

Friedrich List's Protectionism: A Theoretical and Applied Evaluation

Zhihan Song^a, Weiwen Huang^b

School of Economics, Huazhong University of Science and Technology, Wuhan 430000, China

^au202116277@hust.edu.cn, ^bu202216245@hust.edu.cn

Abstract. Friedrich List, through works such as "The National System of Political Economy," "The Natural System of Political Economy," and "Outlines of American Political Economy," proposed a relatively complete system of protectionist trade thought. He also practiced his economic theories through entities like the German Customs Union. Although List's economic theories are not prominently featured in academia due to their protectionist nature, many scholars have studied them from various angles. Based on the study of List's protectionist economic theory, this paper summarizes the research findings on List's economic thoughts and, combined with the practical application of his theories, conducts a dialectical analysis of the contemporary significance of the theories.

Keywords: List, Protectionism, Development.

1. Introduction

Since mercantilism, mainstream economics has always advocated liberalism; China's doors have also been opening wider and wider during the reform and opening-up process. In this process, protectionism has always been on the periphery. However, protectionism also plays an important role in national economic development, including the protectionist trade theory of the 19th-century German economist Friedrich List. However, there are many errors in the literature relevant to his theories, such as viewing the debate on protecting infant industries as opposition to free trade; equating the protection of infant industries with import substitution, etc. In fact, a dialectical study of List's protectionist theory can provide many insights for the new development of China's economy.

2. Biographical Sketch of List

Friedrich List was a German political economist, born in Reutlingen, Germany, in 1789. He studied civil service in his early years and passed the national civil service examination in 1814. He was then dispatched to reform grassroots finance, during which he boldly criticized and suggested improvements for administrative malaise. List also promoted political reform through publications such as "Württembergische Jahrbücher" and by teaching economics at universities. After moving to Frankfurt, he drafted a petition to the German Federal Parliament on behalf of local industrialists and merchants, and later played a leading role in the establishment of the German Industrial and Commercial Association and the Customs Union.

In his middle age, List's life was fraught with difficulties. In 1821, as a deputy, he published the "Reutlingen Petition," which sharply criticized the bureaucracy, becoming a handle for high-ranking officials to frame him. In 1822, he was sentenced to perpetual loss of the right to vote and be elected. Thereafter, he had to wander in France and other places, and later moved to the United States, where he was able to utilize his talents with the help of the elite. In 1827, List participated in the National Convention of Protectionists, refuting the free trade arguments that were harmful to industrial development, and became a spokesperson for the "American System" advocating for tariff protection.

In his later years, List returned to Germany to promote the construction of German railways. However, he encountered obstacles from time to time in both political rehabilitation and railway construction. List then went to France, where he wrote "The Natural System of Political Economy." In 1840, List returned to Germany and devoted himself to the construction of German railways and

completed the influential "The National System of Political Economy." Later, List decided to shift his focus back to the affairs of the Customs Union.

In August 1846, after returning from England to Germany, List was in a state of depression due to poverty and the loss of loved ones. On December 3, 1846, List committed suicide in the forest, ending his life dedicated to the advocacy of protectionist theory.

3. Background of Theory Proposal

3.1. Threat from Britain

One of the main reasons List proposed protectionism was the economic development achieved by Britain through the Industrial Revolution, which occupied most of the international market and posed a great threat to the European continent.

The British hoped to deindustrialize the non-British world, turning it into a market for British exports, thereby maintaining the advanced position of British manufacturing [1]. List believed that Britain aimed to overthrow the entire German protection system, reducing Germany to an agricultural colony of Britain. If European countries continued to trade freely with Britain, the European continent would be deindustrialized and economically marginalized, reduced to the status of the barbaric peoples on British territory. And from List's perspective, which closely links economic development with civilization, deindustrialization would mean "regression to a barbaric state"[2] [3].

However, Germany's political fragmentation and the complacency of policymakers, along with insufficient tariffs on British imports, deeply troubled List [1]. Therefore, he proposed protectionism, believing that the protection system was the only way to put backward countries on an equal footing with dominant countries.

Another major reason was that List believed protectionism was the source of Britain's wealth. Britain only advocated free trade after developing its industry through protective measures and suppressing foreign industrial goods in overseas markets [4][5]. Therefore, in the era of free trade, List did not consider protectionism to be an abnormal phenomenon or an outdated policy. On the contrary, he believed that following Britain's example of using protectionism to achieve industrialization was still effective in the Elizabethan era [6].

