Kicking Away the Ladder: An Unofficial History of Capitalism, Especially in Britain and the United States

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An Unofficial History of Capitalism, Especially in Britain and the United States

Ha-Joon Chang

In this fascinating history of economic development, the author shows that, contrary to popular myth, the early development of both Britain and the United States depended on protective tariffs to a significant degree. Why is this history so widely ignored? asks the author.

GREAT PRESSURE IS CURRENTLY BEING APPLIED ON DEVELOPING COUNTRIES by the developed world, and the international development policy establishment that it controls, to adopt a set of "good policies" and "good institutions" to foster their economic development.[1] According to this agenda, "good policies" broadly are those prescribed by the so-called Washington Consensus, and include restrictive macroeconomic policy, liberalization of international trade and investment,

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privatization, and deregulation.[2] The "good institutions" are essentially those that are to be found in developed countries, especially the Anglo-American ones. The key institutions include democracy, good bureaucracy, an independent judiciary, strongly protected private property rights (including intellectual property rights), and transparent and market-oriented corporate governance and financial institutions (including a politically independent central bank).

Naturally, there have been heated debates on whether these recommended policies and institutions are appropriate for developing countries. However, curiously, even many of those who are skeptical of the applicability of these policies and institutions to the developing countries take it for granted that these were the policies and institutions used by the developed countries when they themselves were developing countries.

A closer look at historical records, however, reveals a very different story (Chang 2002). The fact is that, when they were developing countries themselves, today's developed countries used very few of the policies and institutions that they recommend to, or even force upon, today's developing countries. And nowhere is this discrepancy between the conventional reading of the history of capitalism—or what I call the "official history of capitalism"—and the historical facts greater than in the cases of trade and industrial policies of Britain and the United States, on which this article focuses. While the "official history" sees the economic successes of these two countries as living proof of the superiority of laissez-faire trade and industrial policies, this article will show that they were, in fact, often the pioneers and frequently the most ardent users of *interventionist* trade and industrial policy measures in their early stages of development. As discussed in the concluding remarks, this finding casts a whole new light on today's debate on appropriate policies for economic development.

The "Official History of Capitalism" and Its Limitations

Before looking at the key cases of Britain and the United States in more detail, we first critically examine the "official history of capitalism," which informs virtually all recommendations for Washington Consensus–type laissez-faire trade and industrial policies. This story goes as follows:

From the eighteenth century, the industrial success of laissez-faire Britain proved the superiority of free-market and free-trade policies. Through such policies, which unleashed the entrepreneurial energy of the nation, Britain beat interventionist France, its main competitor at the time, and established itself as the supreme world economic power. Especially once it had abandoned its deplorable agricultural protection (the Corn Laws) and other remnants of old mercantilist protectionist measures in 1846, it was able to play the role of the architect and hegemon of a new "liberal" world economic order.

In its quest for a liberal global order, Britain's ultimate weapon was its economic success based on a free-market–free-trade system, which made other countries realize the limitations of their mercantilist policies and adopt free (or at least freer) trade from around 1860. However, Britain was also greatly helped in its project by the works of its classical economists such as Adam Smith and David Ricardo, who proved theoretically the superiority of laissez-faire policy, especially free trade.

This liberal world order, perfected around 1870, was based on laissez-faire industrial policies at home; low barriers to the international flow of goods, capital, and labor; and the macroeconomic stability, both nationally and internationally, guaranteed by the gold standard and the principle of balanced budgets. A period of unprecedented prosperity followed.

Unfortunately, according to this story, things started to go wrong with the onset of World War I. In response to the ensuing instability of the world economic and political system, countries started to erect trade barriers again. In 1930, the United States abandoned free trade and enacted the infamous Smoot-Hawley tariff. According to Willy de Clercq, the European commissioner for external economic relations during the early days of the Uruguay Round (1985–89), this tariff, "had disastrous effects on international trade and after a while . . . on American economic growth and employment. Nowadays, some economists even believe that the Great Depression was caused primarily by these tariffs" (1998, 201–2). Countries like Germany and Japan erected high trade barriers and also started creating powerful cartels, which were closely linked with fascism and their external aggression in the following decades. The world free-trade system finally ended in 1932, when Britain, hitherto the champion of free trade, succumbed to the temptation and reintroduced tariffs. The resulting contraction and instability in the world economy and then finally World War II destroyed the last remnants of the first liberal world order.

After World War II, so the story goes, some significant progress was made in trade liberalization through the early General Agreement on Trade and Tariffs (GATT) talks. However, unfortunately, dirigiste approaches to economic management dominated the policy-making scene until the 1970s in the developed world, and until the early 1980s in the developing world (and the Communist world until its collapse in 1989).

Fortunately, it is said, interventionist policies have been largely abandoned across the world since the 1980s with the rise of neoliberalism, which emphasizes the virtues of small government, laissez-faire policies, and international openness. Especially in the developing world, by the late 1970s economic growth had begun to falter in most countries outside East and Southeast Asia, which were already pursuing "good" policies. As a result, most developing countries have come to embrace "policy reform" in a neoliberal direction. The most symbolic of these conversions, according to Jagdish Bhagwati (1998), are: Brazil's embrace of neoliberal doctrine under the presidency of Fernando Henrique Cardoso, a leading Dependency theorist until the 1980s; the entry of traditionally anti-U.S. Mexico into the North American Free Trade Agreement (NAFTA); and the move toward an open, liberal economy by India, once the bastion of protectionism and regulation (p. 37). The ultimate crowning glory of this trend toward liberalization and opening up was the fall of communism in 1989 in the Soviet Union and Eastern Europe, which finally ended the "historical anomaly" (Sachs and Warner 1995, 3) of a closed world trading system that had prevailed in the early postwar years.

When combined with the establishment of new global governance institutions represented by the WTO, these policy changes at the national level have created a new global economic system, comparable in its (at least potential) prosperity only to the earlier "golden age" of liberalism (1870–1914).[3] Renato Ruggiero, the first director-general of the WTO, argues that, thanks to this new world order, we now have "the potential for eradicating global poverty in the early part of the next [twenty-first] century—a utopian notion even a few decades ago, but a real possibility today" (1998, 131).

This story paints a fundamentally misleading picture, but no less a powerful one for being so (for further details, see Chang 2002). And it should be accepted that there are also some senses in which the late nineteenth century can indeed be described as an era of laissez-faire.

