at all about the cause, motive, and direction of international trade in the two countries under discussion. For example, in his famous England and Portugal example, there was no particular reason for Portugal—allegedly said to have absolute advantages in both industries (i.e., clothing and wine)—to choose one particular industry to trade with England, which had only one comparatively advantageous industry in clothing. Even though Ricardo attempted to show numerically that the two countries could produce two goods with smaller amounts of total labor time than before, this numerical example in itself did not explain the cause and the direction of the particular specialization of industries in two trading countries.

In addition, even if both countries realized that they could gain mutual benefits in the short run by specializing in one particular industry, this does not guarantee that both countries could and would continue to enjoy these mutual benefits in the long run. In other words, Ricardo’s particular example can make sense only when we make a strong assumption about the economy, namely that the relative scarcity of factors of production will not vary in either of the two countries, and that dynamic changes that may fundamentally alter the economic structures of both countries will not occur even in the long run.

The most serious problem, however, lies in the fact that he fails to recognize the theoretical contradiction between the labor theory of value that he initially put forth and the comparative advantage hypothesis in international trade. The labor theory of value is the fundamental notion that market prices of a commodity, though they may deviate substantially from the 'natural price' (or 'cost of production'), are ultimately determined by the latter, which is in turn dependent upon the sum of both direct and indirect labor (times) that are expended to produce the commodity.

If this classical labor theory holds, as Ricardo initially thought it did, market prices emerging in international trade should also be governed by the total labor times that are necessary to produce the commodities. This means that the same principle of real market competition that brutally drives weaker firms with higher production costs out of the market should also prevail in the global market arena. To twist Ricardo's expressions, the absolute advantage, not the comparative advantage, would prevail in both domestic and international markets, wiping out weaker firms or countries from global market competitions. Then where is the room for mentioning the comparative advantage from the beginning? And why does this hypothesis apply only in international trade? Ricardo himself did not explain clearly how this is so, and did not seem to recognize this logical inconsistency that lay in his core theoretical principles.[1]

Despite this fundamental logical flaw, however, the doctrine of free trade based upon the mystifying comparative advantage hypothesis prevailed in Europe as the universal doctrine of economic prosperity and had been proposed as the only feasible growth strategy in less developed countries in the region. The idea that free trade and the free mobility of capital would bring about economic growth and prosperity became a dominant economic ideology at that time in Europe as it has been today across the globe.

The relatively unknown German political economist Friedrich List, whom we want to examine in this paper, began his career as a sincere disciple of this universal doctrine of free trade and laissez faire economics exemplified by Adam Smith, Jean-Baptiste Say, and David Ricardo during the early 1800s. However, List drastically reversed his credo toward the opposite

[1] As we will see below, Ricardo advocated the interest of industrial capitalists in Britain at the expense of logical consistency in his labor theory of value. Like many political economists and politicians who wanted to repeal the Corn Law, Ricardo cleverly devises the comparative advantage hypothesis to make 'free trade imperialism' appeal to England's trading partners, without noticing his own logical demise.

direction, just after having experienced exile in a newly independent, former British North American colony (the U.S.) between 1825 and 1830.

In the U.S, List witnessed how American policy makers in the then poor developing country strived to defend and nurture their own industries under the constant competitive threats from England. They universally advocated and adopted a series of measures to protect domestic infant industries. List drew a very important lesson based upon this experience and concluded that the alleged benefits of freer trade were merely an ideological tool used by the advanced country in order to maintain its superior position in the global economy. Upon reaching this conclusion, List started to develop his concrete economic development proposals and set out a series of protectionist measures for developing the national economy.

List published in total three books. The first *Outlines of American Political Economy* [1827] was mostly written during his exile period in the US. *The Natural System of Political Economy* [1837] was a relatively short thesis that he originally prepared to submit to a contest of the French Royal Committee. Later, he felt the need of expanding his ideas indicated in this book. This later work was published as a lengthy book with nearly the same title, *The National System of Political Economy* [1841].

His books are full of remarkable insights and journalistic wits. In what follows, the author will represent some of List's main claims and practical policy prescriptions for developing countries, drawing upon his 1837 text. This excavation exercise will shed a new light on the previous debates on the East Asian development experience, as well as the nature of policy debates surrounding the recent global financial crisis.

