

Friedrich List: the economist of industrial capitalism

by Paolo Raimondi

Paolo Raimondi, of the EIR office in Wiesbaden, Germany, gave the following speech to a Schiller Institute conference in Prague on May 25 on the "Productive Triangle" proposal of Lyndon LaRouche for an economic recovery centered on a major infrastructure investment program in Europe. That conference was reported on in the June 14 EIR. His remarks were designed also to counter the free market outlook and International Monetary Fund conditionalities being imposed on Czechoslovakia by Finance Minister Vaclav Klaus. The speech has been slightly edited.

I will confine my remarks to the refutation of the theory of Adam Smith and Co., the fundamental errors of which have not yet been understood as clearly as they ought to be.

It is this theory which provides opponents of the American System with the intellectual basis of their opposition. It is the combination of these so-called theorists with those who believe themselves interested in the so-called free market, which gives so much seeming strength to this opposition. Boasting of their imaginary superiority in science and knowledge, these disciples of Smith and John Say are treating every defender of common sense like empirics whose mental powers and literary achievements are not strong enough to conceive the sublime doctrine of their masters.

"I believe it is the duty [of the General Convention at Harrisburg, 1827] to lay the axe to the root of the tree, by declaring the system of Adam Smith and Co. to be erroneous, by declaring war against it on behalf of the American System, by inviting literary men to reveal its errors, and to write popular lectures on the American System, and, lastly, by requiring the government of different states, as well as the general government [of America], to support the study of the American System in the different colleges, universities, and literary institutions under these auspices."

Who do you believe is the author of this radical statement? An anti-capitalist revolutionary? A Marxist communist? Or simply a tough-spoken socialist? No, it is Friedrich List, in a letter written July 10, 1827 in Pennsylvania and addressed to Charles Ingersoll, vice president of the Pennsylvania Society for the promotion of manufactures and me-

chanical arts.

Friedrich List, the German scientist and economist born in Reutlingen (Württemberg) in 1789, was to become before his death in 1846, the father of the German Customs Union, the famous Zollverein, which was the basis for the political unity of Germany. List was a staunch promoter of industrial capitalism, the American system of physical economy, the system of national economy, and of the first great, integrated European-wide railway and overall transportation system.

I believe that it is relevant psychologically to have this precise historical reference, because the collapse of the Bolshevik economic system has struck Eastern Europe and the Soviet Union with such dismay that there is a tendency to think, on the presumption that Western propaganda is true, that all Western economies are successful and follow the same so-called free market principles.

The economic and global crisis is so advanced and explosive that we are not allowed to make such a mistake or to lose more time.

I will now quickly point out some of the most relevant contributions of List's theory and activity, attempting to use his own arguments, taken from his many writings, the most well known being *The National System of Political Economy* of 1844.

Cosmopolitanism versus nations

Political economy is formed of three component parts: 1) individual economy, 2) national economy, and 3) the economy of mankind. Adam Smith treats of individual economy and economy of mankind, i.e., cosmopolitan economy. Freedom throughout the whole globe, universal eternal peace, rights of nature, union of the whole human family. Absolute freedom of trade throughout the whole globe was in full harmony with this doctrine.

This is the ideology of One Worldism, of the new world order, with the blessing of the freemasonic lodges.

But it is not the reality. In the real world there are nations; some are advanced, have industrial power, military power; others do not. In the real world there are also wars and different and sometimes opposing interests among nations. List

says: "Under the existing condition of the world, the result of general free trade would not be a universal republic but, on the contrary, a universal subjection of the less advanced nations to the supremacy of the predominant manufacturing, commercial, and naval powers." List accused Smith (who worked for the East India Company), of serving the interests of Britain, the colonial power, to maintain the colonies at the level of producers of agricultural products, raw materials, or labor-intensive and low-technology-based products for export. In the same way, List attacked Malthus's population theory as resulting from the Adam Smith free trade colonial system.

List counterposed the idea of a national economy, which was of decisive importance for the emerging nations. A national economy striving to develop its own industrial base and productive forces making available its internal market to the emerging manufactures, protected, if needed, by tariffs and customs duties.

