

Friedrich List and the American System of political economy

by Michael Liebig

The following is the edited text of a speech delivered on Feb. 22.

Let me give you a sketch of the economist Friedrich List, whom I would situate in the following way. Were a student in the 21st century to ask, "What are the really indispensable writings for a student of economics?" his professor would, I believe, tell him the following:

First, in the 17th century, in the 1670s, Gottfried Wilhelm Leibniz's economic-political or physical-economic manuscripts. Second, at the end of the 18th century, in the 1790s, Alexander Hamilton's three reports [on Manufactures, on a National Bank, and on Credit]. Third, in the 19th century, the writings, from the 1820s to the 1840s, of Friedrich List, and, from the 1840s to the 1860s, those of Henry Carey. And fourth, in the 20th century, beginning in the 1970s, the economic writings of Lyndon H. LaRouche, Jr., as typified by his economics textbook, *So, You Wish to Know All About Economics?*

I will focus on one of these five essential authors in the history of economic science: Friedrich List. I begin with a quote from List in 1845: "Rather will the presently ruling Chinese dynasty, the whole system of the Mandarins, collapse, than that 300 million Chinese will remain idly inactive as the British continue their work of economic destruction in China. Most probably, rather soon, the pauperized millions of China, pauperized by British free-trade policies, are going to assault the British 'red-haired barbarians.' I foresee more than one big bloodbath. But one thing is certain: Rather soon, this whole Chinese free-trade experiment of the British, is going to blow up like an overheated steam engine."

Friedrich List, you have to understand, is someone who, in his famous Philadelphia Speech [before the Pennsylvania Society for the Promotion of Manufacture and the Mechanic Arts] of 1827, said, "I herewith declare war against the system of Adam Smith on behalf of the American System of political economy." And so, it is not at all surprising, that his works were intensively studied in China, one of the main targets of the British Empire's economic imperialism. List's main work, *The National System of Political Economy*, was translated into Chinese in the 1920s, by Professor Wang Kai-hua. I have his dissertation here, which Wang Kai-hua wrote in 1926 at the University of Tübingen, before his translation of

List's *National System* was published in China in 1928. The dissertation is titled "The Importance of List's Economic Theory for China."

List's "declaration of war" was directed against Adam Smith, the author of *The Wealth of Nations*, a book which has been used as the primary propaganda tract, defining in rather crude, pseudo-scientific fashion, the key paradigms in what is called liberal or neo-liberal economic theory. Now, I want to assert that anyone who has ever read Smith's tract, will verify that it's a very painful experience. Smith's book is exceptionally intellectually *unexciting*. Actually, you can't help thinking that if neo-liberals were forced to read, full length, *The Wealth of Nations*, maybe they would convert to some other economic theory on the spot.

Adam Smith's ideological constructs

I don't want to discuss extensively the core myths of Smith's book, but let me just mention them: the mystical triad of capital, labor, and landed property, which generates, automatically as it were, capital gain, surplus work, ground rent. It's all totally confused: Capital sometimes is physical capital, tools or raw materials, and sometimes it's "savings," bullion, money capital. Work exists as only *manual* labor, as muscle work, with a bit of skill derived from experience. That's very important. *The Wealth of Nations* was published, interestingly, in 1776, and a key aspect of it, is that it has a whole section denouncing American aspirations for independence and for in-depth economic development. Smith argues passionately that the American colonies must remain purely agricultural and raw materials producers.

There is also not one mention of the steam engine in Smith's book, which supposedly is the crowning theoretical work of the Industrial Revolution. It is asserted, that Adam Smith is the man who intellectually developed the concept of the division of labor, microeconomically and macroeconomically. Some people get euphoric about his description of the production steps in making needles, but there is nothing original in that. The division of labor was already a conceptual point for the Greeks, for the Romans, and in the Middle Ages, in Renaissance manufactures. There was nothing intellectually special about the "division of labor," at a time when in Scotland and England, James Watt's steam engines had been in operation for some years. So, to pronounce Smith's utter-



Economist Friedrich List (1789-1846): “I herewith declare war against the system of Adam Smith on behalf of the American System of political economy.”

ances about the “division of labor” as the basis for the Industrial Revolution, is, strictly speaking, ridiculous. *The Wealth of Nations* contains one entire lengthy paragraph, in which Smith polemicizes against the use of advanced, expensive machinery. He calls instead for the use of very simple, inexpensive machines, combined with an increased exploitation of manual labor.