3. Friedrich List's national system of political economy and policies of protection

3-1. The distinction between cosmopolitan and national economics, and the importance of nurturing productive power

Throughout his book, List made a clear distinction between 'cosmopolitan economics' and 'national economics.' The cosmopolitan economics is a doctrine that was fully articulated by both Adam Smith and Jean-Baptiste Say, whereas national economics is the label that List uses to differentiate his own view from the cosmopolitan economics. List highly praises Smith and

Say's contribution to the cosmopolitan economic theory. Both Smith and Say emphasized the importance of the division of labor in raising labor productivity, the emancipation effect of the development of modern manufacturing industry, and the importance of capitalist development of agriculture.

List argues, however, that Smith and Say neglect the apparent fact that a particular nation state can play an important role as an economic agent. Smith and Say's simple logics that begins with praising individual freedom and entrepreneurship ending with preaching universal benefits of free trade, simply ignores an important fact that these self-interest driven individuals also belong to particular national economies that have their own characteristics under transitory circumstances of different stages of economic development.

Due to this reason, Smith and Say's economic theories fail to recognize the fact that a nation state can raise and influence social standards of living, by protecting and developing its own national economy. Any national economy and sovereign state can and should "stimulate the establishment and the expansion of manufactures by adopting a suitable tariff, so that it can promote the continued extension of the division of labor and a proper balance and cooperation between agriculture and industry."(List 1837: 33)

In this connection, List also introduces the concept of 'productive power.' According to List, "the aggregate capacity determined by political, administrative and social institutions, natural and human resources, industrial establishments and public works, etc." is the main source of the productive power of a national economy (List 1837: 36).

Like Smith and others, List maintains that the wealth of a nation can be increased by the 'productive' use of direct and indirect labor and skills. In this sense, he does not completely negate the validity of the distinction between 'productive' and 'unproductive' labor made by classical political economists since French Physiocrats.

However, List argues that Smith and Say confined the concept of productive labor too narrowly that they perceived a particular labor to be productive only when it directly contributed to the production of exchange value. If we consider, for example, the labor of professors and teachers, judges and artists, etc., that can play an important role in nurturing the future productive capacity of a country, even though they may not directly contribute to the production of exchange values in Smith and Say's sense, these labors should be considered to be productive as well.

List also argues that the productive usage of labor alone is not sufficient to increase the wealth of a nation in the long run. He strongly argues that the state can and should nurture its productive capacity through a series of policies. This policy measure, of course, includes the creation of a national innovation system, upgrading the education system, investment in infrastructure, management of state-owned enterprise, etc., together with a series of industrial and trade policies such as tariffs and subsidies.

3-2. Critiques of alleged benefits of free trade and consumer surplus

List's emphasis on nurturing national productive power naturally led him to counter benefits of consumer surplus allegedly associated with a freer international trade regime. Both Smith and Say denounced the importance and effectiveness of imposing tariffs on the ground that such an intervention would simply deprive consumers of the opportunity to enjoy cheaper use values imported from abroad.

However, List points out that Smith and Say only mention "the immediate sacrifices that the consumer has to [bear] when import duties are imposed," without considering the long-term advantages that the same policy of protection would potentially bring about (List 1837: 39). If the appropriate protective measures successfully grow and nurture domestic infant industries in the long run, List argues that it will greatly improve the quality of domestically produced goods and create mutually beneficial inter-linkages between the manufacturing industry and agriculture by deepening the domestic industrial division of labor.

List also points out that Say's exclusive focuses on the short-term benefit of free trade is fundamentally based on the assumption that a country would continue to have enough financial resources to pay for the goods that they import. If a country, however, continuously runs and accumulates significant trade and current account deficits, it will not only increase its immediate financial repayment burdens but also ultimately undermine its growth potential in the future.

Unlike Smith and Ricardo's blinded belief, there is no guarantee in the international trade arena that both countries engaged in trade would reach a balance of trade account at all times. If one country, especially a weaker country, opens free trade without proper measures to balance out its trade deficits, the benefit of enjoying cheaper goods produced abroad will prove to be temporary and ultimately devastate meager and weaker, if any, industrial bases in the deficit country.

