

# Protectionism and "Infant" Industries. Theoretical Approaches

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## **Abstract**

For many centuries, the customs duties, the quantitative restrictions and other similar stipulations have represented the instruments specific to historical progress of any countries, from one moment of time to another; such instruments were emphasized either by increasing the revenues, by supporting the development of some areas, thus protecting them against to foreign competition, or by other reasons. The protectionist systems have had followers within all structures of the society, where each of them have brought substantiations dictated by own faith or interests.

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## **1. Introduction**

Protectionism has existed since the Roman Empire, when conquered countries enjoyed of the so-called "protectorate"; the Romans controlled their internal and external politics, the economy and social life, but they defended them onward the barbarians. The Roman Empire played a significant role on developing the world trade, where many concepts and rules of the economic field have existed since those times (1). By the end of Middle Ages, the concept of *protectionism* was introduced within economic field, also. The rise of economic nationalism throughout the Western world (XVI-XVIII centuries) was related to the Mercantilism; one of Mercantilism's thesis, especially on its first stages, associated the foreign trade to a source of wealth, with the condition that exports should be higher than the imports. Though, the mercantilist thoughtfulness had proven subsequently a more liberal emphasis, thus continuing to support the necessity of state's intervention within economy and protecting some interests on a protectionist policy (2).

## **2. The American protectionism and emergent industries**

The modern protectionist trend has been grown and been consolidated in USA, which is called by Paul Bairoch as "mother country and stronghold of modern protectionism" (3); in 1791, Alexander Hamilton presented to USA Congress his famous *Report on manufactures*, being considered as the first drawing up of modern protectionism theory. This document remained in the history as an attempt to outline the idea, according to which the industrialization is not possible without the existence of a protection coming from the state. Although, the substantiation of *embryonic/infant industries* is found within the mercantilism thesis, Hamilton is worth to develop it and placing it in the centre of his demarche (4).

*The Report* has a double significance, since besides the pragmatic arguments invoked with regard to the necessity of encouraging the domestic industry (American industry), it also includes explicit proposals related to the policy that government should adopt. The report was drawn up within a political context, influenced by idea affirmed by the President George Washington, in his first message to the Congress (8<sup>th</sup> of January 1790): "the safety and interest of a free people require that people should promote such manufactures, able to make him independent on wards other people, as regards the essential assets offer, especially of military nature" (5).

As any other protectionists, he did not reject the principle of free exchange, if this might be able to conduct the trade relationships of all countries; in such situation, encouraging the development of a manufacturing industry, in a country being in difficult times (as USA), might not be necessary as compulsory. The mutual free exchange done in an advantageous way is able to offer, even to countries preponderantly specialized on agricultural products, the possibility of achieving benefits, although this fact will not bring the same level of welfare as comparing to countries that combine the industry and agriculture. But, the system of perfect industry and trade freedom is driven by a contrary spirit. As result, USA is in the situation of achieving, by no difficulties, the products manufactured, of which the external market needs, while is facing "many and very harmful impediments"(6) on exporting own products; these impediments came from the rules of some countries wherewith USA runs trading relationships. Subsequently, USA cannot support trade relationships upon basis of mutuality with Europe, since this fact would maintain the first country at the level of agricultural state, thus obstructing the industrial development. In other words, United States are compelled, of both world conjuncture and own potential, to adopt a policy of encouraging the national manufacturing. Subsequently, a manufacturing industry of whom development is encouraged by the active support of the government leads towards a blooming state of agriculture, and "...the trade of a country, which is both industrial and agricultural, will be more prosperous as comparing to that of a country that is only agricultural".(7)

Amongst the proposals drawn within *the Report*, aimed on leading towards the development of a blooming processing industry, establishing a protectionist or even prohibitive customs duty can be outlined, beyond the fact that it represents a revenue to state's budget, but also playing the part of ensuring the protection of manufacturing, which aims to be encouraged (except the situation when the topic of assessment is represented by the raw materials). An especial efficient part is assigned to subventions, which avoid some disadvantages associated to customs duties, as well as temporary increasing of prices specific to imported products, thus representing a more direct measure and of immediate impact over the establishing and developing of new enterprises. They are seen to be justifiable, in case of new enterprises, but their assigning to full-grown industrial branches is controversial. Despite some prejudgments, according to which the subventions equal consumption of public money, and by which certain classes will become rich using community's work, Hamilton argues that drawing up a new industrial branch is the best aim by which public money can be spent (8). Other measures proposed are described by tax exemption of the manufacturing products and returning the customs duties applied to raw materials and specific to manufacturing, the awards, encouraging the new inventions and discoveries, as well as introducing in USA of products made in other countries, especially of those related to machineries; other measures refer to judicial regulations so as to inspect the manufactured assets, the facilitation of money transfers from one place to another, facilitation of merchandises transportation, etc.