3.2. Division within Germany

Division within Germany was also an important reason for List to propose the protectionist theory. At that time, Germany was still a traditional agricultural country with a backward manufacturing industry, exporting many agricultural products and importing industrial products [7]. Therefore, when the continental blockade policy ended and Britain dumped industrial products, Germany could not form a unified market, and could not establish a unified tariff due to its internal political division, which severely damaged the nascent national industry. Politically, in the early 19th century, Germany was still divided, with the newly established German Confederation in 1815 consisting of 38 states that governed themselves and fought each other [8]. Economically, after the Congress of Vienna in 1815, the widespread tariff barriers between the German states and even within individual states became the biggest obstacle to Germany's economic development. The dumping of British industrial products and the fierce tariff wars among countries almost led to the loss of all overseas markets for Germany, and the domestic market was also heavily invaded by foreign products, with the national industry on its last legs [9]. To protect the national industry, List proposed protectionist trade theory and the establishment of the German Customs Union.

4. Theoretical Introduction

4.1. Five-Stage Theory

List's trade protectionism is based on the five stages of national development: the primitive uncivilized period, the pastoral period, the agricultural period, the agro-industrial period, and the agro-industrial-commercial period. During the agricultural period, free trade should be practiced to stimulate agriculture by importing manufactured goods from developed countries and exporting raw products; during the agro-industrial period, when domestic industry is more advanced and capable of self-production, protective measures should be taken to prevent domestic industry from being overwhelmed by foreign industrial competition; during the agro-industrial-commercial period, when the national industry is strong enough and competition no longer poses a threat, free trade should once again become the rule, and there should be a complete integration with a general industrial alliance. Among them, for a country to achieve industrialization, that is, to move from stage three to stage four or five, cannot be achieved automatically through market forces, and must be completed by protecting its infant industries [10].

4.2. Infant Industry Protection Theory

The state should protect infant industries, with protection limited to emerging industries facing intense foreign competition; protection is limited to the initial stage and should be gradually lifted as the industry matures. The level of protection should not be too high, leading to the elimination of foreign product competition [4][5]; the timing of trade protection needs to be adjusted according to actual conditions such as the level of productivity; trade protection should be selective, mainly targeting industries that require a large amount of capital, large-scale machinery and equipment in establishment and operation, and produce the most essential necessities of life, without protection for raw materials and luxury goods; protection should be limited, not completely eliminating foreign competition, nor endangering domestic industries; fourth, the means of protection are not limited to tariffs, but also include tax rebates, subsidies, and other means. Finally, although List emphasized trade protection, the goal is not to oppose international trade, but to promote the ultimate union of all countries [11].

4.3. Tariff Theory

List believed that tariffs are the main policy tool for trade protection [10]. Different industries need to adopt different tariffs. For industries with a large demand for necessities and advanced machinery that the country cannot produce, the state should adopt high tariffs, while for luxury goods industries with less demand and less impact on industrial development, lower tariffs can be adopted; tax rates need to be scientifically set. Tariff rates and structures will affect economic performance and social welfare through their effectiveness, so they must be carefully formulated according to actual conditions, and not simply pursue high tariffs; when using tariff barriers, the negative effects need to be considered. Imposing tariffs on agricultural products can reduce the competitive awareness of domestic farmers. Imposing high tariffs on industrial products may hinder the entry of advanced products and is not conducive to competition. Therefore, when establishing tariff barriers, corresponding tariffs should be formulated according to actual conditions.

4.4. Specific Policy Measures

- 1) Implement protective tariffs on foreign industrial manufactured goods to improve domestic competitiveness and future production capacity [2] [3].
- 2) Exempt tariffs or impose low tariffs on industrial inputs, including raw materials and capital goods [12].
- 3) Provide policies conducive to industrial development in social and economic fields such as industry and finance, the success of which is closely related to socio-economic factors such as transportation infrastructure [4] [5].

4) Protect industrial goods on a selective and discriminatory basis, not all industrial sectors receive equal protection, and those manufacturing departments that require a large amount of capital and knowledge should be protected [4] [5].

5) Protection should be temporary and moderate, excessive and premature protection will lead to a reduction in national prosperity, and protection should be stopped after the industry has developed [4] [5].

5. Practice of Theory

5.1. The Establishment and Development of the German Customs Union

5.1.1. The Basis for the Establishment of the Customs Union

In order for Germany to seek the development of its national industry in the face of strong competition from developed industrial manufactured goods, it also sought economic unity and cooperation. The German Customs Union is a typical result, and the establishment of the alliance is inseparable from List's personal contributions.