To begin with, as we can see in Table 1, there was a period in the late nineteenth century, albeit a brief one, when liberal trade regimes prevailed in large parts of the world economy. Starting from 1846 with the repeal of the Corn Laws, Britain made a decided shift to a unilateral free-trade regime (which was accomplished by the 1860s), although this move was based on its then

Table 1

Average Tariff Rates on Manufactured Products for Selected Developed Countries in Their Early Stages of Development (weighted average; in percentages of value)

	1820[1]	1875[1]	1913	1925	1931	1950
Austria[2]	R	15–20	18	16	24	18
Belgium[3]	6–8	9–10	9	15	14	11
Denmark	25–35	15–20	14	10	n.a.	3
France	R	12–15	20	21	30	18
Germany[4]	8–12	4–6	13	20	21	26
Italy	n.a.	8–10	18	22	46	25
Japan[5]	R	5	30	n.a.	n.a.	n.a.
Netherlands[3]	6–8	3–5	4	6	n.a.	11
Russia	R	15–20	84	R	R	R
Spain	R	15–20	41	41	63	n.a.
Sweden	R	3–5	20	16	21	9
Switzerland	8–12	4–6	9	14	19	n.a.
United Kingdom	45–55	0	0	5	n.a.	23
United States	35–45	40–50	44	37	48	14

Source: P. Bairoch, *Economics and World History—Myths and Paradoxes* (Brighton, UK: Wheatsheaf, 1993), table 3.3, 40. The World Bank, *World Development Report, 1991*, box table 5.2, 97, provides a similar table, partly drawing on Bairoch's own studies that form the basis of the above table. However, the World Bank figures, although in most cases very similar to Bairoch's figures, are *unweighted* averages, which are obviously less preferable to the *weighted* average figures that Bairoch provides.

Notes:
R = Numerous and important restrictions on manufactured imports existed, and therefore average tariff rates are not meaningful.
1. These are very approximate rates, and give a range of average rates, not extremes.
2. Austria-Hungary before 1925.
3. In 1820, Belgium was united with the Netherlands.
4. The 1820 figure is for Prussia only.
5. Before 1911, Japan was obliged to keep low tariff rates (up to 5 percent) through a series of "unequal treaties" with the European countries and the United States. The World Bank table cited here gives Japan's *unweighted* average tariff rate for *all goods* (and not just manufactured goods) for the years 1925, 1930, 1950 as 13 percent, 19 percent, 4 percent, respectively.

unchallenged economic superiority and was intricately linked with its imperial policy. Between 1860 and 1880, many European countries reduced tariff protection substantially. At the same time, most of the rest of the world was forced to practice free trade through colonialism, and, in the cases of a few nominally "independent" countries (such as the Latin American countries, China, Thailand [then Siam], Iran [then Persia], and Turkey [then the Ottoman Empire]), unequal treaties. Of course, the obvious exception to this condition was the United States, which maintained a very high tariff barrier even during this period. However, given that the United States was still a relatively small part of the world economy, it may not be totally unreasonable to say that this is as close to free trade as the world has ever gotten (or probably ever will).

More important, the scope of state intervention before World War II (or at least before World War I) was quite limited by modern standards. For example, before the 1930s, both the hegemony of the doctrine of balanced budget and the limited scope for taxation (given, among other things, the absence of personal and corporate income taxes in most countries) severely limited the scope for active budgetary policy. The narrow tax base restricted government budgets, so large fiscal outlays for developmental purposes were difficult, even if the government had the intention to make them—railways being an obvious exception in a number of countries. In most countries, fully fledged central banking did not exist until the early twentieth century, so the scope for monetary policy was also very limited. On the whole, banks were privately owned and little regulated by the state, so the scope for using "directed credit programs," which were so widely and successfully used in countries like Japan, Korea, Taiwan, and France during the postwar period, was extremely limited. Measures like the nationalization of industry and investment planning, practices that served many European countries (especially France, Austria, and Norway) well in the early postwar years, were regarded as unthinkable outside wartime before World War II. One somewhat paradoxical consequence of all these limitations was that tariff protection was far more important as a policy tool in the nineteenth century than it is in our time.

Despite these limitations, virtually all now-developed countries (NDCs), especially Britain and the United States, which we shall discuss in greater detail later in this article, actively used interventionist industrial, trade, and technology (ITT) policies that are aimed at promoting infant industries during their catch-up periods. There were some apparent exceptions to this, such as Switzerland and the Netherlands, but these countries were either at or very near the technological frontier and thus did not, by definition, need much infant-industry promotion (for further details, see Chang 2002, chap. 2). Some countries used activist ITT policies even after the catch-up was successfully achieved (Britain in the early nineteenth century, the United States in the early twentieth century). Tariff protection was obviously a very important policy tool in the ITT policy package used by the NDCs, but it was by no means the only one or even necessarily the most significant in its impacts.

On the trade front, subsidies and duty drawbacks on inputs for exported goods were frequently used to promote exports. The governments not only provided industrial subsidies but also used various public investment programs, especially in infrastructure but also in manufacturing. They supported foreign technology acquisition, sometimes through "legal" measures like financing study tours and apprenticeships and sometimes through "illegal" measures like support for industrial espionage, smuggling of contraband machinery, and refusal to acknowledge foreign patents. Development of domestic technological capabilities was encouraged through financial support for research and development (R&D), education, and training. Measures were also taken to raise awareness about advanced technologies (e.g., establishment of "model factories," organization of expositions, granting of free imported machinery to private-sector firms). In addition, some governments created institutional mechanisms that facilitated public-private cooperation (e.g., public-private joint venture, industry associations with close links with the government). It is important to note that many of these policies are exactly those that are greatly frowned upon these days, if they have not actually been made explicitly "illegal" through bilateral and multilateral agreements.

When they reached the frontier, the NDCs used a range of policies to help themselves "pull away" from their existing and potential competitors. Britain, given the duration of its position as the "frontier economy," is most visible in this respect, but other countries used similar measures when they could. Britain used measures to control transfer of technology to its potential competitors (e.g., controls on skilled-worker migration or machinery export) and put pressure on the less developed countries to open up their markets (if necessary, by force). However, the catch-up economies that were not (formal or informal) colonies did not simply sit down and accept these restrictive measures. They mobilized all kinds of different "legal" and "illegal" means to overcome the obstacles created by these restrictions, such as "illegal" poaching of workers and smuggling of machinery.[4]

Britain as a Catch-up Economy

As the intellectual fountain of the modern laissez-faire doctrines and as the only country that can claim to have practiced a total free trade at least at one point, Britain is widely regarded as having developed without significant state intervention. However, this impression could not be further from the truth.

