

Drew Boyles

Dr. Elizabeth Moorhouse

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### Realism and Rebellion in Friedrich List's National Political Economy

Friedrich List emerged as an economic and political theorist in the mid-nineteenth century, and despite an enviable career which featured him as an intellectual editor of various newspapers, friend of American president Andrew Jackson, and a national hero of Germany, he remains relatively unrecognized by today's economists. Economic historians characterize him as a strong protectionist, anti-free market thinker who dissented against the classical view. Some economic historians view him as a mercantilist, while others simply view him as a nationalist whose writings hardly construct a new political economic system. However, List's ideas must be considered within the historical context of nineteenth century Germany. His critiques of Smith demonstrate what he saw as flaws in the classical school, which he believed were responsible for perpetuating the problems of undeveloped nations.<sup>1</sup> The similarities and differences between List's views and those of mercantilism and classical economics demonstrate his efforts to create a practical proposal: the utilization of both mercantilist thought and Smithian economics to create a blueprint for the development of nations. Through his critiques and theories, List proves himself to be not a protectionist or mercantilist, but a pragmatic political economic theorist. List's efforts to design a new political-economic system were steeped in realism and an honest effort to create an ideal system in which developing nations throughout the world might achieve economic success. In particular, he presents a new analysis of what impacts the wealth of nations by relying on a pragmatic approach for trade, the role of government, and the forces behind

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<sup>1</sup>For the most part, when List criticizes Smith and his ideas, he is mainly taking aim at the classical school's extension of Smith's theories. However, List does suggest that Smith may have been wrong at the time of *Wealth of Nations* as well.

economic growth.

Joseph Dorfman describes List as a man with a quality “social science background and a definite penchant for academic preferment, but only as one aspect of an active career in politics and business.”<sup>2</sup> This background provided List with a diverse perspective on society and the economy. His academic affinity, coupled with strong patriotism, led him to seek economic theories which might improve the nations of the world he saw as capable of development but for some reason unable to prosper. While his writings held implications for all nations, his policies are thoughtfully constructed with his homeland, Germany, in mind.<sup>3</sup> Friedrich List was a reformer who sought to unite Germany and develop it into a major political power. Mid-nineteenth century Germany was a nation characterized by disunity. The country was comprised of “petty kingdoms with their own customs barriers and separate currencies,” and List’s political work centered on unifying Germany, eliminating internal tariffs, and establishing Germany on a level where it could cultivate economic activity.<sup>4</sup> As a disjointed nation, few opportunities existed for development—especially concerning manufacturing—convincing List that nations such as Germany needed to be empowered in order to adapt and evolve. His strong political posturing to reform Germany would ultimately lead to his exile to America due to accusations of treason.

Many of List’s views evolved during the development of his relationship with the United States of America. When he was exiled from Germany, List spent several years working as an editor of a U.S. newspaper and working with the Pennsylvania Society for the Encouragement of Manufactures and Mechanic Arts. During this time, List developed a friendship with President

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<sup>2</sup>Joseph Dorfman, *The Economic Mind in American Civilization: Volume Two, 1606-1865* (New York: Viking, 1946), 575.

<sup>3</sup>Editor’s note to Friedrich List, *The National System of Political Economy* (Danvers, MA: General Books LLC, 2009), 18.

<sup>4</sup>Christopher Winch, “Two Rival Conceptions of Vocational Education: Adam Smith and Friedrich List,” *Oxford Review of Education* 24, no. 3 (1998): 365. JSTOR.

Andrew Jackson, Henry Clay, and James Madison.<sup>5</sup> These men, as well as their American philosophy, ultimately would influence List's economic theories. During this time, he also acquired a familiarity with the economic writings of Alexander Hamilton, largely considered to be List's greatest inspiration.<sup>6</sup> These relationships and experiences led Andrew Jackson to appoint List to various foreign consul positions, which increased his influence and credibility for his publications and actions in his role as a government official. List's experiences in American politics ultimately influenced his greatest work, *The National System of Political Economy*, as his work in the United States involved the use of protectionism and the encouragement of industry.<sup>7</sup> The American system of protection would permeate the theories throughout his tome, adding to the depth of his critiques of the arguments of the classical school.