Both Smith and Say also claimed that imposing import duties on manufactured goods was creating monopoly at the expense of farmers and consumers who might be able to enjoy cheaper and better foreign goods otherwise. According to List, however, "the monopoly is not one granted to a particular set of individuals at the expense of another group [in the country] ---. It is a monopoly granted to the country at the expense of [trading partners]" (List 1837: 39), which again provides the room for nurturing domestic infant industry and potential increases in productive capacity of the nation.

In this way, List criticizes both Smith and Say's laissez faire international economic theories on the ground that they fail to recognize the difference between the doctrine of cosmopolitan economics and that of national economics, the theory of value and that of productive power, the immediate benefit and the long-term consequences of unmitigated freer international trade. To preach and impose the cosmopolitan economic doctrine – universal benefits of freer trade, etc.— without a proper understanding of the particular circumstances under which each national economy operates, is either simple ignorance or mean violence, exclusively serving the interests of dominant social classes in the advanced economy.

3-3. Policies of protection and the need of establishing a world trade regime

List argues that there are three different stages of economic development. A society moves from (1) primitive pastoral and agricultural activities, via (2) international commercial activities, to (3) the manufacturing industry. Any successful national economy has maintained a balanced growth between agricultural activities and manufacturing industries with well-coordinated commercial activities.

In order to achieve this harmonious industrial division of labor and welfare-enhancing outcomes, the nation state should exercise its extensive coordinative function. The government should also adopt a "protective policy" and manage to maintain the following conditions (List 1837: 75-76):

(1) The protective policy should be in accordance with the natural and human resources of a nation in order to maximize and nurture the use of productive power.

(2) The policy should ensure a steady expansion of industrial output that includes manufacturing, mining and agriculture.

(3) The policy should safeguard the manufacturing industry and agriculture from what contemporary macroeconomists call business cycles. In other words, the government can and should intervene in the market to provide the steady stream of effective demand and price stability, possibly adopting countercyclical macroeconomic policies.

(4) The government should stimulate competitive industrial capacity of a country, through a series of competition policies.

(6) The policy should be well adjusted so that the country can attract foreign capital and advanced skills. In contemporary developing economy contexts, this means that the government should prepare a set of industrial policies and secure government procurement designs that increase domestic output and inward transfers of advanced organizational and technological skills.

(7) Finally, the policy should be well balanced and established so that it cannot be harmed by any measures taken to oppose it. This requires, using contemporary development economists' terminology, a relatively strong policy autonomy and space on the part of the government in developing countries to provide growth-enhancing economic environments and policy predictability.

In the area of international trade, the state can deploy two policy instruments for achieving these goals. The first one is the tariff. The tariff as a means of protection has many merits and advantages, but overall it "awake[ns] the spirit of enterprises in a country" by safeguarding investments of entrepreneurs who took risks and had no means of knowing whether their project will turn out to be successful or not. The other instrument is the outright prohibition. It is a government measure to ban the import from other countries. List argues that this particular measure is "the most efficient method of achieving the desired result."(List 1837: 109)

In reality, however, there are many drawbacks to imposing this type of complete prohibition. Thus, List advised that the government should carefully devise both tariffs and prohibition to secure their respective advantages. List also suggest that the state should adopt other complementary policies to take full advantages of these two measures. These include “the establishment of technical schools, granting financial assistance to enable scientists, holding of industrial exhibitions, the establishment of companies to promote industry and internal commerce by regulating rivers and by constructing highways, canals, railways and steamships.” (List 1837: 106) In addition, the state should grant honors, policy loans and financial supports to those who advance scientific knowledge and/or establish new industries and new efficient production technologies and factories. All of these state policies are what advanced capitalist economies nowadays have relied on when they actually develop their own economies, and ironically, these policies are the exactly same policy measures that governments in advanced capitalist economies have strictly imposed in many international trade and investment treaties for developing countries nowadays not to emulate.

Using the mix of some of these instruments, List recommends, the state should not attempt to “promote the immediate expansion of all branches of manufactures.” Instead, he advises that the government should select a target to stimulate “only those industries which have an assured home market and appear to have the best chance of success at first.” For any reason, however, “if circumstances change, the government should reverse its policy.”(List 1837: 115) For example, “import duties on textiles” that the government once levied when it developed its domestic textile industry “should be now reversed for iron goods.”(List 1837: 117) In this way, List also emphasized the importance of wise and flexible use of the state industrial policy that could change over time depending on circumstances and the stage of economic development. Any rigid implementation may do harm than good.