Britain entered its post-feudal age (thirteenth to fourteenth centuries) as a relatively backward economy. Until at least 1600, it was an importer of technology from the Continent (Kindleberger 1996, 109). It relied on exports of raw wool and, to a lesser extent, of low-value-added wool cloth (what was then known as "short cloth") to the then more advanced Low Countries, especially the towns of Bruges, Ghent, and Ypres in Flanders, which is now a part of Belgium (Ramsay 1982, 59; Davies 1999, 348). The British monarchs of this time taxed these products mainly for revenue reasons, but since the cloth was taxed more lightly than raw wool, this encouraged import substitution in wool cloth and a certain amount of export success (Ramsay 1982, 59). Edward III (1327–1377) is believed to have been the first king who deliberately tried to develop local wool cloth manufacturing. He only wore English cloth to set an example,[5] brought in the Flemish weavers, centralized trade in raw wool, and banned the import of woolen cloth (Davies 1999, 349; also see Davis 1966, 281).

Further impetus for the development of this industry came with what can only be described as a deliberate infant-industry promotion policy of the Tudor monarchs. The famous eighteenth-century merchant, politician, and author of the novel *Robinson Crusoe*, Daniel Defoe, describes this policy in his now almost forgotten book, *A Plan of the English Commerce* (1728).[6] In this book, he describes in some detail how the Tudor monarchs, especially Henry VII (1485–1509) and Elizabeth I (1558–1603), transformed England from a country heavily relying on raw wool export to the Low Countries into the most formidable woolen manufacturing nation in the world (pp. 81–101).

According to Defoe, Henry VII "had been a kind of a Refugee in the Court of his Aunt the Dutchess of *Burgundy*" (p. 94; italics in original).[7] There, the king was deeply impressed by the prosperity in the Low Countries based on woolen manufacturing, and a few years after he came to power (1485), he put in place the schemes to promote British woolen manufacturing (from 1489). The measures used included sending royal missions to identify locations suited to wool manufacturing, poaching skilled workers from the Low Countries, increasing duties on the export of raw wool, and even temporarily banning the export of raw wool (pp. 95–96). George Daniel Ramsay (1982) also documents that there was legislation in 1489, 1512, 1513, and 1536 that banned the export of unfinished cloths, save for coarse pieces below a certain market value, reflecting the then "influential view that if it was preferable to export wool in the form of cloth rather than in the raw state, then it was likewise better to ship cloth fully dressed and dyed than in a semi-manufactured state, 'unbarbed and unshorn'" (p. 61).

As Defoe emphasizes, Henry VII realized that, given Britain's technology gap with the Low Countries, this transformation was going to take a long time, and therefore he took a gradualist approach (p. 96). He raised export duties on raw wool only when the industry was better established. And he quickly withdrew the ban on raw wool export he had once imposed, as soon as it became clear that Britain simply did not have the capacity to process all the raw wool it produced. According to Defoe (pp. 97–98), it was not until the time of Elizabeth I (1587), nearly 100 years after Henry VII started his import substitution policy, that Britain was confident enough about its woolen manufacturing industry's international competitiveness that it totally banned raw wool export. This ban eventually drove the manufacturers in the Low Countries into ruin.

It is difficult to establish the relative importance of the abovementioned factors in explaining the British success in woolen manufacturing. However, it does seem clear that, without what can only be described as the sixteenth-century equivalent of modern infant-industry promotion strategy put in place by Henry VII and further pursued by his successors, it would have been very difficult, if not necessarily impossible, for Britain to make this initial success in industrialization. And without this key industry, which accounted for at least half of its export revenue during the eighteenth century, its industrial revolution may have been very difficult, to say the least.[8]

The 1721 reform of the mercantile law introduced by Robert Walpole, the first British prime minister, during the reign of George I (1714–27) signified a dramatic shift in the focus of British industrial and trade policies.

Prior to this, the British government's policies were in general aimed at capturing trade (most importantly through colonization and the Navigation Acts, which required that trade with Britain be conducted in British ships)[9] and at generating government revenue. The promotion of woolen manufacturing, as discussed above, was the most important exception to this policy, but even this action was partly motivated by the desire to generate more government revenue. In contrast, the policies introduced after 1721 were deliberately aimed at promoting manufacturing industries. Introducing the new law, Walpole stated, through the king's address to the Parliament: "It is evident that nothing so much contributes to promote the public well-being as the exportation of manufactured goods and the importation of foreign raw material" (as cited in List 1885, 40).[10]

The 1721 legislation, and the supplementary policy changes subsequently made, included the following measures.[11] First of all, import duties on raw materials used for manufactures were lowered, or even altogether dropped. Second, duty drawbacks on imported raw materials for exported manufactures—a policy that had been well established in the country since the days of William and Mary—were increased.[12] Third, export duties on most manufactures were abolished. Fourth, duties on imported foreign manufactured goods were significantly raised. Fifth, export subsidies (then called "bounties") were extended to new export items like silk products and gunpowder, while the existing export subsidies to sailcloth and refined sugar were increased. And sixth, regulation was introduced to control the quality of manufactured products, especially textile products, so that unscrupulous manufacturers could not damage the reputation of British products in foreign markets.[13]

Nicolas Brisco (1907) sums up the principle behind this new legislation as follows: "[Manufacturers] had to be protected at home from competition with foreign finished products; free exportation of finished articles had to be secured; and where possible, encouragement had to be given by bounty and allowance" (p. 129). What is very interesting to note here is that the policies introduced by the 1721 reform, as well as the principles behind them, were uncannily similar to those used by the East Asian countries during the postwar period (see Chang 1994 on East Asian industrial policy).

With the industrial revolution in the second half of the eighteenth century, Britain started widening its technological lead over other countries. However, even then it continued its policy of industrial promotion until the mid-nineteenth century, by which time its technological supremacy was overwhelming.

The first and the most important component of this position was clearly tariff protection, but Britain also banned the import of superior products from some of its colonies, if they happened to threaten British industries. In 1699, the Wool Act prohibited export of woolen products from the colonies, killing off the then superior Irish wool industry. In 1700, a ban was imposed on the import of superior Indian cotton products (calicoes), debilitating what was then arguably the world's most efficient cotton-manufacturing sector.

