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Marx, Smith-or List?

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Abstract:

The 1998 economic crisis suggests that our economic theories may no longer be adequate. Economic theories proposed by Friedrich List suggest that a global free market is threatened by nationalism. The switch to a global market must be gradual or industrialized nations will profit at other nation's expense.

Full Text:

MORE THAN 150 YEARS AGO A GERMAN THINKER FORESAW THE PROBLEMS OF UNINHIBITED FREE TRADE IN A GLOBAL ECONOMY OF DEVELOPED AND UNDERDEVELOPED NATIONS.

Michael Lind finds no coherent ideological guidelines for dealing with the global economic crisis in either socialist or liberal thought. Marxism has had its day, while the liberals are too tied to 'free market' doctrine. For guidance Lind nominates the nineteenth-century economist Friedrich List, whose enlightened economic nationalism rings true today.

The deepening global economic crisis which has now spread from Asia to Russia and may hit Latin America next- has exposed the poverty of the laissez-faire economic approach that the United States has been urging on the rest of the world. The liberalization of financial markets worldwide has benefited international speculators while crippling the power of governments either in the developed countries or the developing world to promote the long-term interests of their producers and consumers. To make matters worse, the IMF has insisted that countries victimized by the flight of foreign capital undertake reforms that may jeopardize their social stability without necessarily producing prosperity.

Unfortunately, while the economic meltdown of the emerging markets has discredited laissez-faire, it has also exposed the bankruptcy of the conventional leftist and liberal alternatives. Until now, criticism of free-market orthodoxy from the left has been monopolized by democratic socialists and neoliberals. Neither school offers a convincing alternative model of a modern industrial economy.

Democratic socialists argue that their version of socialism was not discredited by the example of Marxism-Leninism. That may be the case. But after almost two centuries, nobody has been able to provide a blueprint of what a functioning democratic socialist industrial economy on a national or global scale would look like. A few vague books and journal articles about "market socialism" do not count. Moreover, it is reasonable to suspect that the absence of the profit motive would produce stagnation in any genuinely socialist economy, even in a society protected by free elections and the rule of law.

If democratic socialists are still too close to Karl Marx, neoliberals like Bill Clinton and Tony Blair have made too many concessions to Adam Smith. Like post-1945 Keynesians, they refuse to challenge the neoclassical economic orthodoxy that makes the state an umpire rather than a participant in a capitalist economy. Instead, neoliberals focus on redistribution by means of a generous safety net and progressive taxation. Not only does this cede the intellectual initiative to the free-market right, it makes neoliberalism irrelevant to the majority of humankind, for whom economic development remains the priority. The neoliberal theory of development, expressed by President Clinton in his remarks in Russia, has been reduced to the assertion that the enforcement of property rights will encourage foreign investment.

Are these the only alternatives to the political economy of the right- an inchoate democratic socialism and a neoliberalism that offers an echo of free-market globalism, not a choice? It is important to recall that socialism and classic liberalism are only two of the three rival traditions of political economy that emerged in the first half of the nineteenth century. The three traditions are symbolized by Karl Marx, Adam Smith and Friedrich List--the German-American theorist and activist who developed the insights of the American Hamiltonian "national economists" into a systematic theory of industrial capitalist economic nationalism. It was List (1789-1846) who taught the Germans and later the Japanese to follow the nineteenth-century American example of using tariffs and other industrial policies to promote the industrialization of their nations. As Chalmers Johnson and James Fallows have observed, this long-neglected figure had more influence on the development of industrial civilization in Europe and East Asia than either Marx or Smith.