Productive power versus exchange value

For Adam Smith, the "wealth of the nations" is based on the exchange of monetary values organized around the principle "buy cheap and sell dear." Smith says: If a nation produces cotton, for example, because of climatic and other natural reasons, it should simply continue to produce it and export it, and buy from other nations what they can produce the best, like finished textile products from England, for example.

What about building up a national industrial system, including textile manufactures? Smith objects that this would not be economical, because to produce at home will cost, at the beginning, more than to import the already-manufactured goods. This was the system that the British Empire wanted to maintain vis-à-vis its colonies, including the U.S.A., up till the moment of American Independence, and it is what the International Monetary Fund (IMF) has done and is doing vis-à-vis the developing sector, the Eastern European countries, and the world in general.

List's idea is that a nation which produces only values of exchange may appear at some moment to do well, but it will never be sovereign and independent and really industrially strong. "The power of producing wealth is infinitely more important than the wealth itself; it ensures not only the possession and the increase of what has been gained but also the replacement of what has been lost." Education, advancements in culture, scientific promotion, promotion of justice, defense of the nation, increase of knowledge, extension of liberty, perfection of political institutions combined with a growing manufacturing power, this is the source of value, and once mobilized, it can generate greater production of material wealth.

"The present state of the nations is the result of the accumulation of all discoveries, inventions, improvements, perfections, and exertions of all generations which have lived

before us; they form the mental capital of the present human race and every separate nation is productive only in the proportions in which it has known how to appropriate these attainments for former generations and to increase them by its own acquisitions. . . . The most important product of the nations consists of men."

Along this line of thinking, List supported the idea creating *écoles polytechniques*, schools of science and engineering, in all the major cities in America and in Europe. He advanced a number of proposals to promote scientific and humanist education and supported the organization of economic and scientific exhibitions, as an aspect of education and socialization of the scientific and technological discoveries and their implementation.

Industrial capitalism

The American or industrial capitalist system of economics consists in the development of basic economic infrastructure by the state with the understanding that it is the state's responsibility to generate credit, and provide the direction for and maintenance of these projects. This is accomplished by a combination of direct state economic action, and through state creation of a system of regulations in which private interests can operate. At the same time, it fosters technological progress and entrepreneurial activity. It is the creation of a technologically advanced industrial base which is the result of the development of a national economy, production, and internal market. The internal market, especially in the initial phase, must be protected through the maintenance of trade barriers.

Credit and financial policy in the American System are associated with Alexander Hamilton, the first treasury secretary of the U.S. A. from 1789 to 1794, who founded the First National Bank of the United States. The national bank creates credit (at low interest rates), increasing the banknotes in existence, but ensuring they are rigorously bestowed for specific categories of productive investment. This function is coordinated with the private banking system.

List participated directly in fostering the American System when introduced to America by Gen. Marquis de Lafayette. He was received in America in 1825 as a European and American republican and patriot. He collaborated personally with Americans like later Secretary of State Henry Clay, later President John Quincy Adams, and the economist Mathew Carey.

The Zollverein

Thirty-six German states, each with its own economy and tariff system, had no say in history vis-à-vis the overwhelming military and economic power of the British Empire and its colonies. The British continuously manipulated these states in playing the interest of each against the others. List understood that to become independent and united, Germany had to be able to develop its own

industry, manufactures, and productive power. Political union can be achieved if there is a working economic union. He proposed to create a common market for the German states, that is, the elimination of internal tariffs. But to build up industrial strength one needs some time, and the still weak industrial national structure must be able to produce for the internal market even if, at the beginning, the cost may be higher than the British offers. The market must be protected by customs duties against foreign competition. Only the most important branches of industry (with high concentration of technology) requires special protection for the initial phase.