By the end of the Napoleonic Wars in 1815, however, there were increasing pressures for free trade in Britain from the increasingly confident manufacturers. By this time, most British manufacturers were firmly established as the most efficient in the world in most industries, except in a few limited areas where countries like Belgium and Switzerland possessed technological leads over Britain. Although a new Corn Law that was passed in 1815 (Britain had had numerous Corn Laws dating back to 1463) meant an increase in agricultural protection, the pressure for free (or at least freer) trade was building up.[14]

Although there was a round of tariff reduction in 1833, the big change came in 1846, when the Corn Law was repealed and tariffs on many manufacturing goods abolished (Bairoch 1993, 20–21). The repeal of the Corn Law is these days commonly regarded as the ultimate victory of the classical liberal economic doctrine over wrong-headed mercantilism. Although we should not underestimate the role of economic theory in this policy shift, many historians more familiar with the period point out that it should probably be understood as an act of "free trade imperialism" (the term comes from Gallagher and Robinson 1953) intended to "halt the move to industrialization on the Continent by enlarging the market for agricultural produce and primary materials" (Kindleberger 1978, 196).[15]

Indeed, many key leaders of the campaign to repeal the Corn Law, such as the politician Richard Cobden and John Bowring of the Board of Trade, saw their campaign precisely in such terms (Kindleberger 1975 and Reinert 1998).[16] Cobden's view on this issue is clearly revealed in the following passage:

> The factory system would, in all probability, not have taken place in America and Germany. It most certainly could not have flourished, as it has done, both in these states, and in France, Belgium, and Switzerland, through the fostering bounties which the high-priced food of the British artisan has offered to the cheaper fed manufacturer of those countries. (*The Political Writings of Richard Cobden*, vol. 1 [London: William Ridgeway, 1868], 150; as cited in Reinert 1998, 292)

Symbolic though the repeal of Corn Law may have been, the real shift to free trade only happened in the 1850s. It was only after Gladstone's budgets of the 1850s, and especially that of

1860, in conjunction with the Anglo-French free trade treaty (the so-called Cobden-Chevalier Treaty) signed that year, that most tariffs were eliminated.

Thus seen, contrary to popular belief, Britain's technological lead that enabled this shift to a free-trade regime had been achieved "behind high and long-lasting tariff barriers" (Bairoch 1993, 46). And it is for this reason that Friedrich List, the German economist who perfected the theory of infant -industry protection that was first systematically developed in the United States (see below), was so deeply disturbed by the British preaching for free trade and wrote the following passages:

> It is a very common clever device that when anyone has attained the summit of greatness, he *kicks away the ladder* by which he has climbed up, in order to deprive others of the means of climbing up after him. In this lies the secret of the cosmopolitical doctrine of Adam Smith, and of the cosmopolitical tendencies of his great contemporary William Pitt, and of all his successors in the British Government administrations.
>
> Any nation which by means of protective duties and restrictions on navigation has raised her manufacturing power and her navigation to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than *to throw away these ladders* of her greatness, to preach to other nations the benefits of free trade, and to declare in penitent tones that she has hitherto wandered in the paths of error, and has now for the first time succeeded in discovering the truth. (List 1885, 295–96, italics added)

It is also important to note that the overall "liberalization" of the British economy that was happening during the mid-nineteenth century, of which trade liberalization was just one part, was a highly controlled affair overseen by the state and not achieved through a laissez-faire approach (Polanyi 1957 [1944], chaps. 12–13).[17] Moreover, the free trade regime did not last long. By the early twentieth century, reintroduction of protectionism was one of the hottest issues in British politics, as the country was rapidly losing its manufacturing advantage to the United

States and Germany. The influence of the Tariff Reform League formed in 1903 under the leadership of the charismatic politician Joseph Chamberlain is a good testimony to this (see Clarke 1999). The era of free trade ended when Britain reintroduced tariffs on a large scale in 1932 (Bairoch 1993, 27–28).

The United States as the "Mother Country and Bastion of Modern Protectionism"

Friedrich List argues that Britain was actually the first country to perfect the art of infant-industry promotion, which in his view is the principle behind most countries' journey to prosperity. He goes so far as to say that we should "let [whoever is not convinced of the infant-industry argument] first study the history of English industry" (List 1885, 39). However, the most ardent user of infant-industry promotion strategy was probably the United States—the eminent economic historian Paul Bairoch once called it "the mother country and bastion of modern protectionism" (Bairoch 1993, 30).

This fact is rarely acknowledged in the modern literature, however, especially that coming out of the United States, and even many otherwise knowledgeable people do not seem to be aware of it. No less an economic historian than Clive Trebilcock (1981), an authority on the European industrial revolution, when commenting on the introduction of 1879 tariffs in Germany, stated that tariffs were going up all over the world, including "even free-trade America" (p. 83).

Even when the existence of high tariffs is acknowledged, its importance is severely downplayed. For example, in what was until recently the standard overview piece on U.S. economic history, Douglass North (1965) mentions tariffs just once, only to dismiss them as an insignificant factor in explaining U.S. industrial development. He argues, without bothering to establish the case and by citing only one highly biased secondary source (the classic study by F. Taussig, 1892), "while tariffs became increasingly protective in the years after the Civil War, it is doubtful if they were very influential in affecting seriously the spread of manufacturing" (p. 694). However, a more careful and unbiased reading of the history reveals that the importance of infant-industry protection in U.S. development cannot be overemphasized.

From the early days of colonization, protection of domestic industry was a controversial policy issue in what later became the United States. To begin with, Britain did not want to industrialize the colonies, and it duly implemented policies to that effect. Around the time of independence, southern agrarian interests opposed any protection, and northern manufacturing interests—represented by, among others, Alexander Hamilton, the first secretary of the treasury of the United States (1789–95)—wanted it.[18]

Indeed, many point out that it was Alexander Hamilton in his *Reports of the Secretary of the Treasury on the Subject of Manufactures* (1791), and not Friedrich List, as it is often thought, who first systematically set out the infant industry argument (Corden 1974, chap. 8; Freeman 1989; Reinert 1996). In fact, as Henderson (1983) and Reinert (1998) point out, List started out as a free-trade advocate and only converted to the infant-industry argument following his period of exile in the United States (1825–30). While he was there, he was exposed to the works of Alexander Hamilton and the then leading U.S. economist and strong advocate of infant-industry protection, Daniel Raymond (for further details on List's life and work, see Henderson 1983).[19]

In his *Reports*, Hamilton argued that the competition from abroad and the "forces of habit" would mean that new industries that could soon become internationally competitive ("infant industries")[20] would not be started in the United States, unless the initial losses were guaranteed by government aid (Dorfman and Tugwell 1960, 31–32; Conkin 1980, 176–77). This aid, he said, could take the form of import duties or, in rare cases, prohibition of imports. He also believed that duties on raw materials should on the whole be low. It is interesting to note that there is a close resemblance between this view and that espoused by Walpole (see above)—a point that was not lost on the contemporary Americans, especially Hamilton's political opponents (Elkins and McKitrick 1993, 19).[21] In turn, it should also be noted that both the Walpolean and the Hamiltonian views are remarkably similar to the view that lies behind France's or East Asia's postwar industrial policy.