Once the particular national economy successfully develops its own economy, there will be a time and situation in which “the country should find freedom of trade [freer trade regime] preferable to a restrictive policy.”(List 1837: 122) Free trade is apt for and beneficial to the leading industrial states whose high quality and low prices of manufactured products enable them to dominate foreign markets. In this situation, developed countries may want to establish a world trade regime in which they can preserve their interests and maintain their status. List observed that there were two ways of achieving (or imposing) freer trade regimes worldwide: one is to set up a world state like the European Empire (the Continental System) that Napoleon once tried to established; the second is to establish commercial treaties with trading partners, either by agreement or by imposition. Both France and North America were large beneficiaries of their mutual commercial treaties. Along this line, List proposes convening a "World Trade Congress," in which all industrialized countries should equally represent themselves (List 1837: 126).[2]

3-4. Country-specific historical analysis - how advanced economies have actually developed?

After setting out these conceptual frameworks, List moves on to analyzing how advanced countries in his time actually developed their own economies. This country-specific analysis of development experiences provides a strong case for the infant industry protection idea that he sets out in the first part of his book.[3]

First, List analyze England (the UK). England became the first powerful industrialized country in Europe. The British had used higher tariff rates on cheap woolen materials imported from Low Countries to protect domestic woolen industries during the entire 18th century and up until the early 19th century when it slowly began to preach the free trade doctrine.

When England ultimately repealed the Corn Law in 1846 for the benefit of English manufacturers and started to lower higher tariff rates previously imposed on some agricultural products, the leading figures in the anti-Corn Law league who advocated the benefit of the freer import of agricultural products did not conceal their material interests and gains from a freer trade regime. For example, both Richard Cobden and John Bowering did not hesitate mentioning 'free trade imperialism' when they described the benefit of shifting toward free trade regime. (Chang 2003: 4-5)

Like England, France also adopted a policy of protection. But they did so under very different circumstances and with very different results. List observes that the France has developed and promoted commerce and manufacturing power under the leadership of finance minister Colbert. But soon after the Turgot administration adopted the completely opposite economic policies in

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[2] The author is not familiar with the actual history of the establishment of the post-war world trade regime such as the General Agreement on Tariff and Trade (GATT) and the World Trade Organization (WTO). It is very interesting to see, though, that this little known German political economist already proposed the same idea a century ago.

[3] In his later book published in 1841, List changed the structure of the book and put this country-specific analysis in the first part of the book under title of 'History' (List 1841).

favor of the interests of aristocratic land-owners, the French economy was badly affected. The Turgot administration promoted an unrestricted freer trade regime hoping that it could boost exports of agricultural products. Under this reversed policy regime, domestic landowners benefited because they were also able to enjoy cheaper imported manufactured goods with relatively higher quality than those domestically available.

However, this policy reversal in turn negatively affected infant domestic manufacturing industries that were not able to compete with foreign competitors. List argues that France lost her important chance to nurture and grow its domestic industrial productive power due to this policy reversal. It was only after Napoleon seized the political power that France started to develop its industrial power. Napoleon was clearly aware of the fact that industrial progress could be achieved only by the imposition of import duties and the government's encouragements of domestic manufacturing industries. "If an empire was built upon granite, it would crumble into dust if it introduced free trades," says Napoleon (cited in List 1837: 148).

With respect to Germany, List attributes her relative economic backwardness and declines in trade and industry to "the disintegration of the Hanseatic League," and the resultant establishment of "small principalities" that imposed different units of measurement and money (List 1837: 160). It was the establishment of "the customs union (Zollverein)" and the unification of measures, weights and duties, etc. that ultimately paved the way for the industrial development of Germany (List 1837: 162). In the process, List emphasized the critical role of 'Junker bourgeoisie,' who represented the new modernized industrial class from the former landed aristocracy, for the rapid industrialization in Germany.[4]

List also examines the case of the U.S. The economic history of the U.S. was very important to List. This is because List became an advocate of the infant industry protection during his exile in the U.S.

At first, the American colonies had heavy duties on their exports imposed by the British parliament. The Tobacco Act of 1651, the British House of Common's successive resolutions to ban the development of industries in her American colony including the 1750's navigation act were all good examples that Britain imposed on this American colony. According to List, this

[4] As we will see below, Karl Marx heavily criticized List's praises for the potential role of German Junker bourgeoisie in German industrialization process.