Published in 1841, *The National System of Political Economy* emerged during a time dominated by the classical writings of Smith, Malthus, and Ricardo. In light of the works of these men, which generally focused on the successes of England, List sought to develop a different argument while also utilizing the English example in relation to the other countries of the world. The state of mid-nineteenth century Germany demonstrates the motivation for List's focus on emerging nations, but the nineteenth century also presented other issues external to Germany's internal division. England's superpower status and vast empire constituted the most developed nation in the world and provided List with his best example to critique the contemporary economic thought. He decried the actions of the British, identifying the country as a hindrance to the development of other nations. In his first volume of *The National System of Political Economy*, List develops the history of nations, citing various instances where British

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<sup>5</sup> Dorfman, *Economic Mind*, 576-578; Editor's note to List, *National System*, 17.

<sup>6</sup> Christine Margerum Harlen, "A Reappraisal of Classical Economic Nationalism and Economic Liberalism," *International Studies Quarterly* 43 (1999): 733. JSTOR.

<sup>7</sup> Population Council, "Friedrich List on Globalization versus the National Interest," *Population and Development Review* 33.3 (2007): 594. JSTOR.

action was directly responsible for the crippling of nations' economic structures.<sup>8</sup> The historical context of List's environment clearly delineates why his views favor the encouragement of undeveloped nations and decry the actions of England. The arguments of the classical school of economics were insufficient for List, who saw the application of Adam Smith's economic theories as resulting only in the sacrifice of nations for the enrichment of England. Thus, a synthesis of mercantilist thought and Smithian economics ultimately seemed most appropriate for improving the wealth of all nations.

Mercantilist theory provided a strong structure for the development of nations. Mercantilism, characterized by accumulation and protectionism, focused on determining "the best policies for promoting the power and wealth of the nation."<sup>9</sup> A favorable balance of trade (more exports than imports) and the desire to increase a nation's wealth generally followed mercantilist thought, accomplished through the use of tariffs, subsidies, and other forms of significant government intervention in the economy. Adam Smith's *Wealth of Nations* marked a movement away from mercantilism, relying on competitive markets and human nature to generate the most wealth for a nation. For Smith, capital accumulation provided the basis for a nation's wealth, and, further, the intervention of governments impeded the markets from making the best decisions for the nation.<sup>10</sup>

Nineteenth century classical economic thought, especially of Malthus and Ricardo, developed abstractly. While often showing little regard for reality, when these economists did think realistically, they nearly always rejected political influences, believing markets alone held the power to create material wealth. List rejected this, writing that "we have merely to consider the history of Venice...Holland, and England in order to perceive what reciprocal influence

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<sup>8</sup>List, *National System*, 63 (Portugal), 89 (Germany).

<sup>9</sup>David C. Colander and Harry Landreth, *History of Economic Thought* (Boston: Houghton Mifflin, 2002), 44.

<sup>10</sup>For a more complete explanation of mercantilist and Smithian thought, see Colander and Landreth's *History of Economic Thought*, Chapters 3 and 4.

material wealth and political power exercise on each other.”<sup>11</sup> In addition, he rejected Malthusian pessimism about the future of the world, citing the value of technology and uncultivated resources.<sup>12</sup> This provided the basis for List’s belief that political action could appropriately influence the exchange of goods and increase material wealth by encouraging new industry.