Initially, the United States did not have a federal-level tariff system, and an attempt to grant Congress tariff power in 1781 failed (Garraty and Carnes 2000, 139–40). When it acquired the power to tax, Congress passed a liberal tariff act (1789), imposing a 5 percent flat rate tariff on all imports, with some exceptions, such as hemp, glass, and nails (Garraty and Carnes 2000, 153; Bairoch 1993, 33). Many tariffs were increased in 1792, although they still fell far short of Hamilton's recommendations, which called for an extensive system of infant-industry protection and subsidies (Garraty and Carnes 2000, 155). After that, until the war with Britain in 1812, the average tariff level remained around 12.5 percent, although in order to meet the increased wartime expenses, all tariffs were doubled in 1812 (p. 210).

These policies were in line with the prevailing view of the time that the United States should focus on agriculture and not protect its manufacturing industries. According to List (1885), even the great economic theorists Adam Smith and Jean-Baptiste Say regarded the United States as being "like Poland," namely, destined to rely on agriculture (p. 99). Indeed, Adam Smith sternly warned the Americans against any attempt at infant-industry promotion:

> Were the Americans, either by combination or by any other sort of violence, to stop the importation of European manufactures, and, by thus giving a monopoly to such of their own countrymen as could manufacture the like goods, divert any considerable part of their capital into this employment, they would retard instead of accelerating the further increase in the value of their annual produce, and would obstruct instead of promoting the progress of their country towards real wealth and greatness. (*Wealth of Nations* 1937 [1776]), 347–48)

However, a significant shift in policy occurred in 1816, when, under the considerable political influence of the infant industries that had grown up under the "natural" protection accorded by the war with Britain, a new law was introduced to keep the tariff level close to that from wartime. This was done despite the fact that the revenue was no longer needed—especially protected were cotton, woolen, and iron goods (Garraty and Carnes 2000, 210; Cochran and Miller 1942, 15–16). In the 1816 tariff law, almost all manufactured goods were subject to tariffs of around 35 percent (Bairoch 1993, 33). Table 1 shows that the average tariff level for manufacturing products in the United States in 1820 was around 40 percent. Initially, this measure was welcomed by everyone, including the southern states that hoped this tariff would help industries to grow in their territories. However, the southern states soon turned against it because of their interest in importing superior-quality British manufactures and because of the failure of the industries to emerge in their own territories (Garraty and Carnes 2000, 210).

The southern agrarian interests, with the help of the New England (and especially New York) shippers, were able to defeat bills calling for higher tariffs in 1820, 1821, and 1823 (Cochran and Miller 1942, 16). However, in 1824, a new, still higher tariff was enacted (Garraty and Carnes 2000, 219). In 1828, the so-called Tariff of Abominations further divided the country. This was because this time the northern and western agricultural interests were adding high tariffs on the raw materials or low-value-added manufactures that they produced (e.g., wool, hemp, flax, fur, and liquor), thus creating tension with the New England manufacturing states (p. 221).

Still another tariff law was passed in 1832. This one offered a much lower cut than the southerners had wanted (a 40 percent tariff rate on average for manufactured goods), and particularly high protection was accorded to iron and textile goods (e.g., 40–45 percent on woolen manufactured goods and 50 percent for clothing) (Bairoch 1993, 34; Garraty and Carnes 2000, 262; Cochran and Miller 1942, 18). This led to the so-called Nullification Crisis, started by the refusal by the state of South Carolina to accept the law (Garraty and Carnes 2000, 262). A compromise bill was passed in 1833, which offered few immediate reductions but made a provision for gradual reduction over the next ten years (p. 263), down to about 25 percent for manufactured goods and 20 percent for all goods (Bairoch 1993, 34). However, as soon as this ten-year reduction ended in 1842, a new tariff act was passed, raising duties back up to about the 1832 levels (Garraty and Carnes 2000, 328).

There was a reduction in protection in the 1846 tariff law (Garraty and Carnes 2000, 335), although the average ad valorem duty on the fifty-one most important categories of imported goods was still 27 percent (Bairoch 1993, 34). There was an even further reduction in 1857. Paul Bairoch describes the period between 1846 and 1861 as one of "modest protectionism" (p. 35). However, this "modesty" is only by the historical standards of the United States. It must also be pointed out that, given the high transportation costs of the time (at least until the 1870s), the U.S. tariff would have been a greater barrier to international trade than the European ones, even if both were nominally at the same level (which they were not).[22]

However, the tension surrounding the tariff issue, as well as the slave issue, persisted between the North and the South, and finally culminated in the Civil War (1861–65). The Civil War is commonly thought to have been fought solely over the issue of slavery, but in fact tariffs were another important issue. John Garraty and Mark Carnes (2000) state that "[a] war against slavery would not have been supported by a majority of Northerners. Slavery was the root case of secession but not of the North's determination to resist secession, which resulted from the people's commitment to the union" (p. 405). And given that the South had seen tariffs as the major existing liability of the union while the abolition of slavery was still only a theoretical possibility, the importance of the tariff issue in causing the secession cannot be overemphasized.

Lincoln's victory in the presidential election of 1860 would have been very difficult, if not impossible, had the leading protectionist states of Pennsylvania and New Jersey not switched their allegiance to the Republican Party thanks to the pledge in its election platform to increased protection (Luthin 1944, 614–24).[23] The pledge (the "twelfth plank" of the platform) was deliberately ambiguously worded in such a way as to assuage the free-trade element in the party.[24] At the same time, it was still acceptable to the protectionist states, given that Lincoln was a "true-blue protectionist" (Borit 1966, 302) and thus seen as someone who would live up to the spirit of the pledge, once elected (Luthin 1944, 617–18; Borit 1966, 309–31).[25]

Early in his political career, Lincoln had been a leading member of the hard-line protectionist Whig Party and an enthusiastic follower of the charismatic politician, Henry Clay. Clay advocated the "American System," which consisted of infant-industry protection ("Protection for Home Industries") and infrastructural development ("Internal Improvements"), in explicit opposition to the "British System" of free trade, and Lincoln fully shared his view (Luthin 1944, 610–11; Frayssé 1986, 99–100).[26] Although during the campaign Lincoln was compelled to keep quiet on most of the controversial issues, including tariffs, in order to hold a diverse and young party together,[27] he unwaveringly gave assurance on his protectionist belief when it was deemed necessary (Luthin 1944, 624–25; Borit 1966, 310–12).

Although he was consistently antislavery, Lincoln had never before advocated forceful abolition of slavery, he considered the blacks racially inferior, and he was against black suffrage (Garraty and Carnes 2000, 391–92; Foner 1998, 92). Given these attitudes, upon his election there was probably less to fear for the South on the slavery front than on the tariff front. Indeed, even in the early days of the Civil War, Lincoln made it clear that he was quite willing to allow slavery in the southern states for the preservation of the Union.[28] He only enacted slave emancipation in the autumn of 1862 as a strategic move to win the war rather than out of moral conviction (Garraty and Carnes 2000, 414–15).