“tyrannical attitude of the England” towards “the commerce and industry of her colonies was one of the main reasons for the outbreak of the American War of Independence.”(List 1837: 171)

However, even after the US achieved its political independence, the trade issue remained a controversial issue. This time the debate occurred between the southern and the northern regions of the U.S.: while northern manufacturing centers wanted to impose high tariffs on imported goods from England, the southern plantation owners demanded freer international flows of manufacturing goods. The American Civil War was mainly driven by the interest conflicts between newly emerging American bourgeoisie and the owners of outdated slavery plantations.

At any rate, when the first Congress met in 1786, “nearly all the states submitted petitions in favor of the protection of industry and shipping,” observes List. On the day of the opening of Congress, George Washington “appeared dressed in a suit of homespun cloth.” The official press interpreted his gesture as an example that he wanted to show what should be done to sustain the independence and prosperity of the country (List 1837: 171-72).

This Congress imposed import duties that were high enough to protect and foster home industries in the early phase of their development. But, mainly due to the restrictions England had placed on American trade, the American economy was still badly affected. As a response, the Congress instructed Alexander Hamilton, the first Secretary of the Treasury, to prepare a comprehensive industrial development plan.

Hamilton submitted *Reports of the Secretary of the Treasury on the Subject of Manufactures* [1791] to the Congress. In this report, he argues that new industries in the US will not become internationally competitive unless the government guarantees the compensation of initial losses and aids. Hamilton advocated the use of import duties and strategic prohibitions of imports by the state.

Based on Hamilton’s report, James Madison actually proposed to the 1794 Congress that “import duties should be [raised] to protect the country’s industry and shipping.”(List 1837: 172) In 1816, the Congress adopted “a tariff which increased the import duties on English manufactured goods.” In 1822 “an attempt was made to alleviate the crisis by raising the tariff, but the cotton planters had a vested interest in retaining a low tariff.” By 1825, “the number of bankruptcies among the wheat farmers had grown to such an alarming extent that Congress agreed to another increase in the tariff.” In 1828, “despite strong opposition from the cotton planters and the merchants engaged in foreign trade," the Congress again raised the tariff.[5] (List 1837: 173)

Concerning these successive increases of tariff rates, List argues that it was no more than a natural and necessary reply to England's commercial policy. "It was the immediate cause of the prosperity that American industry had enjoyed from that day to [present]."(List 1837: 174)

3-5. List's conclusion and Marx's critiques

In the end, List concludes his book by saying that he has been trying to fill the gap between 'theory and policy' and expose the hypocrisy between what already industrialized countries actually did and what they preached after they successfully industrialized.

List argues that he does not disregard the ideal of 'free trade' and a 'universal republic' as the ultimate goal of achieving harmonious and uniform development of the political and social institutions of all countries. However, he strongly maintains that we should examine what actually happens in advanced countries before blindly following this free trade ideology:

> "It is a very common clever device that when anyone has attained the summit of greatness, he kicks away the ladder by which he has climbed up, in order to deprive others of the means of climbing up after him. In this, lies the secret of the cosmopolitan doctrine

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[5] During his exile, List seemed to meet many leading figures in the US who were passionately advocating the need of a strong infant industry protection. One of them was clearly Abraham Lincoln (President of the US, 1860-1865). Lincoln summarized his industrial strategy as the 'American System.' The gist of this doctrine is the idea that the government should invest and build infrastructure and protect its domestic industries. Another representative American protectionist was Ulysses Grant (President of the US from 1868 to 1876). He clearly understood the essential nature of free trade ideology propagandized by England, when he said the following in a congressional address: "for centuries England had relied on protection, has carried it to extreme and has obtained satisfactory results from it. There is no doubt that it is to this system that it owes its present strength. After two centuries, England has found it convenient to adopt free trade because it thinks that protection can no longer offer it anything. Very well then, Gentlemen, my knowledge of our country leads me to believe that within 200 years, when America has gotten out of protection all that it can offer, it too will adopt free trade."(cited from Chang 2003: 6) For our immediate purpose, it is under these intellectual and political circumstances that Friedrich List, who stayed and studied the actual American system, converted his economic credo from an adamant free trade advocate to a strong infant industry protectionist.