As *conclusion*, the protectionism proposed by Hamilton represents a *protectionism dictated by the external circumstances and the potential of a country* (for this present situation, it is about USA); it is not raised at the level of the best policy, it is not seen as absolutist; contrariwise, it is appreciated that a better option consists in free exchange, which might ensure mutual advantages, not necessarily equivalent, to both countries with mono-specialized economies, (usually in the agricultural field), and of those multi-specialized. Douglas Irwin appreciated that, despite the arguments and measures proposed, Hamilton was not considered a strong supporter of the manufacturers, where customs duties were modest as comparing to their expectations. His skepticism as regards the high customs duties came from the conviction that they ensure both the protection for efficient and inefficient domestic manufacturers, finally with result over the consumers. Notwithstanding, *the Report* was not only a visionary document by which the advantages of encouraging the national industry were argued, but also a political document, by which clear directions of action were emphasized.(9) The origin of American system and connected to Hamilton's name and his speech for the industry development in his famous *Report*; considering the point of view of Lars Magnusson, the American system is built upon a critical approach, but in the same time unitive to Smith's ideas, and can be seen as a challenge to classical political economy of European nature.(10) Hamilton had followers, which sometimes had the tendency of simplifying the argument created by him, thus formulating reasons where fundamental option based upon the protection established by customs duties.(11) Amongst the "Hamiltonians", as Magnusson calls

them, a part of them remained faithful to the American system, while others adopted subsequently the ideas of classical school.

Henry Carey is probably the most known "Hamiltonian"; during his development as economist, his conceptions have known a significant transformation. He began as an admirer of Adam Smith, passed through a time of doctrinaire uncertainties, and later, he abandoned the "too much cosmopolitan" doctrine of *laissez-faire* type, and to focus over the national economy.(12) His father's faith, Mathew Carey, in the American system and in Hamilton's ideas has been outlined in papers of Henry Carey; in *The harmony of interests*, Carey found himself already far away from his youthfulness idols, meaning Smith and Ricardo.(13) Focusing over the substantiation of protectionism valences, as factor that promotes the prosperity and harmony between different social classes, he did not completely abandoned the principles of classical school; according to Carey's point of view, "the real, profitable and only means of reaching the full freedom of trade are found in that efficient protection, which will meet completely and fully the doctrine of doctor Smith...".(14) It is obvious that similar to Hamilton and List, Carey was convinced of the ability of protectionism, completely, but temporary, of preparing the field for free exchange; he was also convinced by the fact that the two ideologies cannot be applied simultaneously. The extended protection over all branches is considered to be necessary until these branches are able to face the competition from exterior; the full protection is for Carey "the way towards absolute freedom of the trade".(15) But, in contradistinction to Hamilton, the paper of Carey has a purely theoretical value, extending the area of arguments in favor of protectionism, but without proposing clear practical measures. He consolidated the entire pro-protectionist argumentation upon basis of an antithesis amongst the British system of political economy, which does nothing else but create "inharmoniousness between people and nations"(16), and the American system, of whom civilization mission is convinced.

### 3. Friedrich List and the educative protectionism

The entire system of political economy, built by List is based upon "the idea of nationality, as chain joint between the individual and humanity"(17), opposite to that of cosmopolitism and individualism promoted by the liberal doctrine. The nation and the state represent for List the most complex form of association of individuals, while "the association of the entire world" signifies the highest level that can be imagined; the state and the nation are entities that offer to individuals the possibility of accomplishing the individual aims, more efficiently than comparing to isolation state. Similarly, an association of all nations, based on normal order, on external peace and free trade, has offered the frame of accomplishing the aims in a higher degree. According to List, this universal union of all nations, as he calls, is accomplished by means of international commerce; but, it is on behalf of human species prosperity, when more nations reach the same level of culture and strength. The nations, by their different natural and human potentials, are somehow compelled to associate, in a natural way. Until here, one may find liberal "sequences" transposed in a nationalist "scenario": the free trade creates an environment, where all nations that have reached the same level of development can reach to their aims, also; the natural and human potential of each nation determines a certain specialization of them, fact that creates inevitably a necessity of their "association". The customs system as instrument of protection has to aim towards a unique goal, meaning *the industrial education of the nation*. In other words, the protection is adequate only for industry; this is not justified for agriculture, since the exclusion of raw materials and of agricultural products impedes the industry's development; moreover, the existence and development of the agriculture is directly connected to the existence of the internal industry.

