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Article — Digitized Version

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Intereconomics

Suggested Citation: Garbe, Otfried (1977) : Friedrich list and his relevance for development policy, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 12, Iss. 9/10, pp. 251-256, <https://doi.org/10.1007/BF02928808>

This Version is available at:

<https://hdl.handle.net/10419/139493>

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Friedrich List and His Relevance for Development Policy

by Otfried Garbe, Bonn *

Economic Independence and a New Economic Order were international political issues long before the North-South controversy was heard of. They were set out as objectives in the USA as early as the beginning of the 19th century. There are striking parallels, even in phraseology and argumentation, between the political-economic conflict between the USA, a weak ex-colonial state, and England, the world power of that time, and the North-South controversy going on at present.

Friedrich List was one of the men who played a prominent part in the heated discussion about "Full Independence" and a "Declaration of Economic Independence"¹ in the young American state. List had come to the USA as a political refugee from his Swabian home-town of Reutlingen. Lafayette introduced him into leading American circles. In Germany he had been denounced as "ultra-liberal" and "virtually a revolutionary". During his five years' stay in America he gained renown by various activities. Two townships, a colliery and one of the first American railroads (it was officially opened on November 11, 1831) owed their origin to his initiative. Later he was to become the Consul of the USA in Saxony and Baden. Much more influential he was however as the author of a political-economic pamphlet, the "Outlines of American Political Economy", which he published in the USA exactly 150 years ago².

It was in this pamphlet that List, drawing to some extent on German and American sources, evolved ideas of development and trade policy which are being taken forward today, at times in a complicated technical idiom although of course also with some theoretical refinements. In his American writings he formulated already ideas of the "dependency theory", the concept of "balanced and unbalanced growth" and "the external effects"³. In developing these economic ideas, List always

bore their power-political implications in mind, an analytical approach which is in the present North-South controversy often treated as secondary to the economic and humanitarian aspects of the conflict.

Like the states of the Third World today, the USA long after the achievement of independent statehood still considered its political independence and the pursuit of an autonomous foreign policy to be at risk. In the early 19th century the USA was a weak and vulnerable state, not only in comparison with France or Russia. Its merchant shipping was frequently brought to a standstill by British and French privateers, and the young state was so weak that it had difficulty in holding its own even against pirates in the Mediterranean. The second British-American war in 1812/14 almost ended with an American defeat⁴.

The Monroe Doctrine of 1823 was the most salient demonstration of the striving for political autonomy in this early phase of American policy. In view of the relative weakness of the USA it was an act of political defensive by a young state in a peripheral situation in relation to "world events" rather than the manifestation of a desire for hegemony. The principal purpose of this Doctrine — which Bismarck still described as an "international impertinence" — was to ward off, partly with an eye to

* Foreign Office. The author is expressing here his personal views.

¹ Friedrich List, *Outlines of American Political Economy (The American System)*, in: Friedrich List, *Schriften/Reden/Briefe*, Vol. II, Berlin 1931, p. 107, and also Philadelphia Speech (1827), *ibid.*, Vol. II, p. 167.

² List's stay was described by William Notz in particular. In addition to the introduction to Volume II of the full edition of the same author in: *Weltwirtschaftliches Archiv*, 21st Volume (1925 I), p. 199–265, and 22nd Volume (1925 II), p. 154–182.

³ Topical references in List's work have been pointed out especially by Werner Strösslin, *Friedrich Lists Lehre von der wirtschaftlichen Entwicklung (Friedrich List's teaching on economic development)*, Basle 1968, and Dieter Senghaas, first in: *Leviathan*, No. 2, 1975, cf the article: *Friedrich List und die neue internationale ökonomische Ordnung (Friedrich List and the new international economic order)*.

⁴ Cf. Udo Sautter, *Geschichte der Vereinigten Staaten (History of the United States)*, Stuttgart 1976, and Hans R. Guggisberg, *Geschichte der USA (History of the USA)*, Stuttgart 1975.

the USA's own security, an intervention by the Holy Alliance in South America and a possible recolonization of the republics there which had only just gained their independence. The USA, besides, wanted to draw a dividing line, morally and politically, between the old states of Europe and the new system of American states who of course regarded themselves as "superior".