of Adam Smith. --- Any nation, which by means of protective duties and restrictions on navigation has raised her manufacturing power --- that no other nation can sustain free competition with her, can do nothing wiser than to throw away these ladders of her greatness, to preach to other nations the benefits of free trade."(List [1841]: 540)

In every respect, List's historical analysis on the actual economic history of the then already developed countries provides a strong case for infant industry protection. It is also important to note before concluding, however, that whenever List mentioned the policy of protection, he was only concerned about Western European countries and the U.S. As soon as List introduces the case of Asia, Africa, and South America, he quickly shifts his focus and claims that advanced countries have a duty to 'civilize' these countries and regions.

The following excerpts from his book will suffice to show the fundamental historical limitation of his perception of the world.

"The barbarous peoples of Asia, Africa, and South America who have become civilized most quickly [have] always been those whom the industrialized states have provided with stable administrations, protection for persons and property, and freedom of trade."(List 1837: 49)

"The most advanced countries in Europe and North America have the greatest possible [common] interest in fostering the opening up and the progress of civilization in all part[s] of South America, Africa, Asia and Australia. In doing so, they will enormously increase their exports of manufactured goods, their imports of foreign products, etc."(List 1837: 49-50)

"Advanced nations have tried to gain complete control over colonies or exclusive influence over the administration of backward regions. Sometimes they have gained special trading rights by signing commercial treaties with the rulers of backward territories. --- Instead of adopting such policies, all the advanced industrial countries should adopt the principle of free trade and equal rights [of domination] in South America, Asia, Africa, Portugal, Spain, etc."(List 1837: 50)

All of these arguments clearly show that List himself was not completely free from the vulgar Social Darwinist and Eurocentric worldview, which had justified the imperialist occupation and domination of Asia, Africa, and Latin American countries. In this sense, List was a son of his time, together with all of the human follies and prejudices of his era, despite the fact that he successfully rebuked the then dominant free trade ideologies.

Before ending this section, it would be interesting to see how Karl Marx, the German radical socialist perceived his conservative fellow. In his manuscript of the book review, Marx heavily criticized List's texts.

First, Marx claims that List plagiarized Ferrier's book. According to Marx, List copied "the book written by [Mr.] Ferrier, *Du gouvernement considéré dans ses rapports avec le commerce* (Paris, 1805)." There is not a "single novel idea [in List's book] that has not been stated, and better stated, in Ferrier's book." Marx argues that if there is something that List adds to Ferrier's political economy, it is "empty idealizing, the productive force of which consists in words --- and the clever hypocrisy of the German bourgeois striving for domination."(Marx [1845])

Second, Marx also argues that List intentionally misinterpreted David Ricardo's labor theory of value and theory of rent. According to Marx, Ricardo's theory of rent is nothing but an outcome of class struggle over relative income distribution between landowners and manufacturers in Britain. The fundamental implication of Ricardo's rent theory is that the owners of land expropriate a significant portion of profits, without contributing to the actual production of labor surplus. Ricardo's rent theory thus served as "the theoretical basis for the whole Anti-Corn Law League in England and the anti-rent movement in --- North America." Despite this, List did not dare to tell the German landed aristocracy of this "frightening consequence of industrial productive force for landed property."(Marx [1845]) Instead, List cajoles German landed aristocracy to cooperate with German bourgeois by saying that their class interests will be enhanced mutually in the long run under the German bourgeois state leadership.

Finally, Marx derides the implication of List's policies of protection. He points out that List romanticizes the class interest of German bourgeois as if it constituted the general national interest of the then backward country Germany. According to Marx, all of the detailed policy prescriptions suggested by List is nothing but an expression of German bourgeois class interest and their aspirations. What List's national political economy actually wanted to say is a mere expression of German bourgeois economics, concealing the fundamentally antagonistic material interest conflict between German bourgeois and proletariat. Even under the trade regime that List advocated, the German industrial bourgeois would exploit proletariats, just like British and French bourgeois had done to them. Thus, from the point of view of German proletariats, List's national system of political economy is a mere an ideology, serving nothing more than the exclusive interests of the German capitalist classes.