Adam Smith’s second ideological convolute includes “free trade,” the “magic of the marketplace,” and the “invisible hand.” He asserts that the human mind is axiomatically incapable of generating and designing rational policies in the field of economics: “The sovereign is completely discharged from a duty, which in the attempting to perform he must always be exposed to innumerable illusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient, the duty of superintending of industry of private people and of directing it towards the employments most suitable in the interest of society.” Smith makes great elaborations on what he calls the human “propensity to exchange,” according to the principle of “buy cheap, sell dear,” as the alleged source of all wealth. But there exists no sense

of the intellectual and material generation of wealth, the scientific-technological production process, in Smith’s writings.

It is one of the revealing aspects of Karl Marx, that he gives so much intellectual credence to this man. Marx claims that Smith was so courageous as to proclaim that there is some sort of “falling rate of profit” inherent in the capitalist system, as defined by the British liberal economists. In reality, Smith refers to this only very vaguely and indirectly. It was David Ricardo who developed that concept of the falling rate of profit—a concept which is correct, provided that you eliminate the notion of scientific-technological revolutions from economic theory. For real economic science, however, scientific-technological progress is the very essence of the economy.

I do not want to indulge any further in Adam Smith’s theoretical assertions. The point I want to make, is simply this: Friedrich List represents a frontal intellectual attack against Adam Smith. List’s attack culminates in the point, that Adam Smith is not science, but propaganda, ideology—an ideology, moreover, which the British oligarchy never deemed fit for domestic use, at least not until Maggie Thatcher and John Major. It’s for export only, so that other peoples are forced to accept this economic ideology. Smith’s system is “not to enlighten nations, but to confuse them for the benefit of his own country,” wrote List to Charles Ingersoll.

List’s economic theory

Now let me sketch out, in four points, some core notions of Friedrich List’s economic theory. First: Economics is political economy. Economics is concerned with shaping, directing economic processes; it is concerned with economic development. The most efficient theory of economic development is the American System of political economy. The main writing of the young List, was his *Outlines on American Political Economy*, written in the summer of 1827 in the United States. List had been exiled from Germany in 1824; he remained in the United States from 1824 to 1832. He became a U.S. citizen, and then he returned to Germany, not just as an American, but as the American Consul, first to the city of Hamburg, which refused to accredit him, and then he became the American Consul in the city of Leipzig.

List is concerned, really, with only one basic theme: understanding and defining policies to promote economic, social, and cultural development. The notion of economic development is the core question, which he counterposes to what he calls the “theory of exchange value,” typified by Adam Smith. And the context in which economic development takes place, for List, is the nation-state.

Second, against Adam Smith’s ideological triad of capital, labor, and landed property, List counterposes the notion of *productive forces*. List himself acknowledges that he adopted this notion of productive forces from Alexander Hamilton, who uses this in his 1791 *Report on the Subject of Manufactures*.

The primary productive force in economic development is what List calls the “capital of mind.” His notion of capital

of mind, addresses the double nature of economics, as he saw it: the mental idea-generating process, micro- and macroeconomically, and a physical-economic process, in terms of technology and production. (Today, we can understand and design economic development processes, in terms of the physical-economic constraints, as defined by the theoretical work of LaRouche in economics.)

Capital of mind is, primarily, human individual creativity, and derives from this “engagement” or commitment, or entrepreneurship in a true sense. For List, one cannot separate intellectual capacity and “character,” the moral fabric of a person. Creativity and character are situated within a cultural-religious matrix, in a given stage of social, economic, and political development.

Third, is the question of social organization, the subjective and objective condition of the state, the republican nation-state being its most advanced form. The state is the prime vehicle of social-economic development. List is not just for *protectionism* of the national economy, in the sense of “protecting” a developing domestic economy or newly developing sectors within it, through tariffs. List is for *dirigism*, namely, directing, steering the economy towards maximum social-economic and cultural development. List endorses dirigism in a sense which has absolutely nothing to do with the so-called Soviet model of administrative “central planning.” Dirigism is a mode of economic planning that gives *strategic*, qualitative direction, and stays out of the tactical, quantitative specifics.