The parallels between this US policy and the steps of Third World states which had originally foreign-political motives are obvious. The preservation of political independence which had just been achieved in hard struggles was the cardinal issue in the foreign-political debates at the Bandung conference in 1955. East and West were at that time equally intent on, at least, consolidating their spheres of influence. The colonial question and economic problems were in comparison still of secondary importance (although the "formulation of common policies" on oil was already demanded at Bandung in 1955).

The New Economic System

Soon after the proclamation of the Monroe Doctrine the controversy about a New Economic System became one of the dominant issues of US domestic policy. The political aim was an "American System" which implied a disavowal, both in concept and content, of the "British System", of the postulate of free trade and the principle of "laissez-faire". Essential ingredients of the "American System" were state-promoted industrialization and active encouragement of internal trade combined with temporary attenuation of foreign commerce through a policy of protective import duties.

In part the "American System" was directly linked to ideas voiced in the early years of the USA. The first US Secretary of the Treasury, Alexander Hamilton, had developed similar ideas in his "Report on Manufactures". List referred in his writings also to the Congress debates on the very first US law which was a customs tariff law with in part protectionist aims, intended to encourage "infant manufactures" and shelter small manufactures started up during the War of Independence.

List held a resumption and continuation of this policy to be necessary. Fifty years after the achievement of independent statehood American foreign trade was still dominated by the world power England which even controlled one-quarter of all international commerce at that time. In 1830 three-quarters of the British exports consisted already

of finished manufactures whereas the foreign trade of the USA had on the whole retained its colonial structure and still resembled the foreign trade patterns exemplified by some of today's more advanced developing countries:⁵

| | Exports | Imports |
|-------------------------|------------|---------|
| | (in p. c.) | |
| Crude materials | 62.7 | 7.9 |
| Crude foodstuffs | 5.1 | 11.9 |
| Semi-manufactures | 6.8 | 7.9 |
| Manufactured foodstuffs | 17.0 | 15.9 |
| Finished manufactures | 8.5 | 57.1 |

The principal trading partner of the USA was of course England, the former colonial power. The USA supplied England chiefly with tobacco and cotton and bought finished manufactures. England, the "workshop of the world", enjoyed a clear monopoly in the US market for the most important manufactures: over 90 p.c. of the cotton manufactures and over 97 p.c. of US imports of wool and woollen manufactures came from England⁶.

Dependence of the USA

In his analysis of the economic and political dependence of the USA List anticipated many ideas and in part even the terminology of the "dependency theory". England was at that time the "predominant political power", and its "national economy is predominant" said List. America's dependence on raw material exports was a "source of calamity and of weakness". US agriculture was depending upon "foreign markets, foreign fluctuation of prices, foreign regulations and restrictions" and was ultimately the "appurtenance of another entity"⁷.

These few quotations illustrate how List was always linking economic to political analysis. It was his view that the American population was affected more by decisions of the dominant power, England, than by the US Congress. This economic dependence coupled with political independence was in List's view the worst possible combination for the USA, for "in consequence of becoming politically independent" the USA had fallen "into a more severe economic vassalage". If it failed to achieve economic independence it had better "return under the entire command of the mother country"⁸.

While List formulated essential components of the dependency theory with unique logical consistency, his other political conclusions were rather different from those of some advocates of the

⁵ Cf. Werner Schlotte, *British Overseas Trade*, Oxford 1952, p. 131 ff.; Sartorius von Waltershausen, *Die Entstehung der Weltwirtschaft (The origin of the world economy)*, Jena 1931, p. 214; and William Woodruff, *America's Impact on the World*, Basingstoke 1975, p. 265 f.

⁶ Cf. William Woodruff, *America's Impact . . .*, *ibid.*, p. 270.

⁷ Friedrich List, *Outlines . . .*, *ibid.*, p. 108, 150, 146 and 148, and in: *Harrisburg Address (1828)*, in: full edition, Vol. II, *ibid.*, p. 203.

⁸ Friedrich List, *Harrisburg Address*, *ibid.*, p. 203.

dependency theory. List and his American fellow-fighters, men like Carey and Clay, did not seek a class struggle against the "bridgeheads of the metropolis" but tried to convince the ship-owners, the East Shore merchants, western farmers and southern planters of the advantages of a new "American System". The majority of the population was to be persuaded of the wisdom of sacrificing a "momentary gain for a future and permanent advantage"⁹.