List identified Smith’s *laissez-faire* mentality as ignorant of the historical forces which led to the current, unfavorable condition of nations. List theorized that if England followed Smith’s free market philosophy throughout its history, “without her commercial policy, England would never have attained to such a huge measure of municipal and individual freedom as she now possesses, for such freedom is the daughter of industry and of wealth.”<sup>13</sup> List argued that the classical school’s adherence to Smith’s ideas ignored the fact of a historically protectionist England, which had led to the nation’s development of manufacturing and ultimately the growth of the freedom that permitted a *laissez-faire* system to work. England’s manufacturing dominance was not a natural product of competition, but instead a product of historical protectionism. Smith’s argument that nations should only permit industry to emerge naturally appears to contradict the reality of England’s success. List dissented from this theory, comparing a nation to a man who seeks to develop a forest. List rhetorically asked, “Would it be wise policy for the forester to wait until the wind in the course of ages effects this transformation” from wasteland to forest, or should he actively encourage the growth of the forest?<sup>14</sup> He suggested that history showed that nations are as equally successful in promoting industry as the forester who cultivates a forest. This historical context ultimately gave List his argument for a system which includes protectionism for developing countries.

While List seemed to be clinging to mercantilist thought through his systematic rejection

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<sup>11</sup> List, *National System*, 116.

<sup>12</sup> Population Council, “Friedrich List,” 594.

<sup>13</sup> List, *National System*, 42.

<sup>14</sup> *Ibid.*, 97.

of the proposals of classical economics, his philosophical approach towards protectionism was limited, resulting in List's acceptance of some of Smith's conclusions, as well as a rejection of some mercantilist ideas. List was critical of the commercial policies of developed nations like Britain, who still utilized protectionist (mercantilist) philosophies. List agreed with Smith, accepting the *laissez-faire* mentality for the nations whose manufacturing industries had fully developed or stood no chance at ever being successful on their own: "A nation which has already attained manufacturing supremacy can only protect its own manufacturers and merchants against retrogression and indolence..." by adopting a *laissez-faire* approach to trade.<sup>15</sup> For List, mercantilism hurt countries such as England. He set forth a timeline for protectionism: poor, undeveloped nations must import freely in order to appropriately bring themselves out of feudal backwardness, and only when the nation had begun on 'the road' towards manufacturing could protectionism be useful to further strengthen and develop its industries. Harlen notes this, writing that List "approved of protectionism only when it was likely to lead to successful industrialization," and thus, most countries benefited from some degree of free trade.<sup>16</sup> Once the nation reached manufacturing supremacy, it needed to re-adopt a system of free trade, allowing competition to prevent laziness and decay in its manufacturing industries. List cited Germany and the United States as examples of countries whose young manufacturing industries would greatly be improved from protectionism, but he argued that Britain and France needed to decrease their protectionist policies to ensure that their manufacturers did not fall into decline (so that they were forced to compete with emerging nations' manufacturers). The balance of protectionism and free trade through a nation's progression from a barbarian state to one of manufacturing and commerce clearly denotes List's pragmatic solution to the development of

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<sup>15</sup> Ibid., 147.

<sup>16</sup> Harlen, "A Reappraisal," 741.

nations.<sup>17</sup> Thus, his theory does not adhere to either mercantilist or classical thought, but favors realistic analysis of ideas.

List began his economic theory by marking a difference between his ideas and those of the classical school. To List, Smith and his fellows focused on cosmopolitical matters, or “how the entire human race may attain prosperity.”<sup>18</sup> List, however, turned his focus to the truly political economy: how to improve the wealth and power of individual nations. While List’s plan can be applied to improve all the nations of the world, its process is through the political, not the cosmopolitical. This basic difference explains why List’s theory drifted away from free trade. For List, the cosmopolitical thinkers “assume a universal union or confederation of all nations as the guarantee for an everlasting peace.”<sup>19</sup> Smith, along with his physiocratic inspiration, Quesnay, focused on free trade for all nations who were assumed to work peacefully together for mutual benefit, representing a movement away from the political and into the cosmopolitical. In order for free trade to truly work, unfettered and efficiently, wars and national political interests could not exist. List’s world was marked by disagreement between nations; thus, he could not accept Smith’s view or its assumptions. In his world, “the result of general free trade would not be a universal republic, but...a universal subjection of the less advanced nations to the supremacy of the predominant manufacturing, commercial, and naval power.”<sup>20</sup> List foresaw the world superpower, England, as the strongest beneficiary of free trade, as its further-developed manufacturers and navy provided it with advantages to ‘weather the storms’ of war and trade disputes, while other nations could not compete. List decided that in order for the cosmopolitical system to truly work, “the less advanced nations must first be raised by artificial measures to

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<sup>17</sup> List, *National System*, 140.

