

WHAT DID FREDERICK LIST ACTUALLY SAY?

Some Clarifications on the Infant Industry Argument

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Abstract

*The purpose of this study is to clarify some confusion surrounding the infant industry argument presented by Frederick List. Its main contribution is to show that List recommended selective, rather than across-the-board, protection of infant industries and that he was against neither international trade nor export expansion. In fact, he emphasizes the importance of trade and envisages free trade as an ultimate aim of all nations; he regards protection as an instrument for achieving development, massive export expansion and ultimately free trade. List's theory was a dynamic one, with dimensions of time and geography. Making a distinction between "universal association" and national interest, he argues that infant industry protection is necessary for countries at early stages of industrialization if some countries "outdistanced others in manufactures". **Nevertheless, protection should be temporary, targeted and not excessive.** Domestic competition should in due course be introduced, preceded by planned, gradual and targeted trade liberalization. List guards, however, against premature liberalization. He is aware of the limitation of size for infant industry protection but claims that in most cases this obstacle could be overcome through collaboration with other countries. To List, trade policy is not a panacea; it is an element in his general theory of "productive power" (development); industrial development also requires a host of other socio-economic measures.*

*The infant industry argument is not only still valid, if properly applied, but, in fact, it is at present even more relevant owing to recent technological revolution and changes in the organization of production. But despite this increased need, the means to achieving it have been restricted by international trade rules. The study also refers to significant incidences of targeted protection of production and exports in advanced countries, while universal and across-the-board liberalization is recommended for developing countries. International trade rules need to be revised to aim at achieving a fair trading system, in which the differential situations of countries at various stages of development are taken into greater consideration. Universal free trade may be easier for developing countries to implement than a dynamic and targeted trade policy; but "easiness" is not a substitute for "soundness". **It is emphasized, however, that, as List maintained, after a point in time trade should be liberalized selectively and gradually, aiming at the ultimate goal of free trade when all nations have reached the same level of development.***

“...restrictions are but means, and liberty, in its proper sense, is an end”

F. List (1856: 64)

Introduction

Having been dissatisfied with the theory of comparative advantage (CA), economists have introduced a host of alternative trade theories. Although the infant industry argument is not new, it is an important argument, often made in the context of developing countries at early stages of industrialization, and it is the basis of most new trade theories relating to developing countries. Moreover, it is a significant challenge to the classical theory of international trade, i.e. the theory of comparative cost advantage. According to the proponents of the infant industry argument, the doctrine of CA is essentially concerned with static efficiency in the allocation of resources, and is not conducive to long-term development, which is the chief concern of developing countries. In other words, there is a conflict between market-determined comparative cost advantage and the acceleration of development. Although the theory of comparative cost advantage does not entirely exclude dynamic elements (i.e. changes in the supply of factors of production, consumption pattern and tastes), “it insists that under perfect conditions, the effects of such changes will be reflected in market mechanisms” (Chenery, 1961: 141), i.e. in the structure of current costs and prices, and it rules out the discussion of path of adjustment and evolution of economic forces over time. However, critics would claim that current market prices and costs fail to serve as a guide to social needs and scarcities over time, basically because of the existence of dynamic externalities, uncertainties and risks.

As a tool of policy-making too, infant industry protection is significant. With the exception of Hong Kong, no country has developed its industrial base without resorting to infant industry protection. Both early industrialized and newly industrialized countries applied the same principle, although to varying degrees and in different ways (Shafaeddin, 1998).

The infant industry argument is largely based on Frederick List’s writings, strongly influenced by ideas from Hamilton and Carey of the United States, and there is, to my knowledge, hardly any thorough review of his ideas in the economic literature in English.¹ In fact, most often his contribution is totally ignored. For example, in his book, *Economic Theory in Retrospect*, Blaug (1962) does

¹ One exception is Henderson (1983).

not makes a single reference to List's work.² Similarly, in his book *The Origin of Economic Ideas*, Routh (1975) makes no mention of List. Given this silence among senior historians of economic thought, it is not altogether surprising that the writings of Frederick List on the theory of infant industry have often been misinterpreted or misrepresented by development economists. Furthermore, the literature on the infant industry argument, in general, is heavily loaded with fallacies and confusions. For example, the literature often regards the debate on infant industry protection as one against free trade, or even against international trade; perceives infant industry protection as synonymous with import substitution; conceives import substitution as a permanent feature or strategy versus export orientation strategy (e.g. Little et al., 1970; Krueger, 1978); restricts the infant industry argument to the stage of production for the domestic market; and envisages that protection should be applied across-the-board to the manufacturing sector as a whole, rather than on a selective basis (Greenaway and Milner, 1993; Corden, 1974). For example, Corden maintains that List "provides an argument for general protection of the whole manufacturing sector of an economy" (Corden, 1974: 260). Moreover, List's infant industry argument is sometimes regarded as not applicable to small countries (Cronin, 1980: 118) and, finally, the failure of import substitution policies is often attributed to deficiencies in the theory of infant industry protection (Krueger, 1978). As a result, not only many scholars but also many policy makers in both developed and developing countries tend to believe that, as infant industry protection has failed, universal and across-the-board trade liberalization is the answer.