The Zollverein began on Jan. 1, 1835 (List had fought for this since 1819), with the Prussia-Hanover and the Bavaria-Württemberg associations, and recruited the others on the way, the last ones to join being the Hansa cities which were more under British influence. List's idea was to associate to this union, de facto, all of continental Europe. He proposed this to Belgium in 1844. He tried to get Holland in it in 1844; Austria and Hungary, including Prague, he had already invited in 1843; and from here he foresaw a corridor of development along the Danube up to Turkey. He discussed this with France, where he was in contact with the followers of the Colbertist tradition. He had a plan to associate Russia to this expansion of manufacturing and trade.

One can say that he is the real father of the European economic community based on the American System.

The railway system and infrastructure

To create a national industrial system and to promote the development of the productive forces of the new union, List proposed the immediate realization of a series of great projects centered fundamentally in the creation of an efficient network of railway connections. List called the Zollverein and the railway system "the Siamese twins." Already in 1833 in his first comprehensive railway plan, one of the arms coming from Leipzig went to Prague. His project was to connect all continental Europe by rail and inland canals, reaching in particular into Belgium and Holland, establishing in this way a direct connection of Europe to the United States via ocean-going navigation.

List's ideas of a "national system of political economy" reached into Japan, the China of Dr. Sun Yat-sen, Latin America, Hungary, and in all the corners of Europe. The Spinners' Association of Bohemia was very close to List's ideas, and the Slovak writer Lodovit Stur campaigned for List's programs.

The degeneracy of Vaclav Klaus

With these sketchy but useful ideas of the Listian system, of the American System, let us turn to investigate the proposals and the program of Vaclav Klaus, the finance minister of Czechoslovakia.

What really is his program? From the intensity of the

discussions and the aura of power built up also in the West, one might be misled to think that Klaus has a comprehensive, detailed, extraordinary plan to get the economy out of communist backwardness into the paradise of what he calls the market economy. I had the chance to read the available collection of speeches and contributions he made in a number of public meetings in the past months since November 1989, and I must admit my surprise to see how little economic elaboration there is in the middle of a big ideological thrust. But let us look more closely to dig out his fundamental criteria of economic reform.

1) Klaus wants a free market economy. To better qualify this notion, he calls immediately to his assistance Adam Smith and Milton Friedman of the Chicago School of Economics.

2) A negative definition. A market economy is not the 1968 Prague Spring, it is not market socialism from the West, not perestroika, not a sophisticated government program which wants to build infrastructure, it is not a state plan.

3) The time. The "reform" must be implemented according to the "turnpike theorem"; that is, the fastest way without any hesitation and no halfway measures or hybrids. "We have to follow a straight ideological and economic turnpike to implement a full-fledged market economy," Klaus said.

4) The three pillars of the transformation.

A) Private property through domestic and foreign agents. It is supposed to be a full privatization also with the help of the voucher system for the workers, because there is a low rate of savings in the country.

B) Opening the domestic market through 1) price liberalization, 2) elimination of government intervention, 3) elimination of subsidies, and 4) devaluation of the currency (there have already been three devaluations).

C) Opening Czechoslovakia's economy to the rest of the world through 1) the liberalization of foreign trade, and 2) internal convertibility.

Klaus mentions some problems which are aggravating the situation, like the oil shock and the collapse of foreign trade among Eastern European countries. He asks Western countries to open their market to Czechoslovakian products and exports, and to encourage public sectors of Western countries to contract for goods in the East—both suggestions being in direct violation of the implacable law of the "invisible hand" of the free market. Finally, Klaus candidly admits that he is not with those who want to orient his nation toward Europe, but toward worldwide institutions like the IMF, World Bank, and the General Agreement on Tariffs and Trade (GATT). Why? "Because prosperity is founded upon a system of a worldwide free trade, not upon man-made institutions."

Klaus then combines these decisions with a repeated firm belief in "a very restrictive monetary and fiscal policy combined with cuts in the subsidies and radical and painful budget

cuts, eliminating the excess demand in investment and intermediate goods market." He wants, through cuts, to move from a deficit to a surplus budget as quickly as possible, to reach a zero rate of growth of monetary supply, rejecting at the same time major foreign aid financial assistance which is "not only wrong but dangerous because [it will] decelerate the change of the system."