Concerning the nations, being on an inferior stage or having a low population as comparing to the area and productivity of their territory, List affirmed that their economic education can be accomplished by free trading with very cult, very rich and very industrialized nations. The protectionist measures are explained only when, after the free trade, the nation progressed as regards the cultural, political and economical point of view, and the competition from foreign industrial products impede the subsequent development. Also, the protectionist system is not indicated as regards a small nation, which owns few natural resources or a territory not suited allocated. In other words, both the free trade and the protectionism have educative valences, but in different situations; therefore, the free trade is a way of "economic education" of less developed

nations, with a natural potential not well enough capitalized, while the protectionism serves for "industrial education" of nations already more advanced (by means of free trade). As can be seen, List does not reject completely and categorically the free trade; contrariwise, he presents the protectionist system as "the most important mean of encouraging the final association of people and therefore, of the real freedom of trade"(18). The freedom of trade can progress by only gradual development of World countries association; this association can be accomplished between nations that reached levels near to industry and civilization development, of political education and of strengths. The protectionist system is, according to List, that bringing states less civilized at the level of dominant nation (at that time, it was about Great Britain). In order to act naturally, the trade freedom has to take into consideration that nations less developed to be raised, by artificial means, at the same stage of development, by which the English nation has been raised artificially". (19)

The protectionist system of List is built on *the idea of present sacrifice in the view of future incomings*; considering this aspect, the protection occurs as sort of "necessary bad": the customs protectionism determines a temporary increasing of industrial products prices, but ensures for the future low prices, as result of internal competition. Although the nation loses values by means of protectionist system, it earns productive forces, by which it will subsequently produce higher values. List has also limited the protectionism, as concerns the level of protecting the internal industrial branches; he appreciated that customs duties of import established at a level too much raised are harmful to the country applying them, since they "suppress the emulation between country manufacturers and those from abroad", thus favoring the indolence of those first. (20) If the industrial internal branches are not developed by means of a moderate protection, it means that the nation does not own yet the necessary means of creating an own industry. A protectionist system would bring the nation in a state of isolation, acting against the interests of this nation. It is not the follower of a raised protection of industries being in their first stages of development. "If the industry that has to be protected is found in the first period of its development, the protectionist customs duties will have to be much moderated". "The factories are always plants that grow easier, and any customs protection that suddenly interrupts the existing trade relationships will act in favor of the country that introduced it". (21) The protection can be gradually emphasized in the same time with the industry's development, "by increasing the spiritual and material funds, the technical abilities and the spirit of country's enterprise".(22)

According to his opinion, all industrial branches have to benefit from the same level of protection; the protection becomes efficient only for the industrial sectors of natural welfare; in other words, the protection is necessary in the situation of branches where a country can be specialized at international level. The industries that do not dispose of necessary resources can beneficiate of protection from only national independency or if this protection is not transferred under prices too high over the consumers. There are branches to which a special protection has to be given, since their development trains the development of other branches, less significant. By significant branches, List understands "the branches whom exploitation needs high capitals on investments and exploitation, many machines, therefore lot of technical knowledge, abilities and experiences, as well as many workers; such industrial branches create products that represent assets of first necessity, and that are of high importance, on both their total value, as well as national independency, as for instance, the wool, cotton or flax factories".(23)

The part of such efficient protectionist system is not of ensuring a monopoly to internal manufacturers, in detriment of those foreign, but of protecting them against the risks inherent to establishing new industrial branches. "A good protectionist system does not offer to manufacturers of our country any monopoly, but a warranty against loses of those citizens that invest capitals, talents and labor force in new industries".(24) In contradistinction to Hamilton, the protectionist system of List is mostly applied through customs duties; it does not reject the measures of returning the customs duties, but in the situation of semi-products imported from abroad (for instance, the cotton yarns), which are exposed to some high customs duties, in order to give the possibility of being produced in the country. The export bonuses are seen as inadmissible, as regards the permanent means of supporting the export, and as regards the competition of indigenous industry related to the industry of more advanced countries on external markets; these are also inadmissible when they are used so as to conquer the internal markets of nations

progressing by themselves in the industry. Though, these can be explained as provisional measures "where the spirit of enterprise of a nation is asleep in the first stage and needs help so as to be awoken, in order to ensure a stronger and permanent manufacturing, and to make export into non-industrialized countries" (25).

As *conclusion*, the protectionist system is justified when it aims toward "the industrial education of the nations"; the nations already "educated", civilized, as he calls them, and that promote the free trade have reached to this stage of development, still by "protecting themselves". This is also justified in the situation of nations "called" to develop themselves as concerns the industrial point of view, meaning that nations of temperate zone, while the nations of tropical zone seemed to be intended to the agriculture might be advantaged by a free trade with industrial nations. The protectionist system can also be justified as means of retort, when the progress of a nation is obstructed by protectionist measures introduced in partner countries.