The purpose of this paper is to clarify some of these issues by referring to the original writings of List, as an early exponent of the infant industry argument. It should be mentioned that List's ideas were not original; to a large extent he borrowed them from the American economists mentioned above. Nevertheless, he developed and formulated them in the form of a theory, i.e. the infant industry argument vis-à-vis the classical theory of international trade. Development of the infant industry argument will be reviewed in a separate paper. Sections I to III of this paper refer to the origin and main features of, and justification for, infant industry protection. Modalities of implementation and neglected features of the theory, including List's views on the importance of international trade and the ultimate aim of free trade, and exports of manufactured goods, are discussed in section IV. Section V looks at the case of small economies; and section VI explains how List's theory was based on experience. The final section is devoted to some concluding remarks which present arguments in favour of the applicability of List's infant industry argument in modern conditions.

² Review of his work is more common by the German economists (see, for example, Senghaas, 1989).

I. THE ORIGIN OF THE THEORY

The infant industry argument was the reaction to the uneven industrial development of Great Britain on the one hand, and the main European countries and the United States, on the other hand, after the first industrial revolution. These countries fell behind Great Britain in industrialization mainly because the first industrial revolution took place in that country. According to List (1856: 69–70), Adam Smith (1776) developed his universal theory of international trade – absolute CA – having mainly the interests of Great Britain in mind. His followers developed his theory of CA, which also advocated universal free trade.³

The origin of the infant industry argument is attributable to Alexander Hamilton, who initiated the debate on industrialization through infant industry protection in 1791, and argued for the protection of United States's industries vis-à-vis imports from Great Britain in his official reports to the American Government (McKee, 1934: 178–276). The first Tariff Act of the United State regarded to have elements of protectionism was that of 1789.⁴ Hence, the United State was the motherland of infant industry protection as an economic theory and as a tool of trade and industrialization policy. According to Bairoch (1993), not only “the modern protectionist school of thought was actually born in the United States”, but “it was also the mother country and the bastion of modern protectionism” (ibid.: 23, 30). List, who lived in the United States between 1825 and 1830 and was strongly influenced by Hamilton, Carey, Henry Clay and Daniel Raymond (1786–1844), first published a book on *Outlines of American Political Economy* in 1827.⁵ As a journalist and writer, List published various books and articles. Nevertheless, as far as the infant industry argument is concerned, his book on *National System of Political Economy*, first published in German in 1841, is the most important and

³ It should be mentioned, however, that even Adam Smith regarded restoration of free trade as an utopia because of the opposition by the private sector. Furthermore, Smith was in favour of protecting defence industries, and approved the Navigation Acts to develop the English merchant navy so as to compete with the Dutch commercial supremacy (Panic, 1988: 125). Moreover, Smith recommended various sorts of government intervention in the domestic economy with their impact on foreign trade. Goldsmith (1995) and Panic (1988) argued that the classical theory of international trade is as sound as any theory based on a certain number of assumptions. The problem with it is that its assumptions are unrealistic. For more details see Shafaeddin (2000).

⁴ For more details about the history of industrial policy in the United States and Europe during late eighteenth and early nineteenth centuries, see: Shafaeddin (1998); Bairoch (1989, 1993); Goldstein (1993); Bairoch and Kozul-Wright (1996).

⁵ In his writings in Germany in the form of various memoranda during the period 1819–1820, List argued for protection mainly as a “retaliatory” measure rather than as infant industry protection (Henderson, 1983: 144–145).

comprehensive one. Although he was not original in his ideas, he used the tools of economic analysis vigorously in developing and formulating the infant industry argument in that book (Schumpeter, 1952).⁶ Henderson (1983: 158) correctly claims that “List offered his readers much more than a repetition of the familiar argument put forward by these writers” (those who advocated protectionism before him). We refer basically to the *National System of Political Economy* in the present paper.⁷ The first English translation of the book appeared in 1856 in the United States.

List’s infant industry argument is very comprehensive, and as a basic theoretical framework extremely relevant to problems of trade and industrialization of developing countries. In the light of the confusions about his theory outlined above, we shall review the main features, justification and modalities of protection and liberalization as developed by him. We shall also refer to the comparative role of history and theory in List’s argument.

II. THE MAIN FEATURES OF LIST’S ARGUMENT

List’s infant industry argument is based on the following principles.⁸ First, countries go through five stages in their development: (i) the savage stage; (ii) the pastoral stage; (iii) the agricultural stage; (iv) the agricultural and manufacturing stage; and (v) the agricultural, manufacturing and commercial [services] stage.⁹ Second, to progress, countries ought to industrialize, i.e. go from stage (iii) to stages (iv) and (v). Third, such transitions cannot take place automatically through the “natural course of things”, i.e. through market forces. Hence, to do so, infant industry protection becomes necessary for countries which are

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