The 'Mexico of Europe'

So everyone can clearly see that Klaus not only does not have a plan to promote industry and agriculture, but he does not want to have it. The end result of his policy will be catastrophe. Czechoslovakia, which managed to maintain a relatively high industrial and technological standard in the Soviet-dominated East bloc, has gotten a communist inheritance of an industry with backward technology compared with German or Western European standards, low productivity, poor product quality, no market in the West, lack of efficient infrastructure, communications, and transportation, an unbalanced bureaucratic management, a market totally oriented toward Moscow, and a proportionally gigantic armament industry of which a part must be converted. Consequently, no one in the world of the free market would buy a product made in Czechoslovakia if he can get a better Western product. On the contrary, due to the incredible devaluation, foreign capital can buy everything cheap in Czechoslovakia and, conversely, Czechoslovakia cannot buy anything (in particular a high-technology product) in the West. This system is de facto transforming the country into a Third World, colonial entity. At the present time, countries of Africa or Latin America are used to extract raw materials; here, the main raw material is relatively qualified but cheap labor. I believe that the plan of the free market proponents is to transform Czechoslovakia into the "Mexico of Europe," looting the cheap labor.

In the short to medium term, this system will lead to a collapse of the domestic market and a total block on technological modernization for lack of funds. The restrictive credit policy implies a foreign takeover, and an impossibility for the formation of a national *Mittelstand*, small- to medium-sized private entrepreneurs, which is the only alternative to what Klaus calls the monopolist state. And the alternative to this monopolist state will then be to sell the state entities to foreign, international cartels.

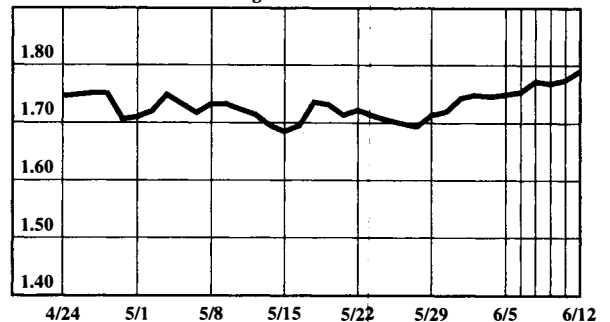
Klaus's policy is putting before the nation two alternatives: internal market and production collapse, with all the imaginable social and political consequences, or pushing Czechoslovakia back into the arms of the Soviet Union, i.e., to continue to produce for the old system, as a province of the Soviet or Russian Empire.

There is an alternative: participate in creating a continental European system of economic development, the American System, the industrial system of the "Productive Triangle."

Currency Rates

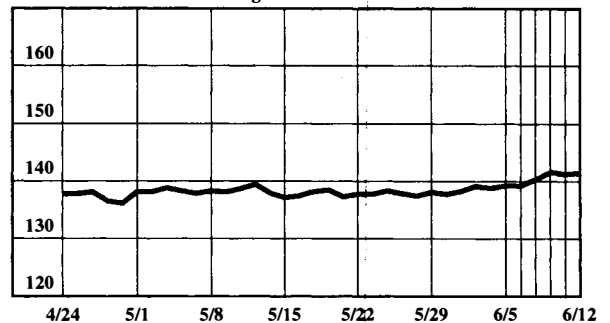
The dollar in deutschemarks

New York late afternoon fixing



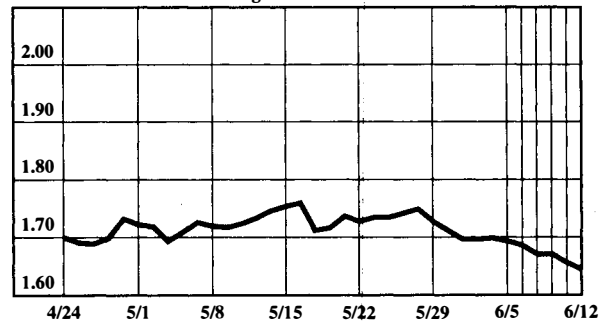
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