Critique of Free Trade

An at least temporary departure from the free trade principle was a crucial requirement of the "American System". List's polemics against free trade — a "sort of political dogma" and "matter of fashion amongst literary men"¹⁰ — could hardly have been more vehement. He pursued his argument on several levels which still offer points of interest today.

List firstly criticized the classical economic approach of men like Adam Smith and Jean Baptiste Say. Their "political economy" which as it is still commonly conceded endeavoured, unlike the neo-classical school, to link political and economic issues with moral and philosophical questions was not entitled to the adjective "political".

In regard to foreign trade and development theory in particular, he argued, its approach was quite apolitical. Implicit in the classical political economy was the normative image of a world republic for which world-wide free trade was postulated. It disregarded however the — still crucial — action and organization level interposed between the individual on the one hand and the ideal world republic on the other, which was the state. The only explanation for this theoretical approach was the tradition of the Age of Enlightenment which had always aspired at formulating universally valid values. Seen thus the free trade theory was in its claim to universal validity the economic equivalent of the ideas of natural law and eternal peace.

In List's view the free trade theory has a definitely ideological character; in the final analysis it served merely to camouflage British economic and political interests. Advocacy of world-wide free trade by a predominant power was — List operates here with two superlatives — "one of the most extraordinary of first-rate political manoeuvres that have ever been played upon the credulity of the world"¹¹. England was trying to maintain its industrial and commercial monopoly with the help of free trade and at the same time to hold such states

as might endanger its power in a state of "infancy and vassalage".

As evidence for this ideological criticism which does not imply moral censure List referred to the fact that no state had yet succeeded in developing its industrial sector under free trade. Even England had developed its manufacturing trades under state protection, and if the former British Prime Minister Pitt had always carried Adam Smith's works in his pocket, it had been "for no other purpose than to act quite contrary to the advice of the author"¹².

List paid particular attention to an analysis of the repercussions of free trade in the USA and Germany after the end of the war-related protectionist periods. When the frontiers were reopened, both markets had been swamped by cheap British goods which wrought havoc with important sections of the industries starting to be developed. According to List's calculations the impact of the British production was such that in Germany for instance the output of important sections of industry and agriculture had declined by as much as two-thirds (!); the existing economic ramifications were the cause¹³.

List concluded that in a phase of industrialization it was wrong to pursue a free trade policy, for "a system of political economy must be wrong if it effects just the contrary of that which every man of common sense must be supposed to expect from it"¹⁴. In the language of critical rationalism the evaluation criteria of which List anticipated in this respect one would say that the "British System" was falsified for the phase of industrialization.

Critique of the Theory of Absolute and Relative Cost Advantages

List's criticism of the Methuen Treaty of 1703, the background for the absolute and relative cost advantages theory of Smith and Ricardo, is today again of special interest. List did not know Ricardo's theory but he was very well acquainted with the consequences of the treaty by which Portugal had opened its market to English woollens in return for concessions in the wine trade. Its economic effect was to ruin Portugal's woollen industry, the nucleus for the autochthonous industrialization of the country. (This is a fact which can be looked up in any compendium but is always discretely ignored in textbooks on the theory of foreign trade.)

By this treaty and the consequent lop-sided and disadvantageous specialization, List thought, Portugal had of its own volition turned into a "vineyard

⁹ Friedrich List, *Outlines* . . . , *ibid*, p. 146.

¹⁰ Friedrich List, *Philadelphia Speech*, *ibid*, p. 162.

¹¹ Friedrich List, *Outlines* . . . , *ibid*, p. 112.

¹² Friedrich List, *Outlines* . . . , *ibid*, p. 141.

¹³ Friedrich List, *Outlines* . . . , *ibid*, p. 110.

¹⁴ Friedrich List, *Outlines* . . . , *ibid*, p. 110.

and province of England" and surrendered its "independence and power for the benefit of selling wine"¹⁵.

Although List and Ricardo based their reasoning on the same trade treaty, they thus arrived at opposite results in the appraisal of free trade because their assumptions and observations were different. Ricardo assumed the economy to be essentially stationary; the terms of trade for primary products would — Singer draws attention to this¹⁶ — improve with growing scarcity. Until a stationary situation is reached the marginal capital productivity is higher in the developing country than in an advanced country.