Today, List’s dirigism should be called “*indicative planning*.” Let me explain that briefly. The notion of indicative planning was coined in France, under its postwar national Planning Commission, which reached its high-point in the years under General de Gaulle. The Planning Commission included between 300 and 400 economic specialists, who would define the strategic directions in which the economy would go. They would say, “These technologies, these areas of the economy are to be promoted. These infrastructure projects have to be promoted.” So, this planning body was defining strategic, qualitative tasks. But, the planning agency would never go into any operational specifics and microeconomic details, such as, “We’ll allocate so much money, to that enterprise, for this output quota, for this level of employment, within this period of time,” and so forth. That would be left to private entrepreneurs, their initiative, their willingness to take risks. But they could count on cheap credits, state orders, tax rebates, etc. So, they would be strongly “encouraged” by the state’s fiscal policies, by its credit-generation policies, by its military and infrastructure policies.

The role of technology in economic development

The other crucial question in debunking Adam Smith’s “liberal” economic ideology, is that of *technology*. List’s thinking on technology, as a crucially important subject of economic science, was based on a tradition, which really began

with Leibniz, even though we have no indication that List had studied Leibniz’s economic writings. A notion of technology did exist on the European continent before then, through the cameralist tradition, and List had received a basic training in cameralism. From his youth on, List admired the Colbertist tradition in France. List was strongly influenced by Alexander Hamilton, and, to a significant extent, Mathew Carey, the father of Henry Carey, who was a personal friend of List.

It was List who, based on Hamilton, first systematically introduced the question of new “basic technologies,” which introduce a drive, a stimulation for overall economic development, catalyzing economic growth. List had, for example, an understanding of the central role of the machine-tool sector. The machine-tool sector is, so to speak, the mother of the other industries. It has a singular role in the economy. And, along with the notion of technology—and I think here we surely do come to a central conceptual breakthrough point for List—comes his understanding of the role of infrastructure, and of *railways* in particular.

List summarized the notions of productive forces, capital of mind, protectionism, dirigism, technology, and infrastructure, in what he called the “Law of the Confederation of Productive Forces.” Even today, you can recognize, in our conditions of global physical-economic decay, which countries have pursued economic policies congruent with the “Law of the Confederation of Productive Forces.” Just ask, where are the centers of the machine-tool industry? Where are the most advanced “hard” and “soft” infrastructures located, and where are the most advanced technologies developed? The answer is, in countries that have or had adapted the American System/Friedrich List approach.

Let’s proceed to the question of infrastructure and railways. List’s main text in this regard, is his 1841 *The National System of Political Economy*. This is one of his three main works, the other two being his *Outlines of American Political Economy*, which I mentioned previously, and *The Natural System of Political Economy*, written in Paris in 1837.

Before we proceed, however, let’s see how List handles the notion of value. List doesn’t use the notion of “parity price,” as that is defined by LaRouche. Rather, List would speak about the real costs of production. Here we come to an important point, which is implicit in List, but which LaRouche has developed further. The real cost of production can not be looked at on a micro-economic level. You have to always look at it in macro-economic, total-economy terms, or, in German, you would say the *volkswirtschaftliche* level. Economic value must be situated in respect to the total economy, in terms of the transfinite growth and development potential of the economy. Only in this setting can you define the real production costs.

I think this “real value” issue is very relevant. The parity price per unit of output, the real production costs, is based on: 1) Capital costs in terms of the physical equipment, and secondarily, the financial costs for acquiring it. 2) Labor costs, in the sense of working family reproduction costs, in terms of

standard of living, and equally in terms of culture and education. 3) Included in the costs of any unit of output is a factor of tax. But, what represents the tax factor in the production cost of a product? The tax share per unit, to a large degree, at least, represents the costs utilizing the public infrastructure. It covers, largely, the cost of building and maintaining the “hard” infrastructure as well as the “soft” infrastructure. 4) The real production costs must include a profit factor. But, again, profit not only in micro-economic terms. The profit factor must be derived from, and directed towards—“reinvested” into—the real potential, in physical-economic terms, for a transfinite expansion of physical-economic reproduction.