List was an American citizen, a German patriot and universalist who believed in the ultimate harmony of national interests. A sort of nineteenth-century Atlanticist or Trilateralist, he wrote treatises in English, French and German recommending nationalist economic policies for the United States, France and Germany. List was a liberal and a democrat who admired the United States and Britain and wanted the extension of representative government, civil liberty and the rule of law to accompany industrial evolution. He would have been appalled by the authoritarian modernization of Bismarck's Germany and Meiji Japan, shocked by Hitler--and delighted to see his dream of a United States of Germany finally realized by today's Federal Republic. "No nation has ever achieved success as an industrial power without also enjoying a high degree of political freedom" List wrote in *The Natural System of Political Economy* (1837). "A despot has sometimes secured a certain degree of prosperity for his subjects but this has happened only if he had the good fortune to employ a number of exceptionally able ministers and officials." So much for Lee Kuan Yew's "Singapore School" of authoritarian capitalism. According to List, "industry demands a democratic government which pursues the

same economic policy for many hundreds of years."

Friedrich List, like Adam Smith and his followers, was an economic liberal who believed in private property and corporate capitalism. But List contrasted "national" economics with the "cosmopolitan" economics of the English laissez-faire school of Smith and Ricardo. The doctrine of the Smithian cosmopolitans "is clearly concerned only with individuals and with a universal republic embracing all members of the human race. But this doctrine omits a vital intermediate stage between the individual and the whole world. This is the nation, to which its members are united by the tie of patriotism." According to List, "cosmopolitan economics--or universal free trade between all the countries in the world--is only in the very earliest stage of development. Nations can only move slowly, step by step, towards the attainment of world free trade. They can do so only insofar as it is advantageous and not disadvantageous for them to adopt such a policy." Although "perpetual peace and universal free trade are both desirable and necessary" List observed that "nations have not yet attained a state of political and social development which would make such a reform possible." In List's view, the premature adoption of global free trade would permanently lock in the advantages of the countries that had already industrialized (like Britain in the nineteenth century and the United States today). Developing countries had to protect their infant industries until they caught up. At that point, the newly developed nations should phase out protection and move toward free trade with the already developed nations.

If he were alive today, List would oppose institutions like the World Trade Organization on the ground that the time is not yet ripe for global free trade. He would oppose the International Monetary Fund for trying to force all developing countries to adopt an often inappropriate neoliberal economic model. List would disapprove of treaties like NAFTA that deprive poor countries like Mexico of discretion to shape their development and turn them into low-wage assembly sites for rich-country corporations. However, List would approve of the European Union, and he would no doubt be an ardent advocate of the economic merger of the United States and Canada with the EU in a TAFTA (Trans-Atlantic Free Trade Association), complete with a minimum wage and a social charter. (Japan would make a welcome addition, if it were to liberalize its economy and society.)

Malaysian prime minister Mahathir Mohamad has warned that because of its trading power, the EU-NAFTA confederation could dictate terms to the rest of the world. Exactly, List would say. More enlightened leaders in Washington and Brussels could use control over access to the common Atlantic market to pressure dictators and Western corporations into providing the workers of the Third World with civil rights, decent wages and safe working conditions. The EU-NAFTA free-trade zone would gradually expand from its Atlantic core by admitting new countries that met the criteria of high wage levels and democratic government. Until they are ready to join the high-wage club, developing nations should form their own regional economic blocs, liberalizing trade among themselves while collectively bargaining with the rich nations over terms of trade and investment.

As this suggests, Listianism has a theory of the medium-term future, as well as a vision of the long-term future, to justify its program of short-term reforms. Like Marxist socialism, Listian capitalism unites a rigorous theory' of political economy with a theory of historical progress. Unlike Marxist socialist theory, Listian capitalist theory is right about both economics and historical progress.

The Listians are not Hegelians, and thus do not believe in an inevitable future; they merely believe in a possible future. If the Listian millennium of a global social market arrives, it will not be because of the cunning of history or the operation of an invisible hand. It will be because the leaders of liberal and democratic nations--in particular, a few powerful liberal and democratic nations like the United States, Germany and Japan--have chosen to deliberately construct a world order in which the rules of the marketplace promote rather than subvert equality within nations and equality among nations. If a Listian world order emerges, it will be because the Listians have defeated the Smithians in the struggle to write the rules of the world economy.