List took an entirely different view; he was interested in the requisites of economic growth. He had already observed that in the USA the terms of trade had continually worsened for cotton, the most important export commodity, and that the productivity in manufacturing industry was higher than in agriculture.

According to List the advantages of free trade between states at widely differing levels of development are clearly on the side of the industrialized country. Free trade left young states which had not yet built up industries no chance to achieve economic independence, for "the old country . . . will in a free intercourse ever keep down a rising manufacturing power"¹⁷. List quotes Alexander Hamilton elsewhere for the view that in foreign trade between states at unequal levels of development "the manufacturing nation always drains the producers of the raw material of their wealth"¹⁸. This does not according to List, rule out the possibility of the total world product being increased by free trade. But it was scant consolation for a state labouring under a foreign trade handicap if a "production which is beneficial to mankind" proves "destructive for a particular country"¹⁹.

World Order or Nation Approach

List believed that a world economy obeying one single order principle, and world-wide adoption of free trade in particular, presupposed the existence of either a world republic or world-wide rule by one state and a uniform social order. He considered both these conditions utopian.

Instead List set out from the belief in the continuance of a world made up of multiform states. In

¹⁵ Friedrich List, *Outlines . . .*, *ibid.*, p. 112 and 115 f.

¹⁶ H. W. Singer, *The Distribution of Gains Revisited*, in: H. W. Singer, *The Strategy of International Development*, London, Basingstoke 1975, p. 64 f.

¹⁷ Friedrich List, *Outlines . . .*, *ibid.*, p. 134.

¹⁸ Friedrich List, *Observations on the report of the Committee of ways and means (1828)*, in: full edition, Vol. II, *ibid.*, p. 227 and 221.

¹⁹ Friedrich List, *Outlines . . .*, *ibid.*, p. 150.

such a world international relations are determined by partly diverging interests, inter-state power rivalries and overt and covert power conflicts. No state could keep out of these power conflicts by autonomous action without putting itself in jeopardy. For its "self-preservation" if for no other reason a state intent on protecting the freedom and prosperity of its citizens must make the preservation and extension of its economic and political power its fundamental objective. Prosperity and economic power are in List's view however not identical with the size of the national product. Decisive are the productive powers, i.e. the nation's capability to rely on its own strength for the generation of the national product²⁰.

Although all nations have in principle identical power-political objectives, the *attainable* power-political status of a nation varies according to its state of development and equipment with intellectual and natural resources between

- the status of a dominant power,
- full, i. e. political as well as economic, independence,
- modifiable dependence, and
- permanent dependence.

The attainable objective is not necessarily the same for all time. For many nations the attainable and actually attained power status can vary in the course of history in either direction.

The simultaneous and successive existence of different secondary power-political objectives is the decisive reason for List's plea for a "nation approach". Since every state had his own "particular Political Economy", it followed as a matter of course that there could be no uniform foreign and development policy for all²¹. What was the best strategy for a nation varied according to its state of development and attainable power-political status. The following strategy recommendations can be deduced from List's "Outlines" for the foreign trade policy²²:

- For dominant powers free trade is the best strategy to secure and extend their monopoly over commercial and industrial goods. Their economic and political power position is strengthened thereby.
- For powers on the threshold of industrialization ("enabled countries") capable of achieving full independence the best strategy is one of at least partial withdrawal from the international division of labour through a policy of protective duties. Structural features like possession of the basic

²⁰ Friedrich List, *Outlines . . .*, *ibid.*, p. 105 and 116.

²¹ Friedrich List, *Outlines . . .*, *ibid.*, p. 124.

²² Friedrich List, *Outlines . . .*, *ibid.*, p. 106, 108 and 125.

fixed assets and a sufficiency of natural and intellectual resources are indispensable to make a policy of protective duties meaningful. The human capital – List spoke of the “capital of mind” as the crucial development factor – includes the educational level of the population, entrepreneurial initiative, working mentality and the art of government and administration. List regarded the USA, France and Germany as threshold powers.