In 1862, disguised as a "compensation" for the increased excise tax and the emergency income tax during the Civil War (so that the previous margin of protection could be maintained), a new tariff act was introduced. This raised the rates to "their highest level in thirty years—much higher, in many cases, than the new excise taxes warranted" (Cochran and Miller 1942, 106). In 1864, tariffs were raised still further to meet the war expenditures at highest-ever rates, and remained at those levels even after the war, although other internal taxes were repealed (p. 106). In this way, the victory of the North in the Civil War ensured that the United States remained the most protected economy in the world until World War II, and especially until World War I—with the notable exception of Russia in the early twentieth century (see Table 1).

In 1913, following the previous Democratic electoral victory, the Underwood Tariff bill was passed, leading to "a large increase in the categories of goods allowed free entry and to a substantial drop in average import duties," reducing average tariff on manufactured goods from 44 percent to 25 percent (Bairoch 1993, 37). However, World War I, which shortly followed, made this bill ineffective, and a new "emergency" tariff legislation was put in place by 1922, following the Republican return to power in 1921 (p. 38). In the 1922 law, although the tariffs did not return to their high 1861–1913 levels, the percentage effectively paid on manufactured imports *rose* by 30 percent (p. 38).

Following the onset of the Great Depression, there came the 1930 Smoot-Hawley tariff—"the most visible and dramatic act of anti-trade folly," according to Bhagwati (1985, 22, n. 10). However, this characterization is very misleading. While the Smoot-Hawley tariff provoked an international tariff war, thanks to its bad timing—especially given the new status of the United States as the world's largest creditor nation following World War I (Kindleberger 1990, 136–37)—it simply was not a radical departure from the country's traditional trade policy stance.

In fact, the Smoot-Hawley tariff only marginally (if at all) increased the degree of protectionism in the U.S. economy. As we can see from table 1, the average tariff rate for manufactured goods that resulted from this bill was 48 percent, and it still falls within the range of the average rates that had prevailed in the United States since the Civil War, albeit in the upper region of this range. It is only in relation to the brief "liberal" interlude of 1913–29 that the 1930 tariff bill can be interpreted as increasing protectionism, although even then it was not by very much. Table 1 shows that the average rate of tariff on manufactures in 1925 was 37 percent and rose to 48 percent in 1931.

It was only after World War II, with its industrial supremacy unchallenged, that the United States liberalized its trade and started championing the cause of free trade—once again proving List right on his "ladder-kicking" metaphor. However, it should be noted that the United States never practiced free trade to the same degree as Britain did during its free-trade period

(1860–1932). It never had a zero-tariff regime like the United Kingdom's, and it was much more aggressive in using "hidden" protectionist measures. These included voluntary export restraints (VERs); quotas on textile and clothing (through the Multifiber Agreement); protection and subsidies for agriculture (compare this with the repeal of the Corn Law in Britain); and unilateral trade sanctions (especially through the use of antidumping duties).[29]

Unlike the attitude a generation ago, represented by the work of North that we cited above (North 1965), there is now a growing recognition of the importance of protectionism among U.S. economic historians, who used to be extremely wary of saying anything positive about it. Now, there seems at least to be a consensus that tariff protection was critical in the development of certain key industries—the textile industry in the early nineteenth century and the iron and steel industry in the second half of the nineteenth century (Lipsey 2000, 726–27). Although some commentators doubt whether the overall national welfare effect of protectionism was positive, the U.S. growth records during the protectionist period make this skepticism look overly cautious, if not downright biased.

Bairoch (1993) points out that, throughout the nineteenth century and right up to the 1920s, the United States had the fastest-growing economy in the world, despite being the most protectionist during almost all of this period (pp. 51–52). There is also no evidence that the only significant reduction of protectionism in the U.S. economy (between 1846 and 1861) had any noticeable positive impact on the country's development. Most interestingly, the two best twenty-year GDP-per-capita growth performances during the 1830–1910 period were 1870–90 (2.1 percent) and 1890–1910 (2 percent)—both periods of particularly high protectionism (pp. 52–53).[30] It is hard to believe that this association between the degree of protectionism and overall growth is purely coincidental. Indeed, O'Rourke (2000) shows some statistical evidence from ten NDCs during the "liberal golden age" of 1875–1914, including the United States, that protection (measured by average tariff rates) was *positively* related to growth.[31]

Of course, as many people point out, tariff protection for some industries certainly outlived its usefulness. For example, despite the continuing debate on this issue, it is widely agreed that, by

Important as it may have been, tariff protection was not the only policy deployed by the U.S. government to promote the country's economic development.

the 1830s, at least in some low-value-added segments of the market, American cotton textile producers would not have needed protection (Engerman and Sokoloff 2000, 400; Lipsey 2000, 726).[32] It is also very likely that even some of the necessary tariffs may have been set at excessively high levels due to interest-group pressures and the complicated horse-trading that has characterized the country's policy-making. Despite these qualifications, it seems difficult to deny that, without infant-industry protection, the U.S. economy would not have industrialized and developed as fast as it did in its catching-up period.

Important as it may have been, tariff protection was not the only policy deployed by the U.S. government to promote the country's economic development.

At least from the 1830s, but certainly from the Morrill Act of 1862, it supported an extensive range of agricultural research. Measures used included the granting of government land to agricultural colleges and the establishment of government research institutes, such as the Bureau of Animal Industry and the Bureau of Agricultural Chemistry (Kozul-Wright 1995, 100). In the second half of the nineteenth century, it expanded public educational investments—in 1840, less than half of the total investment in education was public, whereas by 1900 this figure had risen to almost 80 percent—and raised the literacy ratio to 94 percent by 1900 (p. 101, especially n. 37). Its role in promoting the development of transportation infrastructure, especially through the granting of land and subsidies to railway companies, was also critical in shaping the country's developmental path (pp. 101–2).

And it is important to recognize that the role of the U.S. government in industrial development has been substantial even in the postwar era, thanks to the large amount of defense-related procurements and R&D spending, which have had enormous spillover effects (Shapiro and Taylor 1990, 866; Owen 1966, chap. 9; Mowery and Rosenberg 1993). The share of the U.S. government in total R&D spending, which was only 16 percent in 1930 (Owen 1966, 149–50), remained between one-half and two-thirds during the postwar years (Mowery and Rosenberg 1993, table 2.3). Industries such as computers, aerospace, and the Internet, where the United States still maintains an international edge despite the decline in its overall technological leadership, would not have existed without defense-related R&D funding by the country's federal government.[33] The critical role of the U.S. government's National Institutes of Health (NIH) in supporting R&D in pharmaceutical and biotechnology industries and thus maintaining the U.S. lead in these industries should also be mentioned. Even according to the information provided by the U.S. pharmaceutical industry association itself (see www.phrma.org/publications), only 43 percent of pharmaceutical R&D is funded by the industry itself, while 29 percent is funded by the NIH.