4. Some debates over the effective role of the state in macroeconomic management in light of List's national system of political economy

Contemporary mainstream economists in the U.S. and UK academia have not properly recognized Friedrich List's political economic theories. As was the case in the early 19th century Europe, the dominant economic doctrine today is largely based on the same hypothesis that a freer trade regime and a minimalist role of the government are the only conducive ways to promote and develop national economies in many underdeveloped countries in South Asia, Latin America, and Africa.

According to this story, government intervention in any form—even if the policy might be designed to cure or alleviate various forms of market failures—would aggravate the situation further either due to the government bureaucrats' 'rent-seeking behavior,' or due to unintended externalities that policies would result in. Except for providing public goods such as infrastructure, education, national defense, etc., the government should not intervene in the market and should let private sectors seek the best possible profit opportunities, freely chasing undistorted market signals.

As we have already examined, Friedrich List attempted to put the universal doctrine of free trade and many elements of cosmopolitan economics into their proper social and historical contexts. In the process, he clearly showed how the alleged benefits of free trade—consumer surplus, for example—is a only transitory benefit that might ultimately undermine the very productive capacity of national economies in the absence of proper measures of protection. In this regard, the universal doctrine of free trade is an ideological propaganda that only serves the exclusive interest of the dominant social classes in already developed economies.

From the perspective of the development of economic thought, List's idea was not only novel in his time but also has several implications for many post-colonial developing economies after WWII. Many East Asian specialists who examine the activist state's role in promoting export-oriented economic growth have emphasized the importance of a series of protective industrial and trade policy measures. However, partly due to the simple fact that the East Asian countries were the only countries that successfully industrialized their own economies through these measures, some of previous observers tended to attribute this rapid economic growth to unique characteristics inherent in East Asia, rather than to the general function of the state in many industrialized countries. As we have examined, however, the active state role in nurturing and promoting the development of domestic industries is not at all unique to East Asia. Rather it has been a prevalent feature of any already advanced economy. Thus, there is nothing specific to East Asia and the East Asian development model for that matter.

4-1. The minimalist or market-enhancing state intervention argument

Once put forth in this way, we can now revisit some of the previous debates that were associated with the East Asian development experience from a completely different angle. Neoclassical critics of the interventionist role of developmental states in East Asia once claimed that the growth-enhancing effect of industrial policy was at most negligible in this region. Even if the government intervened the market, this intervention was complementary (or indicative) rather than substitutive (or directive). They sometimes preferred to use 'market-enhancing government intervention' to describe the limited government role in East Asia.

However, the series of industrial and trade policies pursued by the East Asian developmental states that actually 'picked winners' do not support these claims at all. The East Asian governments not only directly allocated financial resources for corporate investment but also heavily subsidized domestic infant industries until they became mature enough to compete in the global market arena. The average tariff rate was maintained substantially high to protect domestic industries during the rapid industrialization period. The government set a series of performance requirements in net exports, investment, and output, etc., in exchange for preferential tax rates, R&D support, selected credit supports and a preferential procurement policy given to selected key industries (Chang 1996; Wade 1990).

4-2. The cultural homogeneity with the exceptionally competent bureaucracy argument

Many mainstream neoclassical economists in the U.S. and in the international financial institutions (IFIs) often claimed that the East Asian countries had shared a relatively homogenous ethnicity with a common cultural heritage such as Confucian national identity, which enabled them to mobilize various factors of production relatively easily. It was also often claimed that the exceptionally efficient and competent government bureaucracy unique to this region made it possible for the East Asian countries to succeed in such a rapid industrialization.

These elements may be contributing factors. However, the ethnic and cultural homogeneity alone cannot explain why these countries successfully industrialized their economies. It is because virtually all other developing countries have their own cultural as well as ethical elements that may be conducive to economic development. In addition, the highly efficient bureaucracy hypothesis completely ignores the simple fact that up until the mid-1970s the Korean government frequently sent their high and middle ranking bureaucrats to either the Philippines or Singapore to train them. If the bureaucratic efficiency were the most important factor, the Philippines would have grown faster than any other northern East Asian economy.

4-3. The Cold War geopolitical byproduct argument

Some political scientists and sociologists often claim that the rapid industrialization in Korea should be mainly explained by the US government's preferential treatment of the country during the Cold War period. The US government, as the 'hegemon' of the world capitalist system, wanted to maintain its geopolitical power and influences over the Korean peninsula, by allowing the Korean developmental state to dictate the preferential treatment in exports and generous international development loans.