<sup>18</sup> *Ibid.*, 101.

<sup>19</sup> *Ibid.*, 103.

<sup>20</sup> *Ibid.*, 107.

[England's] stage of cultivation."<sup>21</sup> It was in light of this goal that List ultimately developed his theory.

List's realistic approach to an economy led him to question Smith's assessment of the wealth of nations beyond the distinction of cosmopolitical versus political economy. A nation's possession of wealth meant little to List. Comparing a nation to a person, List wrote, "a person may possess wealth...however, if he does not possess the power of producing objects of more value than he consumes, he will become poorer."<sup>22</sup> A poor person may have little wealth, but "if he possesses the power of producing a larger amount [than he consumes], he becomes rich."<sup>23</sup> For List, a mix of agriculture, commerce, and manufactures comprised a nation's ideal powers of production mix, and List identified England's success as derived from the possession of all three industries. This identification helped establish List's pragmatic conclusion: If a nation is to grow in wealth and power, it must establish manufactures and a system of commerce to complement agriculture. In other words, the nation must acquire powers of production. He referred to this as his theory of productive powers, where a nation ensures future success through the cultivation of industry, which leads to the improvement of all aspects of an economy: agriculture, commerce, and other industry. List utilized Smith's notions of capital accumulation to develop his argument, but he disagreed with Smith's characterization of productive behavior, believing capital accumulation was more complicated than the classical school theorized.

List further examined the forces which Smith identified as causes of wealth to determine their role in a political economy. Smith's focus on division of labor as the major force guiding a nation's wealth was insufficient in List's theories. Division of labor could only be effective if industries existed for labor to be employed. List accepted that Smith was "correct to describe the

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<sup>21</sup> Ibid., 108.

<sup>22</sup> Ibid., 111.

<sup>23</sup> Ibid., 111.



limbs of men as the causes of wealth,” but List disagreed with Smith’s identification of what held value to a nation.<sup>24</sup> For Smith, division of labor increased productivity, but labor was only productive if its employment produced a tangible good. List took exception to this categorization of labor’s worth. Furthermore, he decried the classical school’s theories, writing that, according to classical economists, “the man who breeds pigs...is a productive member of society, but he who educates men is a mere non-productive.”<sup>25</sup> List’s analogy not only depicted his issues with the classical school’s theory of value but also presented a closer analysis of what List referred to as mental capital. List’s mental capital is comparable to modern notions of human capital, and while the classical school did present some valuation of human capital, it was done so in the context of its theory of value. Furthermore, List dismissed the argument of classical economist J.B. Say, who suggested that occupations relating to human capital were productive only because they were “remunerated with values of exchange and because their attainments have been obtained by sacrificing values of exchange” and not as a result of their production of value.<sup>26</sup> List viewed human capital in relation to his theory of productive powers, and in that light, human capital held value on its own, with teachers, physicians and other mental capital-based occupations producing value. David Levi-Faur notes List’s commitment to mental capital, suggesting that List believed “natural and material capital are inferior to mental capital.”<sup>27</sup> This belief clearly denotes why List focused so heavily on critiquing Smith’s theories of productivity. Through his arguments on powers of production and mental capital, List further distinguished his pragmatism from the more discriminating theories of the classical economists.

List’s argument concerning the pig breeder epitomizes his reason for developing a new

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<sup>24</sup> Ibid., 113.

<sup>25</sup> Ibid., 117.

<sup>26</sup> Ibid., 117.