List believed that small countries could also develop manufacturing through the protection of emerging industries. He also proposed that countries could solve the problem of scale by forming alliances with other countries. It was against this backdrop that he advocated for the establishment of a customs union. When mentioning countries like Denmark, he also proposed to unite the interests of various countries through their own conventions [4] [5]. List was very active in the political debates on the customs union and ultimately facilitated the formation of the alliance [9].

5.1.2. The Establishment and Content of the Customs Union

The Prussian tariff reform in 1818 opened the prelude to the customs union, with Prussia abolishing internal tax checkpoints and imposing heavy taxes on foreign transit goods. In 1834, under the leadership of Prussia, the three customs unions of Northern, Central, and Southern Germany merged into a unified German Customs Union.

The customs union presented liberalism domestically and a certain degree of protectionism internationally, with specific measures including:

- (1) Abolishing all tariffs within the alliance and implementing a unified tariff internationally.
- (2) Providing preferential policies for raw materials, machinery, and some semi-finished products needed for industrial production.
- (3) Imposing high protective tariffs on cotton yarn, woolen textiles, metals, leather, and other goods dumped by Britain into Germany.

5.1.3. The Impact of the Customs Union

- (1) Opening a unified market and achieving free internal trade

The establishment of a unified market among the alliance countries and the gradual achievement of economic life unification such as currency and bill laws provided the basic conditions for German industrialization. The expansion of the market greatly promoted the development of German industry.

Germany was able to provide preferential policies for raw materials and machinery required for industrial production. During this period, the German machinery manufacturing industry was in a low-level stage, and most steam engines relied on imports. The preferential policies of the customs union directly promoted the popularization of machinery in the production of German industrialization, improving the mechanization of various industrial sectors and accelerating the establishment of factory industry.

Reducing the number of border agencies in various states reduced expenses and tariff losses caused by smuggling. The huge financial revenue and unique tariff distribution method brought great benefits to small and medium-sized states, reducing the large amount of management expenses consumed by tariff confrontation. In the first 10 years after the establishment of the customs union, the total growth rate of tax revenue reached 82% [13].

(2) Unified external tariffs and selective protection

The customs union also became an alliance for Germany to confront the outside world. The customs union imposed high tariffs on British dumping. The protectionist policy effectively resisted British industrial competition. Between 1843 and 1844, the Customs Union increased tariffs on cotton yarn, woolen textiles, metals, and leather products by 50%, 33%, and 100%, respectively [14]. Through trade diversion and creation, the market was left to higher-cost suppliers within the alliance, and the supply from the alliance replaced a considerable portion of imports, stimulating the development of the alliance's infant industries. Between 1836 and 1861, the proportion of foreign cotton yarn in Germany's total cotton yarn dropped from 3/4 to 1/4 [15]. The alliance fundamentally changed Germany's foreign trade situation and opened up valuable overseas markets for Germany's industrial products.

5.2. Posthumous Practice of List's Economic Theory

5.2.1. Practice of List's Economic Theory after German Unification

After national unification, Bismarck began to practice List's economic theory [16]. On the one hand, he strengthened the construction of domestic infrastructure such as railways; on the other hand, he changed the free trade policy and vigorously supported industry through tariffs. With the implementation of Bismarck's protectionist policies, German industry experienced rapid development, and Germany transformed from an underdeveloped raw material exporting country into a developed industrial manufactured goods exporting country, confirming the practical significance of List's protectionism.

5.2.2. Russia's Imitation of German Protectionism

Beginning in the late 19th century, the practice of List's economic ideas shifted to the relatively backward Russia. Russian Finance Minister Sergei Witt profoundly realized that the core of List's economics was productivity, not just simple trade protection. Therefore, Witt's policies, in addition to tariff protection, also included strengthening infrastructure construction, establishing technical schools, etc., all centered around productivity.

5.2.3. Practice of List's Protectionist Theory by Emerging Developing Countries

After the two World Wars, with the rise of the national liberation movement, the vast number of developing countries had the desire to promote their own economic progress, and Friedrich List, as a pioneer of development economics, provided a good prescription for these countries. The study of List by economists in various countries gradually increased. For example, Chinese economist Liu Binning first introduced List's economic ideas in China in 1925, and Wang Kaihua officially translated and published the book "National Economy" in Chinese in 1927.