□ For developing countries only capable as yet of modifying the degree of their dependence (“tolerable dependence and economical vassalage”) List considered extensive integration with the world economy through free trade a sensible strategy for a certain time. The “capital of mind” was in this case still insufficiently developed for a successful policy of protective duties and backward. States in this situation would on balance profit from the exchange of raw materials against finished manufactures because the decisive “capital of mind” would develop faster if the country was opened to the outside. In the “Outlines” List counted Mexico, the states of South America, Spain and Russia among the developing countries.

□ The category of nations which are incapable of modifying the degree of their dependence by themselves is introduced by List only in his later work. It was to the advantage of these nations in “hot climatic zones” which could not be industrialized to be colonized by Europe.

Industrialization and External Effects

When List outlined development strategies in his studies, he put the threshold powers on the way to full independence to the fore. The promotion of economic growth through industrialization was to be the central element of the development strategy for these states. This was certainly not taken for granted in the days of Ricardo and Malthus to both of whom stagnation of the economy and population seemed a logical premise.

List knew of no limits to growth and emphasized the importance of industrialization like nobody else. For threshold powers industries were the real motive force of their national economies and thus also the prerequisite of economic and political power even though they needed the support of the state in the development phase if there existed a dominant power of superior competitive strength because they would otherwise be unable to stand up to the “united force of the capital and skill” of the already industrialized state²³. At the same time tariff protection would develop the “productive powers” of a nation which was more important on

a long-term view than a higher social product in the short term.

List had no knowledge as yet of the concept of external effects, but he was aware of the possibility of “individual and national interests” diverging in the difficult phase of industrialization²⁴. A policy of protective duties entailed temporary “sacrifices of the majority of the individuals”²⁵. Industrialization has on the other side favourable repercussions on agricultural production and transportation and manifold inter-industrial effects²⁶. List hoped for instance that the building and timber trades and the steel and machinery industries would benefit from the establishment of a cotton industry through forward and backward linkages²⁷.

The importance of manufacturing industries extends beyond specific economic effects. Industrial enterprises were “the nurses of arts, sciences and skill, the sources of power and wealth”²⁸. Or as Singer said in our time, the industries “provide the growing points for increased technical knowledge, urban education and the dynamism and resilience that goes with urban civilization as well as the direct Marshallian external economies”²⁹.

For the development policy of the developing countries List made no detailed proposals. There were specific prerequisites in each country, and similar measures could therefore have most dissimilar effects. As an example List mentioned that in densely populated states like China and “Hindustan” further population growth and use of “machinery” would be harmful (!) whereas in the USA they were decisive requisites of further economic growth³⁰.

“Balanced” or “Unbalanced” Growth?

List’s “Outlines” also contained already basic ideas of the theory of “balanced and unbalanced growth”. His ideas cannot however be definitely correlated with such contemporary theories.

His economic objective of full independence for threshold powers comes near to the concept of “balanced growth” for the whole economy. For security and economic reasons, List argued, the primary, secondary and tertiary sector should be in a harmonious relation to each other and closely integrated³¹.

²⁴ Friedrich List, *Outlines* . . . , *ibid*, p. 128.

²⁵ Friedrich List, *Outlines* . . . , *ibid*, p. 132.

²⁶ Friedrich List, *Outlines* . . . , *ibid*, p. 155; Harrisburg Address, *ibid*, p. 203 f.; and Remarks on Mr. Cambreleng’s report on the Tariff (1830), in full edition, Vol. II, p. 235 and 237.

²⁷ Friedrich List, *Outlines* . . . , *ibid*, p. 120.

²⁸ Friedrich List, *Outlines* . . . , *ibid*, p. 105.

²⁹ H. W. Singer, *The Distribution of Gains between Investing and Borrowing Countries*, in: H. W. Singer, *The Strategy* . . . , *ibid*, p. 47.

³⁰ Friedrich List, *Outlines* . . . , *ibid*, p. 124 and 126.

³¹ Friedrich List, *Outlines* . . . , *ibid*, p. 107.

²³ Friedrich List, *Outlines* . . . , *ibid*, p. 119.

An economy with these attributes alone was relatively resistant to fluctuations in the external economic sphere due to political and economic factors and would therefore give greater stability and power to the state. It was desirable for instance that important economic sectors should pass the profitability threshold on the strength of their production for the home market alone³².