<sup>27</sup> David Levi-Faur, “Friedrich List and the Political Economy of the Nation-State,” *Review of International Political Economy* 4.1 (1997): 157. JSTOR.

theory on productive uses of labor. Smith regarded the accumulation of capital as the ultimate force behind the growth of nations as it allowed productive labor to produce more goods, but List uncovered a flaw in this mode of thinking. If a nation followed Smith's theories that labor was only productive if it produced tangible items and that the accumulation of capital was the sole means of increasing a nation's wealth, the implications of Smith's limited definitions of labor and capital could actually lead away from the growth of wealth. List turned to an analogy of a nation as a family to justify his theory of productive powers and mental capital. Two families were considered: two farmers, each with five sons and savings of 1000 coins each year. The first farmer invested his savings to accumulate physical capital and used his five sons as manual laborers on the farm. The second farmer used his savings to educate two of his sons to be skillful and intelligent farmers, while allowing his other three sons to learn a trade skill. List identified the first farmer as following Smith's theory of values (investing savings to produce and accumulate physical capital) and the second as following his theory of productive powers (creating a means to continue to cultivate wealth into the future). He acknowledged that the wealth of the first farmer would no doubt be greater in exchangeable value than the wealth of the second man, but he identified a more important consideration. Upon the death of the two farmers, the estate of the first farmer would be divided amongst his five sons who would work the divided plot of land as when their father lived. The second farmer's estate would be divided amongst his two sons, whose newly cultivated skills at land management would enable them to achieve greater productivity than when their father was alive. The other three sons, having obtained trade skills, would independently sustain themselves. The first family was destined to poverty as their shares of property slowly diminished with each passing generation (as the family maintains the theory of values). The second family, though admittedly starting with lower values of exchangeable wealth, would increase its wealth and intelligence over generations as it

followed the theory of productive powers.<sup>28</sup>

List's developed critique of the classical school's basic assumptions and theories bolstered his argument that Smithian economics was insufficient in ensuring the wealth of individual nations. Through his systematic critical analysis of the classical school, List built a solid alternative to the classical school. His system relied most heavily on the establishment of manufacturing. For List, the impact of manufactures was widespread: "improved means of transportation, improved river navigation, improved highways, steam navigation and railways," all of which benefited not only the manufactures but also other areas of the economy.<sup>29</sup> Because of this, protection of domestic industry was vital to the improvement of a nation. Only when nations were near the same level of industrial development and when a nation's powers of production were aptly cultivated could Smith's cosmopolitical economic theory create a world of free trade, peace, and prosperity. He wrote that with the adoption of free trade "in the face of a nation which is predominant in industry, wealth and power (England)...the prosperity of individual nations is sacrificed...solely for the enrichment of the predominant manufacturing and commercial nation."<sup>30</sup> For List, the premature adoption of free trade guaranteed the destruction of a nation's manufacturing, and the effect of its decline would most certainly be widespread. List cited England as the prime example of the impact of manufacturing and suggested the impact of losing a nation's manufacturing as an exponentially negative loss, crediting manufacturing for increasing the value of land and agricultural prices through increased demand.<sup>31</sup> In addition, his promotion of tariffs for industry held implications for the value of land, about which Smith and Say said little. Joseph Dorfman recognizes this notion, suggesting that "List found that the great defect of Adam Smith and J.B. Say was precisely that they say

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<sup>28</sup> List, *National System*, 114.

<sup>29</sup> *Ibid.*, 97.

<sup>30</sup> *Ibid.*, 99.

<sup>31</sup> *Ibid.*, 178-181.

nothing about the consequences and causes of the rise and fall of land prices,” especially the role of manufacturing in price changes.<sup>32</sup> Manufacturers’ influence, for List, enabled the rise of land prices, improving the quality of life for all members of a nation with a developed manufacturing industry.