This is a relevant point, because much of what has happened in the age of globalization has been *primitive accumulation*, to use the LaRouche expression. Primitive accumulation means cheating on the real production costs as just defined. You cheat on the real capital costs, in terms of what would be the best and technologically most advanced machinery available. And especially, you cheat on the labor costs. But the most intense error, I would say, is cheating on the infrastructure costs. When people say, “Taxes are too high. Cut the taxes!” the reality is that they want to cheat on the objective costs of production, as represented by the infrastructure. Obviously, cheating on the real production costs, making prices, which are not parity prices, means that there is no real profit, guaranteeing transfinite physical-economic reproduction, even though your business might seem very profitable.

List, the railway builder

And now, to the railways. While List was in the United States, he didn’t just edit the *Reading Adler*, a newspaper partly in the German, partly in the English language. And he did not just write works on economic theory. List was engaged, including using his personal money, in building one of the first railway lines in the United States, the Little Schuylkill Railway. The rail line connected the coal mines north of Reading with Philadelphia, and the Atlantic Coast industrial centers. The work on the rail line started in 1827, and it opened in 1832. He had been in London for a few weeks back in 1823, where he made connections with friends of Mathew Carey. In London, List saw railways in operation for the first time, and was immediately fascinated, realizing the enormous potential of steam locomotives in building *transportation systems*. From London, List went on to France, where he met with the famous American Revolutionary hero, the Marquis de Lafayette, who became his fatherly friend.

List had worked very intensively on the Little Schuylkill Railway, but it must be noted that early on, he was not so much interested in a rail line, as in a rail network, a national rail transportation system. When List returned to Germany, in 1833 he designed his plan for a German railway system, centered on Leipzig. If you look at the German railway system today, you will see that List immediately had the right infrastructural sense of economic geography. List designated what

the main railway axes should be, and indeed, those *are* the major railway lines in Germany today.

List was, of course, detested and feared by his British enemies. The current internationally leading academic expert on List is Prof. Eugen Wendler of the Reutlingen Technical College for Economics and Transport. Professor Wendler has recently edited a very interesting book, which details the slanders against List in the pages of the London *Economist* and the London *Times* during 1846–47 period. The London *Economist* wrote: “Manufacturers in Germany have been brought into a singular state of excitement, from the appearance of what is called ‘national system of political economy,’ by a Dr. List.” The *Economist* calls him a “great agitator,” whose system “is a cry for protective duties, this naked selfishness, which received a patriotic garb from that man of letters, List.” His system “is built on lies and sophisms, denying the experience of centuries. Yet, he pressed upon the lie the color of truth, and upon truth the color of deception.” And the London *Times*, also in 1847, wrote: “We have seldom thought it worthwhile to refer to the speculation of German writers on commercial questions, who, following the steps of poor Dr. List, have succeeded in disseminating throughout a large part of Germany the most erroneous and absurd notions of economic policy in this country.”

List’s Eurasian rail project

Now let’s move from his American and German railway designs, to his transcontinental, Eurasian railway plans. List published articles in the *Leipzig Eisenbahn Journal (Railway Journal)*, which was a rather popular magazine promoting the idea of railways, their overall economic use, and their political and military importance. In 1846, he developed his transcontinental railway plans, which were mainly based on his discussions with the inspector-general of the Austrian railway system. The plan of an Eurasian railway line is contained in the memorandum, “The Railway Line from Ostende to Bombay” (Ostende is a harbor on the Belgian coast). List wrote that the railway line from Ostende to Bombay, should go via Frankfurt, Munich, Hungary, and through the Balkans to Constantinople (Istanbul) in Turkey. “We should have a parallel line from Munich, across the Alps, to Trieste, along the Dalmatian Coast, and then to Constantinople. Either there, the two lines unite, or go parallel to southern and northern Turkey along the Euphrates, until the mouth of Euphrates. It should continue along the Persian coastline, and end in Bombay.” From there, it could be expanded further into South Asia and China. “People should realize, that the distance from Ostende to Bombay could be covered in 10 days.” That’s what List’s prognosis was, in 1846. “A steamship will need 40 days, a clipper will take 100 to 120 days. So, people should realize the great economic advantage of going to such a Eurasian railway line.”

List later took up his plan for the “Ostende-Bombay rail line,” in a memorandum which he wrote when he was in Britain in the summer of 1846, three months before his death.