Such close integration of the economic sectors will also raise productivity. Close integration of the primary and secondary sector for instance ("a home manufacturing industry which goes hand in hand with agriculture") is extremely advantageous because of its many linkage and multiplier effects³³. It also promotes internal trade which is as a rule more beneficial for threshold powers than foreign trade: in foreign trade "each enjoys (only) the profits of its own (national) industry" while in internal trade the "nation enjoys the profit of both (partners)"³⁴.

Successful industrialization is decisive for the achievement of a harmoniously working national economy. "Balanced" development of complementary industries, creation of the indispensable construction sector and, above all, a well trained skilled work-force are needed in addition to protection against disruption by industrialized foreign countries. (In threshold countries wage costs are higher than in industrialized states!)"³⁵

On the other hand, List admits, even a state as well endowed as the USA, with the potential capacity of developing all industries, could not advance all industries at the same time. He therefore pleaded for careful selection of priority industries, i. e. for "unbalanced" industrialization. The criteria which he recommended for the selection have the earmarks of a "resources-based industrialization strategy". First to be promoted were industries with a large domestic market which are based on native raw materials (e. g. the woollen, cotton, chemical, iron and earthenware industries) — in other words: "those manufactures which employ a number of labourers and consume great quantities of agricultural produce and raw materials"³⁶.

Autocentric Development?

List's concept of a trade and development policy for threshold powers has undoubtedly many parallels with the concept known as autocentric development strategy. Mention may be made of the central concept of the "productive powers" of a

nation, of the ideal of a harmoniously organized national economy with closely integrated economic circuits, of the demand for priority development of the internal trade and of the stressing of a nation's "own exertions"³⁷ and the "capital of mind" for economic development.

Some passages in List's writings sound as if intended to uphold a programme based on this concept. List said for instance in regard to Germany, one of the threshold powers of his time: "Since the Greeks made the Trojans a gift of a wooden horse nations have had misgivings about accepting presents from other nations. The English have bestowed gifts of immense value on the Continent in the form of subsidies but the Continental nations have paid dearly for them through loss of strength. These subsidies have acted as an export premium to the advantage of the British and disadvantage of the German factories. If England were to undertake to supply the Germans for years with all the manufactures they require, we could not advise acceptance of such an offer"³⁸.

It would not be right, on the other hand, to ignore the passages in which List expressed himself contrary to the autocentric development strategy. Protective duties were not only intended to promote the development of a national industry but were to attract foreign capital and technology as well. Foreign investments and immigration into the USA were in his view even essential as requisites of rapid economic growth and important for the avoidance of extensive forms of production³⁹. During the industrialization phase the country would still need foreign trade as it could not develop more than a few industries at any time.

A quite far-reaching though partial integration of the threshold states with the world economy would thus still be assured. Once the industrialization had been completed the foreign trade would again be greatly intensified as the volume of foreign trade among industrialized states was much greater⁴⁰. The "Outlines" contain no unequivocal statement of List's views on the question whether transition to free trade is desirable when full independence has been attained. List vacillated here between advocacy of the "beau ideal" for a remote future and an understanding of the growth effects of inter-state competition.

³² Friedrich List, *Outlines . . .*, *ibid.*, p. 115.

³³ Friedrich List, *Das Nationale System der Politischen Ökonomie* (The national system of political economy), in: *Schriften/Reden/Briefe*, Berlin 1930, Vol. VI, p. 184. List formulated this idea in the Harrisburg Address already, cf. *ibid.*, p. 196: "I venture to say, the worst of all things would be if they (the American farmers) could get their (manufactured) goods for nothing because the English would in that case indemnify the Americans only for the interest of the interest of that sum which they would gain if they would make them themselves."

³⁴ Friedrich List, *Outlines . . .*, *ibid.*, p. 123.

³⁵ Friedrich List, *Outlines . . .*, *ibid.*, p. 155.

³² Friedrich List, *Outlines . . .*, *ibid.*, p. 135 f.

³³ Friedrich List, *Harrisburg Address*, *ibid.*, p. 201.

³⁴ Friedrich List, *Observations . . .*, *ibid.*, p. 218 and 211.

³⁵ Friedrich List, *Outlines . . .*, *ibid.*, p. 133.

³⁶ Friedrich List, *Outlines . . .*, *ibid.*, p. 125.