List’s affinity for manufacturing directly conflicted with Smith, who emphasized agriculture as the most vital part of a nation’s economy. List criticized Smith, who “sanctioned the erroneous view of the physiocratic school” and assumed that, in England, because capital designated for agriculture exceeded capital for manufacturers, it must be superior.<sup>33</sup> List rejected this agriculturally minded notion, since he saw manufacturing as the responsible agent for enabling the agricultural sector of England to expand. List justified this view through a hypothetical estimation of decreased manufacturing production in France through free trade with England: England provided manufactured goods, while France focused on wine (agricultural) production to supply England with an extra 5 million gallons of wine. He wrote that his estimation was moderate, not exaggerated, and that as a consequence of “decreased French manufacturing production, one million fewer inhabitants would live in French towns, and that one million fewer persons would be employed in agriculture for the purpose of supplying the citizens of those towns with...necessities of life.”<sup>34</sup> The decline in citizens of France would force a decline in domestic wine consumption of 50 million gallons, ten times the amount of wine exportation gained through free trade with England. Here, List demonstrated what he considered to be a realistic analysis of free exchange and the consequences of uninformed relationships between national markets. List supported the free trade of raw materials and agriculture, but not manufacturing, due to the infinite benefits caused by its presence in an economy.

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<sup>32</sup> Dorfman, *The Economic Mind*, 580.

<sup>33</sup> List, *National System*, 187.

<sup>34</sup> *Ibid.*, 185.

The influence of Friedrich List on political policy is undeniable. His work to encourage the development of a system for collaboration between German kingdoms, as well as a railway system in Germany, was accepted and slowly many people began to consider him one of the greatest German economists. His philosophical approach to the political economy would provide the basis for the German Historical School, while his theories justified German and American protectionist policies. Unfortunately, faced with illness and feelings of failure, List committed suicide in 1846, only to have recognition and appreciation for his ideas emerge shortly after his untimely death.<sup>35</sup> In the modern world, List's ideas remain relevant. His arguments against the classical school's free trade are often voiced by developing nations, and his criticisms of England are repeatedly directed towards world superpowers. His political theory "arguably provides the theoretical underpinning for the social capitalism that modern Germany, Scandinavia and the Pacific Rim countries... exemplify."<sup>36</sup> In addition, List's theories on unifying nations (achieving Smith's cosmopolitical world) arguably can be seen in the development of the European Union.<sup>37</sup> Although his theories seemingly faced little accolade during his lifetime, they have developed and influenced many modern political theorists since List's death. His movement away from the classical school provided a new perspective, and these theories proved relevant and useful in the real world, as well as applicable in new critiques of classical thought.

List's disagreement with the classical school clearly showcases ideological differences. While Smith focused on agriculture, List relied on manufacturing as the force behind economic growth. His theories relied heavily on his perception of the current state of the world and the history of economic development. In order to bring Germany out of division and enable it to

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<sup>35</sup> Levi-Faur. "Friedrich List and the Political Economy," 156.

<sup>36</sup> Christopher Winch, "Listian Political Economy: Social Capitalism conceptualized?" *New Political Economy* 3.2 (1998): 316.

<sup>37</sup> *Ibid.*, 315-317.

compete with England, it is clear that List's approach was steeped in realism. His pragmatic approach relied on mixed theory: using mercantilist theory to encourage manufactures, while relying on classical theory to promote growth and development in areas such as the trade of raw materials and agriculture. His disagreements with classical economics were based not on mercantilist theory, but on observations of the real world. His critiques of the classical school were not contrarian in nature but have been shown to represent an honest attempt to develop a new political system that could equalize wealth across nations and create a system compatible with Smithian economics. While List is often regarded as the "father of American protectionism,"<sup>38</sup> his protectionism is one of careful consideration. The synthesis of the classical school and mercantilist thought enables capable nations to achieve their industrial potential, improving the future of all members of the world and moving all nations closer to Smith's cosmopolitical ideal.

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<sup>38</sup> Colander and Landreth, *History of Economic Thought*, 324.

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