In Britain, List met Prince Albert, Queen Victoria's husband, Viscount Palmerston, and Sir Robert Peel, and presented them with his memorandum, titled "Politics of the Future." It says the following: "The days are numbered, in which Britain will be able to preserve its global economic and trade supremacy. Already now, the United States of America are passing Britain in economic and trade power. The productive forces of the U.S. are growing geometrically, the British are growing only arithmetically. The time of British supremacy on the sea, and in world trade, is coming to an end, and Britain has only two choices. Number one, a war against the United States, leading to the dismemberment of the United States; or, secondly, a radical change in Britain's economic policy, turning away from free trade, and accepting protectionism as the natural way for other nations to develop economically, and understanding that protectionism does not contain the volume of trade, as protectionism allows internal economic development, in spite of protectionism, the volume of trade will grow. Britain can only have a future, if it realizes the significance of the two new revolutionary means of communication, number one, railway, and number two, the telegraph, the electric telegraph. A key aspect for Britain, given its vast reservoir of capital, would be not only to accept but to support the project of a European-Asiatic Railway line, comparable to what the United States is presently committed to, the project of a railway connection between the Atlantic Coast and the Pacific Coast, as well as the coast of the Gulf of Mexico."

Not surprisingly, Peel and Palmerston rejected the memorandum. But probably, they recognized even more vividly, what they had known before: that List was indeed a very dangerous man. List returned to Germany as a physical and psychological wreck—inexplicably. And, three months after his return from London, he committed suicide, which is a mystery not resolved up to this day. Something must have happened to him during those six weeks in London.

The continuity of List's influence

You can easily recognize that List's 1846 outline on the Eurasian railway line, is very pertinent today. Some 60 years after List's plan, the Berlin-to-Baghdad Railway line project was being realized. The Baghdad Railway became one of the geopolitical triggers for the British establishment deciding to launch World War I. But naturally, List's "Ostende-Bombay" rail plan is also very pertinent to today's Eurasian Land-Bridge policy.

So, I hope that, with this sketch, I have given you a certain idea of some of List's core ideas and concepts. It has already been mentioned at this seminar, that in Germany, Chancellor Bismarck turned towards a Listian policy of protectionism and dirigism in the 1870s, and that this Listian policy played a key role, through Emil and Walter Rathenau, before, during, and following World War I. During the world economic crisis of 1929-33, List's economic thinking played an important role in the economic policy deliberations of the Friedrich

List Society in Germany. Helga Zepp-LaRouche lectured this morning about the plan by Professor Lautenbach for national bank-style "productive credit generation," presented at a secret seminar of Germany's banking and business elite, which was sponsored by the Friedrich List Society in September 1931. And, naturally, the postwar reconstruction policies by Germany's Chancellor Konrad Adenauer, and by France's Charles de Gaulle were, directly or indirectly, very much influenced by List's thinking, in the same way as the American System of the Hamilton-List-Carey tradition has provided the basis, not just for Lincoln's economic policy, but also, in the 20th century, for Franklin Roosevelt's policy.

In India, List had enormous influence upon the first generation of the Congress Party leaders. Recently, a very interesting essay was published on the subject of List's influence on the Congress Party's economic thinking at the turn of the century and into the 1920s. The essay is authored by Professor Brahmananda, a leading Indian economist whom Mr. LaRouche has met with. And, as I said, List's *National System* was republished in Chinese in the mid-1980s. Naturally, in Japan, ever since the late 19th century, there has existed great interest in List's economic theory and policy.

So, to return to what I said at the beginning, in terms of the really essential, indispensable contributions over the last 400 years in economic science, I hope I have given you some idea why Friedrich List is indeed mandatory reading.

If You Thought Adam Smith Is The Founding Father of America's Economic Strength—

Think Again.

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Friedrich List: Outlines of American Political Economy

With a Commentary by Michael Liebig and
an Epilogue by Lyndon H. LaRouche, Jr.

"I confine my exertions solely to the refutation of the theory of Adam Smith and Co. the fundamental errors of which have not yet been understood so clearly as they ought to be. It is this theory, sir, which furnishes to the opponents of the American System the intellectual means of their opposition."

—Friedrich List to Charles J. Ingersoll,
July 10, 1827

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