Again, these geopolitical environments certainly contributed to the Korean development experience. However, this external background alone cannot explain why Korean developmental states adopted such heterodox non-market state interventions and how their policies succeeded. The geopolitical environments under the Cold War were not specific to Korea. It set the groundwork for many developing countries at that time. The same or similar preferential treatments were given to many other developing countries in South Asian, Latin American and African countries, in addition to the Pentagon and the CIA's 'secret and dirty' operations behind the scenes. Then why is it only East Asian economies that actually succeeded in developing their economies? The geopolitical consideration in this connection should not be exaggerated, at least as an explanation for the East Asian development.

4-4. 'The past is the past' argument

Finally, there remains another issue that often steers the fiercest debates about the East Asian development model. That is the concurrent validity and replicability of the type of developmental policies that many East Asian governments have relied on. Even on this issue, however, we should not be too quick to jump to any hasty conclusions—such as that the previous developmental policies are no longer valid and thus we should abandon them as quickly as possible in this era of complex financial globalization and economic integration.

Though it seems almost impossible to adopt today the exact same type of industrial and trade policies that many East Asian states actually implemented in their developing period, well-designed government industrial and trade policies are still needed in many developing countries. Nowadays, the least developed economies should be allowed to protect and nurture their own domestic infant industries, and they need to have an autonomous policy space that would enable them to secure relatively advanced organizational and technological skills in order to catch up.

This point is not merely an ideologically driven normative claim. In fact, we can easily observe that many advanced economies still rely on a series of industrial and trade policies even when they preach the benefits of free trade and financial liberalization internationally. The U.S. and many IFIs have lectured on the benefits of trade and financial liberalization all over the world during the heyday of neoliberalism in the 1980-1990s, and they prescribed a series of concrete policy measures as important preconditions for developing countries to join in any global trade and financial regimes. They also forced them to accept the IMF conditionality when unfortunate countries in Latin America and Asia, inflicted by a financial crisis, approached the IMF for emergency financial assistance (For more useful survey in the East Asian context, see Shin 2013).

Whenever they face the same financial troubles, however, the U.S. and the UK have quickly abandoned the principles that they have long preached and imposed on many developing countries. The U.S. Fed and the BOE's unlimited commitments to save their own domestic financial institutions, either in the form of direct subsidies for particular financial firms or in the form of historically unprecedented liquidity injection (called quantitative easing) into the domestic financial system, are all good examples of the government's industrial policies (Shin 2013; see also Blinder and Zandi 2010).

This policy stance of hypocrisy may be disguised by something else (sometimes in the name of 'national security' or simply in the name of 'saving the global economy'), but it is in fact functioning in exactly the same role as industrial policy — 'picking winners.' To put it another way, how else can we make sense of the US government's highly unorthodox Keynesian macroeconomic policies without thinking of preferential policy of protection exclusively granted to particular financial industries?

Given what the governments of today's advanced economies actually did when they nurtured their own economies (recall what List observed) and what they are doing when they face financial troubles (read the newspapers), the argument that the state's development-oriented industrial policies are a foregone historical episode should elicit serious doubts. The strong case for industrial policies as a means of achieving economic growth and industrialization is still a valid claim in this regard, even though the exact formulation of the appropriate policy framework should have changed under different circumstances. After all, we are still living in an era that Friedrich List once characterized in his lifetime, namely the era of 'kicking away the ladder' in order to deprive the late followers of the opportunity to climb up on the same supreme position.

5. Conclusion

In this paper, the author has traced the historical origin of the idea that the state (government) can and should proactively govern the market in order to grow and nurture its economy. Friedrich List's national system of political economy and his passionate promotion of protective policies for domestic infant industries actually served very well in many already advanced countries, even though his theories are largely ignored in most academic discussions.

We have also examined how many developing countries at that time—the UK, U.S., France, and Germany—actually relied on and implemented policies of protection thoroughly. From this perspective, the very concept of the 'East Asian development model' or of unique experience that were allegedly attributed to the East Asian region is somewhat misleading, because virtually almost all of today's advanced economies have used and still use the same or similar state policies to promote their own economic development and save the particular industry. The East Asian development model, then, should be aptly understood as an East Asian variant of capitalist economic development since WWII, a variant whose predecessors shared the same state-led capitalist developmental processes.

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