

## ***Book Reviews***

### **A Review of Contributions of Friedrich List Commemorating his 225-Year Anniversary.<sup>1</sup>**

#### **A Practical Prophet**

Friedrich List was a German-American economist who considered economics a science of politics and culture. As a modernist, he promoted an urban-industrial society, through gradual and pragmatic policies. He had considerable impact on a geopolitical scale, and his theories contributed to significant changes in the international balance of powers.

For a good reason, the textbooks of mainstream Anglo-American economics weeded out the German-American economist Friedrich List (1789-1846). Why? Because List gave away the family secret. List described its details, reasons and logic. The treasure to be kept secret was, and is, the strategy to accumulate national wealth and power. List has thus been characterised as:

... a prophet of the ambitions of all underdeveloped nations. [Laue (1963), p. 57].

List spent his life trying to uncover and explain to the people in Germany and in the USA how they could evade and eventually overcome English superiority and domination, economically and politically by using the method that England herself had used (while pretending otherwise).

#### **The Human Creative and Collaborative Spirit**

List is known generally for his support for railroad construction and for temporary protection of infant industries, pragmatically adapted to his stage theory. But there is far more to be noticed on deeper levels, connected to his 'Image of Man'. According to List, and a long tradition in Continental European statecraft, the goal of political economy is to elevate the culture of a nation. In other words, the goal of political economy is also to critically encompass the non-material aspects of an economy. List's liberal individualism and love of freedom and tolerance, connects to a German tradition where individual freedom translates more into a freedom to create (for mutual benefit), than into a freedom to consume (for egotistical benefit).

The background for the aforementioned family secret is "another" reason why List has been "forgotten": His emphasis on the immaterial factors underlying economic development. This pleased economists e.g., in Japan, Russia, China and India, who were dissatisfied with "Western materialism", as in the traditions following Adam Smith and Karl Marx.

<sup>1</sup>To be celebrated in his birth town Reutlingen, Germany under the authorship of Prof. Dr Eugen Wendler, Oct. 8th–10th, 2014.

### **Materialism's Increasing Insignificance**

Mainstream economics and Marxism, however, have been walking the path of Materialist philosophy, thereby ignoring the creative and collaborative powers of the human spirit, and making it increasingly insignificant. Mainstream economics has helplessly been trying to emulate mechanistic (Galilean-Newtonian) physics of the 18th and 19th Centuries. List's belief in the human spirit did not fit this template, and thus he was deemed 'unscientific' and obscure.

Today, however, the mechanistic model for sciences, also in Physics, is outdated by far, and main-street economics is rediscovering the power of the mind (cf. the 'Solow residual' [Solow (1957), p. 320] and now popular concepts like 'innovation', 'knowledge', 'learning', 'communication', 'governance' etc.), albeit, without allowing this insight to enter standard textbooks, nor noticing the structural coherence and logic that List developed in his 'immaterially' or 'spiritually oriented' system. It is about time to rediscover List and his roots in contemporary philosophy: 'German Idealism', also called 'the German Renaissance'.

List criticised Smith for his materialism, and logical results following from materialism: reductionism, methodological individualism, and social nominalism (atomism), and a gospel of egotistical greed. List argues that Smith's generalisations on a materialistic basis laid the foundation for abstraction, formalisation and 'monetarism'. This led to a myopic exclusion of non-material factors of importance, such as innovation, morality, trust, collaboration, institutions, and the need for public regulation.

List also criticised Adam Smith for not understanding the largely non-material nature of capital, thus not understanding growth and development [List (1841), pp. 225–226]. Smith, thus, adhered to a counterproductive policy of saving and austerity [Smith (1776), Book II, Ch. V, p. 366]—mistakes inherited by modern economists [cf. Daastøl (2011), Ch. 4]. As Joseph Schumpeter noted, the English classical school (after Smith) was,

... unsurpassed in its baldness, shallowness and its radical lack of understanding for everything that moves man and holds together society, ... [Schumpeter (1912), p. 87].

### **The National System of Innovation**

Unlike Smith and Marx, List had a broad practical background, as reflected in his 'non-generalising' approach to production. As opposed to Smith's simplistic mercantile theory of 'buy cheap and sell dear', List developed a complex theory of the productive forces, where the conceptual core was the 'Confederation of Labour'. Quite telling of List's inclinations, his system was later termed the National System of Innovation [Freeman (1982)].

According to List, the spiritual or intellectual capital of a nation, its labour force, is the core of its productive forces, contributing to both material and non-material growth. Goal and focus, also in times of crisis, must thus be to elevate the productive powers and accordingly elevate labour, i.e. increase the quality of labour. However, 'intellectual' or 'mental' capital can only be gathered slowly and with great difficulties. It is fragile, perishes easily, and must be nurtured and protected

from disruptions. Any short term or even brief destruction of Labour's productive power will also be destructive of nations' economies in the long term and must be avoided.

List's productive system may be condensed as following:

List argues that the human spirit creates culture, and this creates wealth:

- (1) The task of political economy is to perfect global civilisation through gradual moral, intellectual, and material progress.
- (2) Mental capital is the fragile and prime source of the productive forces and wealth. It constitutes the essence of collaboration.
- (3) This Confederation of Labour constitutes and continuously reshapes civic and public institutions.
- (4) The Nation is the main vehicle for the individual person's quest for freedom, security, happiness and wealth.
- (5) The ultimate Confederation of Labour lies in global free trade, making the selfish colonial system as well as navies obsolete.