Just as they do not have a deterministic theory of history, so Listians do not have a theory of "revolutionary morality" that can be invoked to justify political crimes. Listian liberals may favor revolutions or coups d'etat in particular countries in particular circumstances, but they do not believe in Revolution. Political violence may be justified to end local and immediate evils, but it can never be justified by a theory of long-term historical progress. Listian terrorists and Listian gulags are inconceivable.

Indeed, from a Listian perspective, today's Smithian right is as guilty as the Marxist-Leninist left of justifying present oppression in terms of future progress. The right often claims that developing countries must go through a "sweatshop" phase or "authoritarian" phase before their workers can be allowed to organize unions or vote in free national elections. Amazingly, some laissez-faire globalists have even claimed that some poor countries cannot be spared a "child labor" phase. Listians reject the claim that every developing country must recapitulate the horrors of Dickensian capitalism on its own soil. Indeed, one of the advantages of late development is the ability of the belated to avoid the mistakes of their predecessors. Why can't a country go from the agrarian economy to the postindustrial robot/service economy, and skip the sweatshop phase altogether? Why should newly industrialized countries go through a nonunion phase? Should they go through a slave-labor phase as well?

For obvious reasons, Marx, the exiled German radical, saw the philosophy of List, the exiled German liberal, as a dire threat. If List was right, strong nation-states could control the rate and degree of their own entry into the global market. If List was right, strong nation-states could also ameliorate class conflict within their borders by means of intelligent social reforms. And if List was right, the dynamics of industrial capitalism would not inevitably eliminate the nation-state, immiserate humanity and produce a global revolution from the bottom up.

As it turned out, List was right and Marx was wrong. Hardly anyone on today's left believes that the idea of social reform at the national level is an illusion of "bourgeois nationalists" foolishly hoping to retard the capitalist apocalypse and the socialist millennium. The premise of today's leftist and liberal critique of globalization is Listian, not Marxist: National governments should be able to regulate the terms on which their nations engage with the world economy. And the premise of defenders and extenders of the welfare state is also Listian, not Marxist: National programs of redistribution and promotion of human capital can genuinely increase social equality within the nation-state. Immiseration and class war are not inevitable. Today's democratic leftists are really Listians--even if they have never heard of Friedrich List.

If the nineteenth century saw a debate among Smithians, Marxists and Listians, and the twentieth century a debate between Smithians and Marxists, the twenty-first century should see a debate between Smithians and Listians--between those who want laissez-faire global capitalism

now, and those who envision a social-market version of global capitalism as the remote and negotiated result of generations of differing national and regional paths to development. Smithians believe that global market integration will produce national and regional development; Listians believe that global market integration should follow national and regional development. Smithians want a global market by the year 2000 or 2020 at the latest; Listians are willing to postpone the completely integrated global market, until 2200 or perhaps 3000. What's the hurry? Better to take it slow and do it fight.

If I am right, center-left opponents of the Smithian tradition of global laissez-faire capitalism who reject the various denominations of the Church of Marx can find an alternate genealogy in the submerged tradition of Listian nationalist reform capitalism, in both its American Hamiltonian, German Historical School and Japanese mercantilist versions. The center-left is full of Left-Smithians and Right-Marxists. In the United States, the Left-Listian franchise is owned and operated by Left-Hamiltonians in the tradition of Herbert Croly and the two Roosevelts. After World War II Keynesian liberals concentrated on redistribution; in the Progressive Era and New Deal period, however, progressives and liberals were willing to entertain experiments in state capitalism and government allocation of credit. While their answers were sometimes wrong, the questions they asked are more timely than ever, now that both state socialism and laissez-faire capitalism have been discredited by their consequences in poor and rich nations alike.

The center-left already has a critique of Smithian liberalism. Listian liberalism can provide the center-left with a program.

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