During the nineteenth century, the United States not only was the strongest bastion of protectionist policies but also was its intellectual home. Most of the more original U.S. economists of the period, at least until the last quarter of the nineteenth century, seem to have been strong advocates of infant-industry protection. The two leading economists of the early nineteenth century were well-known supporters of infant-industry promotion—Daniel Raymond, who influenced Friedrich List, and Mathew Carey. And American economics during the mid- to late nineteenth century was dominated by Mathew Carey's son Henry. Henry Carey was described as "the only American economist of importance" by Marx and Engels in the early 1850s[34] and was one of Lincoln's (somewhat frustrated) economic advisers (see above; see Kaplan [1931] on Carey's life and work). Unfortunately, most of these economists have now been airbrushed out of the history of U.S. economic thought, but it was they, rather than the American classical economists who were then regarded as second-rate by the British standard, who were the more prominent intellectual figures of the time (see Hodgson 2001).

What is especially interesting to note here is that many U.S. intellectuals and politicians during the country's catch-up period clearly understood that the free-trade theory advocated by the British classical economists was unsuited to their country. Erike Reinert (1996) reports that, due to this concern, Thomas Jefferson tried (although in vain) to prevent the publication of Ricardo's *Principles* in the United States (p. 5). Reinert (1998) also cites from List's work the comment by a U.S. congressman, a contemporary of List, who observed that English trade theory "like most English manufactured goods, is intended for export, not for consumption at home" (p. 296).[35]

As I mentioned earlier, the most prominent protectionist politician of the early nineteenth century and Abraham Lincoln's early mentor, Henry Clay, named his economic policy platform the "American System," in explicit opposition to what he called the "British System" of free trade. Somewhat later, Henry Carey even argued that free trade was a part of the British imperialist system that consigned the United States to a role of primary product exporter (Conkin 1980, 287–88). It is also reported that during the 1860 election campaign, where Carey played a key intellectual role, the Republicans in some protectionist states assailed the Democrats as a "Southern-*British*-Antitariff-Disunion party [italics added]" (Luthin 1944, 616).

Conclusion

This article has shown how the currently dominant neoliberal argument for free trade and laissez-faire industrial policy is based on a fundamentally mistaken reading of the history of capitalism. Particularly important in this argument is the very selective and distorted reading of the economic histories of Britain and the United States, whose ascents to industrial supremacy are erroneously attributed to their free trade policy and noninterventionism.

Britain and the United States—and indeed most other developed countries, as I show in Chang (2002)—had used aggressive infant-industry promotion policies in the early stages of their development. It was only after they achieved their industrial supremacy that they started practicing free trade and laissez-faire policies. To borrow List's analogy once again, infant-industry promotion was a "ladder" that most countries have needed (and actively used) in order to climb up to the top—and which was eagerly "kicked away" when no longer necessary. Thus seen, whatever their intention is, the developed countries that are trying to prevent the developing countries from using infant-industry promotion are effectively "kicking away the ladder," which List, and indeed many of his contemporaries in the United States, accused Britain of doing in the mid-nineteenth century.

Needless to say, infant-industry promotion does not guarantee economic development, but historically, very few countries have achieved economic development without it. In light of this, it is necessary to reexamine the recent changes in the global economic system that have made it very difficult, if not impossible, for developing countries to use trade and industrial policies that promote their infant industries, if we are serious about their long-term economic development possibilities.

Notes

1. So in addition to the conventional "economic conditionalities" attached to multilateral and bilateral financial assistance to developing countries, now we have "governance-related conditionalities" (see Kapur and Webber 2000).

2. John Williamson (1990) makes the classic statement of this agenda. For some recent criticisms, see Stiglitz (2001) and Ocampo (2001).

3. Jeffrey Sachs and Andrew Warner (1995) date this "golden age" as 1850–1914.

4. I put the words "legal" and "illegal" in quotation marks, since the "legality" in this case was in terms of British laws, whose legitimacy may not be (and in practice certainly was not) accepted by other countries.

5. This is reminiscent of the policies used by Japan and Korea during the post-war period to control "luxury consumption," especially concerning imported luxury goods. On this, see Chang (1997).

6. I must thank Erik Reinert for drawing my attention to this book both through his work (e.g., Reinert 1996) and personally.

7. However, Defoe got his facts wrong here. Henry VII spent his exile years in France and Brittany, not in Burgundy (Gunn 1995, 9). Given that Burgundy had a long association with the Yorkists (Elton 1997, 5–6), it is improbable anyway that Henry VII, as a Lancasterian, could have been exiled in Burgundy. Of course, this factual mistake does not change the basic point that the target of British catch-up effort under Henry VII was the Low Countries, including Burgundy. I thank Tom Penn for raising this important point.

8. Cloth exports (mostly woolen) accounted for around 70 percent of English exports in 1700 and were still over 50 percent of total exports until the 1770s (Musson 1978, 85).

9. See Wilson (1984, 164–65) on the evolution of early Navigation Acts.

10. In List's view, this "for centuries had been the ruling maxim of English commercial policy, as formerly it had been that of the commercial policy of the Venetian Republic" (List 1885, 40).

11. For details, see Brisco (1907, 131–33, 148–55, 169–71); McCusker (1996, 358); Davis (1966, 313–14); and Wilson (1984, 267).

12. This is a policy that has been made famous by its successful use in the East Asian countries after World War II.

13. In Brisco's words, "Walpole understood that, in order successfully to sell in a strongly competitive market, a high standard of goods was necessary. The manufacturer, being too eager to undersell his rival, would lower the quality of his wares which, in the end, would reflect on other English-made goods. There was only one way to secure goods of a high standard, and that was to regulate their manufacture by governmental supervision" (Brisco 1907, 185). Once again, we find the modern version of such policy in countries like Japan and Korea during the postwar period, where state trading agencies acted not only as information sources and marketing channels but also as a monitor of export product quality.

14. Of course, in most cases, the manufacturers' support for free trade was a self-centered one, rather than out of their intellectual conversion to lofty principles of free trade. While supporting the repeal of the Corn Law, the cotton manufacturers remained opposed to free export of cotton machinery right until the end of the ban (first imposed in 1774) in 1842 (Musson 1978, 101).

15. See Semmel (1970) for a classic study of the role of economic theory in the development of British trade policy between 1750 and 1850.

16. In 1840, Bowring advised the member states of the German customs union (*Zollverein*) to grow wheat and sell it to buy British manufactures (Landes 1998, 521).