5.2.4. Practice of List's Protectionist Theory by Emerging Industrial Countries

After the Meiji Restoration, Japan embarked on the path of capitalism and adopted measures that reflected List's theory, such as establishing state-owned enterprises in many industrial sectors. After the unequal treaties were abolished in 1911, the protection of infant industries was implemented. After World War II, a protectionist policy mainly based on tariff protection was implemented, and Japan joined the ranks of developed countries [7].

South Korea, Singapore, and other countries also used protectionist policies to promote industrial development, mainly implementing export subsidy policies, collecting fewer export taxes, and at the same time restricting the import of foreign industrial manufactured goods, regulating the export of technology, and foreign direct investment.

Through a series of trade protection policies, these countries achieved economic development and created the Asian economic miracle.

6. Contemporary Significance of the Theory

6.1. New Listism's Dynamic Development of List's Economic Theory

Due to its own limitations, List's economic theory is no longer suitable for economic development in many aspects, but the reform of New Listism has given it new vitality. First, it abandons List's dependence on specific accumulation and is committed to providing abstract theory. Second, it abandons List's colonialist ideas, which are more in line with the values of freedom and equality. Third, it develops protectionism to a broader range of fields such as agriculture and services. Fourth, it elevates protectionism to an economic doctrine that is also applicable to developed countries and has universal explanatory power [17].

6.2. Application of List's Economic Theory by Developed Countries

List opened a window into the economic history of the United States in the first half of the 19th century [18]. Protectionism also played an important role in contemporary America. In fact, in many developed countries, including the most advanced industrial economies like the United States, active and targeted industrial policies are still prevalent in various forms [19]. The U.S. government actively intervenes in economic issues. For example, in 1999, the export volume of U.S. companies was about 250 billion U.S. dollars, and the tax reduction was about 3.5 billion U.S. dollars. These subsidies have two characteristics: first, the companies that benefit include not only small or new companies, and subsidies for new products are not provided to companies. Second, they are specifically designed for exports, and the assistance provided to manufacturers and exporters is not limited to the United States. For example, according to the Common Agricultural Policy, huge subsidies are provided to European Economic Community producers [12].

6.3. Practical Significance of List's Economic Theory for China's Economic Development

6.3.1. List's economic thought is conducive to exploring a development model with Chinese characteristics.

List emphasized that the development of each country has its own national characteristics, and that different countries have different stages of economic development and human capital. When formulating economic policies, they should be based on the specific national conditions. Therefore, China should firmly develop a socialist economy with Chinese characteristics, and economic development policies should be based on the actual national conditions [10].

6.3.2. List's economic theory is beneficial for China's economic development.

At present, China is at the lower end of the global value chain in the international division of labor and is facing a wave of protectionism against China represented by the Sino-European trade war. The fundamental approach to solving the problem is to leverage the advantage of the domestic market scale, which is an important reason for China to implement a new development strategy dominated by domestic demand. List's protectionist theory is precisely a powerful tool for protecting the domestic market [17]. In addition, List's theory of productivity provides a new set of criteria for evaluating the level of economic development, that is, the standard of productivity.

List's economic influence is far-reaching and has been adopted by many countries in history. In the new era, List's economic theory has also been adapted to the requirements of today's global economic development through reform. Currently, China is promoting the transformation and upgrading of its economic structure, and the ultimate goal is to achieve long-term development of the national economy and catch up with developed countries through the adjustment of the economic structure. The goal of China's economic structure transformation and upgrading is common with the issues of List's theories, and summarizing the new development of List's economics under new circumstances is of great reference significance for China's economic structure transformation and upgrading [20].

7. Evaluation and Summary of the Theory

List's economic theory has been marginalized for a long time due to its protective color, but its criticism of the Smith school has progressive significance. At the same time, List's economics provides a theoretical explanation for the rise of new protectionism, and new protectionist trade theories such as the center-periphery theory also have commonalities with List's economics. It should be emphasized that List believed that the ultimate goal of trade protectionism is actually liberalism, but the reciprocity of free trade only arises when "the most important countries in the world achieve the greatest possible equalization in civilization, prosperity, industry, and power." List did not support national isolation but was committed to national equality, giving late-developing countries the opportunity to occupy a dignified position in the international system, or in his more exaggerated words, "the future universal society." However, List's economics also has shortcomings such as discriminating against less developed developing countries, such as his belief that tropical countries should become dependencies of temperate countries [6]. Therefore, when evaluating List's economics, a dialectical analysis is necessary, not only to see its protectionist nature and shortcomings but also to see its relative progress compared to the Smith school and the ultimate desire for a free society.

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