### **The Listian Principle—Elevate Labour**

List's remedy for re-establishing a sound balance was to industrialise by elevating labour and civilisation itself. In this way, a nation may progress, avoid trade deficits, debt bondage, and social misery and even rise again from such unfortunate circumstances. This is what the USA once did.

List explains the core principles of mobilising capital for productive purposes in practice, also through the money creation process. Other tools in this pursuit were public measures like protective tariffs and targeted investment in public goods, like education, infrastructure, energy, and machine tools and a financial system serving productive purposes, all contributing to stable growth. List explains the principles of how a nation must prioritise in her investment strategy, strategically using its human and material capital productively, all in order to elevate national Labour—and ultimately global civilisation.

List argued that the first role of public regulation, such as tariffs, was to protect primarily the home market and production—in particular “spiritual capital”, “human capital” and know-how in a wider sense. The second role was to restructure the industrial makeup of a country. Obtaining revenue for the authorities only came third. Restructuring is particularly relevant in a state of crisis, which often is due to a dysfunctional industrial structure. A crisis is thus an opportunity to invest for restructure, as Wilhelm Lautenbach argued [an admirer of List; Lautenbach (1931), Section IV].

### **List's 'National System'**

List wrote a handful of books and hundreds of essays and articles on economic issues related to national development, and thus connected both to intricate problems related to international relations, as well as to issues of very local natures, such as land reform.

List's perhaps most interesting book also is his most famous book, *The National System of Political Economy* [List (1841)].<sup>2</sup> The book pretty much sums up his message

<sup>2</sup>The book does not deal much with one of his main preoccupations, innovative transport, but several

and the *Introduction* does so in particular.<sup>3</sup> But even people who are well versed in List's ideas have forgotten some intriguing sides of this practical and principally oriented book [List (1841)].

List begins with an historical overview of the rise and fall of great nations, he then discusses economic theory thirdly the economic systems until his days, and finally international politics, mainly related to England's relations with the USA and the European Continent. List's method is foremost empirical, extracting principles for sound economic development by comparing historical cases, such as those of France, Spain and England.

### **International Imbalances, Debt and Dependency**

Through its emphasis also on financial issues, in particular the discussion of America's debt crisis in the 1820s, the book stands out among List's other works. It happens to be a very relevant book to the present situation—of international imbalances and national debt problems. In 2004, Chris P. Dialynas wrote a highly profiled article on PIMCO's web pages<sup>4</sup> praising List's realism and degrading Adam Smith's phantasies.

List's ideas are of great importance today. The global trade imbalances and wealth transfers that concerned List are most prevalent today. [Dialynas (2004), Ch. 5A].

Adam Smith had argued against the Mercantilists, that the international markets would automatically find their way back to balance, and required no political intervention.

Nothing, however, can be more absurd than this whole doctrine of the balance of trade, upon which, not only these restraints, but almost all the other regulations of commerce are founded. [Smith (1776), Book IV, Ch. iii, Part ii].

Friedrich List however, using historical examples, argued that the trade and payments balances were important warning signals for the success or failure of a national economy, and the potential for dependency or continued sovereignty and national welfare. He also gives the key to a solution: industrialisation based on national power of mind.

The debt situation that many countries are suffering principally needs no different solutions than those achieving normal growth, except that the difficulties are more severe in that there is also an unproductive debt burden to be served. List advocates productive investments to get out of a debt crisis because the debt situation is caused by a lack of growth and can only be treated with increased growth.

When dealing with debt crises in the spirit and insights of Friedrich List, the guiding principle should be that short term measures must contribute to and conform to long term goals and evaluated accordingly.

List argued that only self-sufficient nations could achieve sovereignty and prosperity. Since most nations have to trade abroad to access raw materials and markets,

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essays and books deal with this.

<sup>3</sup>Strangely omitted from the English translation of 1885, but to be found in Margareth Hirst's translation [Hirst (1909), also online].

<sup>4</sup>*Pacific Investment Management Co.*, the world's largest bond-investment firm. This article was much noticed and commented, and was placed on top by *Reuters* in their annual review of the financial experts' forecasts for 2005. It was followed up by an interview in *Forbes* [Ackman (2005)].

the requirement thus transforms into having a positive balance of trade, i.e., to escape debt servitude nations must produce and export.

Smaller countries need to make treaties and unite, eventually into continental alliances, and ultimately leading to global free trade and peace. Nevertheless, he argued, premature free trade results in monopolies of the strongest. For stability and defence against foreign superiority, state intervention is required, e.g. temporary protection of home markets and building infrastructure, thereby elevating the quality of labour and competitiveness of industry.

Like the US founding father, Alexander Hamilton (1755–1804), List also argued that “imperialism” can be used to develop poor countries. One prerequisite is good institutions that are able to control capital flows.

We can learn a few things from Friedrich List’s solution to America’s debt crisis in the 1820s; mobilising regulation and capital for an elevation of Labour; productive sectors must be prioritised, and finance must be controlled in the interest of the nation.

Today as in List’s days, there are social and political issues at stake, and even geopolitical issues of grand proportions, regarding the relative positions of e.g. the USA, the EU and China and their respective currencies. Any interested person may benefit from re-reading Friedrich List.

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