17. Polanyi (1957 [1944]) argues, "There was nothing natural about *laissez-faire;* free markets could never have come into being merely by allowing things to take their course. Just as cotton manufacturers—the leading free trade industry—were created by the help of protective tariffs, export bounties, and indirect wage subsidies, *laissez-faire* itself was enforced by the state. The thirties and forties saw not only an outburst of legislation repealing restrictive regulations, but also an enormous increase in the administrative functions of the state, which was now being endowed with a central bureaucracy able to fulfil the tasks set by the adherents of liberalism. To the typical utilitarian . . . *laissez-faire* was not a method to achieve a thing, it was the thing to be achieved" (p. 139). Also see Perelman (2000) on how the classical economists endorsed state intervention that was deemed necessary for the establishment of the market system, especially the creation of wage laborers through the destruction of small-scale rural production.

18. Of course, there is no simple one-on-one correspondence between someone's "material" position and his/her intellectual position. Despite being a southern slave-owner, Jefferson was strongly in favor of infant-industry protection. In contrast, despite being from the northern manufacturing part of the country and being a famous industrial inventor, Benjamin Franklin was not a supporter of infant-industry protection. However, Franklin still supported protection of the American manufacturing industry on the ground that the American industry would never be able to compete with European industry, which could get away with paying subsistence wage, whereas the American industry could not, given the abundance of land and shortage of labor. See Kaplan (1931, 17–27).

19. List's full argument was published in *The National System of Political Economy* in 1841. However, according to Henry Spiegel (1971), the earliest version of his argument for the development of national "productive power" was made in a book that he wrote for the Pennsylvania protectionists in 1827, *Outlines of American Political Economy* (pp. 362–63).

20. Bairoch (1993, 17) credits Hamilton with inventing the term "infant industry."

21. According to Elkins and McKitrick (1993), "[a]s the Hamiltonian progress revealed itself . . . —a sizeable funded debt, a powerful national bank, excises, nationally subsidized manufactures, and eventually even a standing army—the Walpolean parallel at every point was too obvious to miss. It was in resistance to this, and everything it seemed to imply that the 'Jeffersonian persuasion' was erected" (p. 19).

22. Although a regular transatlantic steam service was inaugurated in 1838, steamships only came to replace sailboats as the major means of sea transportation in the 1870s (O'Rourke and Williamson 1999, 33–34).

23. It should be remembered that, as a coalition between the protectionist Whigs and the western Democrats who wanted free distribution of public land but in general wanted free trade, the Republican Party in its early days was *not* an openly protectionist party.

24. The plank read "[t]hat, while providing revenue for the support of the general government by duties upon imports, sound policy requires such an adjustment of these imports as to encourage the development of the industrial interests of the country; and we commend that policy of national exchanges, which secures to the working man liberal wages, to agriculture remunerative prices, to mechanics and manufacturers an adequate reward for their skill, labor, and enterprise, and to the nation commercial prosperity and independence" (cited in Borit 1966, 309).

25. One eyewitness records: "The Pennsylvania and New Jersey delegations were terrific in their applause over the tariff resolution, and their hilarity was contagious, finally pervading the whole vast auditorium." Another wrote: "The scene this evening upon the reading of the 'Protection to Home Industries' plank in the platform was beyond precedent. One thousand tongues yelled, ten thousand hats, caps and handkerchiefs waving with the wildest fervor. Frantic jubilation." Both are cited in Luthin 1944, 617.

26. One of Lincoln's economic advisers was the famous protectionist economist Henry Carey (see below). Lincoln even appointed a close associate of Carey to a post in the Treasury in charge of tariffs, although Carey is known to have been frustrated by Lincoln's unwillingness to take things as far as he wanted (Luthin 1944, 627–29). Carey is reported to have said: "Protection made Mr. Lincoln president. Protection has given him all the success he has achieved, yet has he never, so far as I can recollect, bestowed upon her a single word of thanks. When he and she part company, he will go to the wall" (his letter to Noah Swayne, enclosed as a copy in Swayne to Carey, February 4, 1865, *Carey Papers*, Box 78, Historical Society of Pennsylvania, Philadelphia), cited Luthin 1944, 629.

27. The Republican Party was only formed in 1856 out of an alliance between northern manufacturing interests and small farmers of the West.

28. In response to a newspaper editorial urging immediate slave emancipation, Lincoln wrote: "If I could save the Union without freeing any slave, I would do it; and if I could save it by freeing all the slaves, I would do it; and if I could do it by freeing some and leaving others alone, I would also do that" (Garraty and Carnes 2000, 405).

29. I would like to thank Irfan ul Haque for raising this point.

30. According to Bairoch, the third-fastest-growing twenty-year period was that of 1850–70 (1.8 percent). However, the record for this period is more difficult to

assess than those of the other two periods. First of all, 1850–61 was a period of relatively (but then only relatively) low protectionism, while 1862–70 witnessed a marked increase in protection. Moreover, this period contains the periods of the Civil War (1861–65) and the postwar reconstruction, and thus cannot be treated in the same way as other periods.

31. The ten countries are: Austria, Canada, Denmark, France, Germany, Italy, Norway, Sweden, the United Kingdom, and the United States.

32. The role of tariffs in the development of cotton textile has generated a heated debate. Frank Taussig (1892) was the first to argue that "[p]robably as early as 1824, and almost certainly by 1832, the industry had reached a firm position, in which it was able to meet foreign competition on equal terms" (p. 136). Mark Bils (1984) disputed this and concluded his study with the statement that "the removal of tariff . . . would have reduced value added in textiles by, at a minimum, three-quarters. The implication is that about half of the industrial sector of New England would have been bankrupted" (p. 1045). Douglas Irwin and Peter Temin (2000) sided with Taussig on the ground that the American cotton textile producers would have survived the abolition of tariff because they specialized in products different from those of the British producers. However, the difference between them and Bils is actually not as striking as it first seems. Irwin and Temin do not disagree with Bils's view that the American producers could not compete with the British producers in high-value-added segments of the market. They merely make the point that most American producers were *not* actually in those segments.

33. Helen Shapiro and Lance Taylor (1990) sum this up nicely: "Boeing would not be Boeing, nor would IBM be IBM, in either military or commercial endeavours without Pentagon contracts and civilian research support" (p. 866).

34. Letter to Weydemeyer, March 5, 1852, in K. Marx & F. Engels, *Letters to Americans, 1848–95: A Selection* (New York: International Publishers, 1953); cited in Frayssé (1994, 224, n. 46).

35. The original source is F. List, *Gesammelte Werke*, vol. 5 (Berlin: Reimar Hobbing für die List-Gesellschaft, 1931), p. 338.

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