As Ch. Rist remarks, the List's protectionism does not wish to become "a universal remedy", but is rather "a transitory system, a circumstance procedure"(26); List did not propose a complete or absolute protection. The protectionism is for him just a temporary mean of "industrial education of the nation", of raising some nations at the level of their development; in practice, the protectionism made theoretical by him had to ensure the development of Germany, mainly up to the level of England. List limits the protectionism to some nations and some stages of their evolution; this "educative protectionism" should bring to an absolute free trade at to creation of a *universal association of nations*. Until the end of XIX century, the impact of List's system was significantly amplified; the eminent economists as Alfred Marshall have accepted a series of key elements of the protectionist system, with applicability for developing countries. Many of them manifested the reticence towards the argument of embryonic industry, in terms affirmed by List (more about the historical analysis, rather than economical). (27) The ideas of List have also reached Romania, marking the conceptions of protectionist line, and which were found in the economic thoughts of XIX century. D. P. Marțian, B.P. Hașdeu, A.D. Xenopol et al. approached the problem of protectionism in relationship with the necessities of industry's development, as an essential condition of defense and conservation of Romanian nation entity.

The thesis of infant industry was formally accepted simultaneously with the publishing by John Stuart Mill of the first edition of *Principles of Political Economy*; the reputation and status of Mill offered for the first time an intellectual credibility to argument of embryonic industry.(28) Mill recognized the possibility of temporary applying of some protectionist customs duties, especially in the situation of young nations being in process of development, with the aim of "making natural a foreign industry, perfectly in accordance to the circumstances of the country"(29); the superiority of some nations over the other is attributed by Mill to only the experience and abilities achieved over the time. Paul Samuelson recommends carefulness on accepting this argument, since the reality has proven and has continued to prove that "there are industries that did not renounced at protection, not even after they grew";(30) though, there are situations where the temporary protectionism gave the estimated results, where the protected industries were subsequently able to face the competition from the exterior.

#### **4. Mihail Manoilescu and The general theory of protectionism**

The classical and neoclassical theory of the international trade is the product of industrialized Occident, thus expressing its interests and answers to some imperatives of these countries.

The less developed countries could not take over these theories; they needed a theory came from their realities. For this reason, the book of Manoilescu generated a significant impact in the developing world and especially to Latino-American countries. (31) At the basis of his entire theoretical construction, Manoilescu situated *the distinction between the individual incomes and the national incomes*; another principle taken into consideration is the quality of work, expressed by productivity. The concept of *productivity* is the instrument, by which a strong analysis of the economical activity is carried out, at the level of the enterprise and of national economy, of the national division of labor, of the trade among states, of the perspectives that a country has in the competition between nations, as well as a comparative study between national economies. With

the help of this concept, Manoilescu has tried to prove the wrong character of some thesis established in the theory of international trade.

Although being framed within the same thinking trend, Manoilescu saw the problem on a different position as comparing to Friedrich List; according to Manoilescu, the protectionism represents much more than what List tried to prove by his ideas exposed in *The National system of political economy*. The protectionism proposed by List, according to Manoilescu, is not materialized into a general and lasting system, able to completely contest the free trade; List created a doctrine of exceptional character, which in its essence, has accepted the general principles of the free trade and moreover, this is considered an aim, while the protectionism is just a mean of reaching this aim. The idea of a present sacrifice for a future compensation, the temporary and selective character of List's protectionism determined Manoilescu to characterize it as "hesitating, not decided and relative", unable to confirm the general validity of the protectionist principle. (32)

Manoilescu is convinced that a real doctrine of the protectionism is imposed from considering many views; the first consist in the fact that the protectionism is one of the most important phenomena of the modern life, and the experience has proven that this is a long lasting fact, and in the same time of general feature; moreover, it represents an aware demarche of the state, and a doctrine of the protectionism might be an adequate justification of all decisions adopted by the state. Another justification of the necessity of establishing the protectionism's theory consists in its significant practical usefulness, thus allowing a protection in accordance to scientific criteria and objective and rigorous rules. Moreover, the previous doctrines related to protectionism do not show how useful is the adoption of protectionist rules at the stage of industry's development, which is the optimal time duration for protecting the industry, which of the branches of economy can beneficiate of protection and which of them have to be let on being openly confronted to the external competitors. (33) Manoilescu has underlined the theory of protectionism, starting *labor productivity*. He showed that from this perspective, the economy of a country has a very heterogeneous character; the national production is divided in a number of activities/branches that vary a lot as regards the labor productivity. Manoilescu's protectionist system, in contradistinction to that proposed by List, is extended over agriculture also, by dint of the same criterion of reporting to productiveness; similarly to industrial branches, Manoilescu appreciated that agricultural branch, where labor productivity is high, should be imposed on being helped, by protectionist means in order to continue their existence. Besides this, he showed that there are situations where agricultural branches have a productivity that highly exceeds the productivity of some of the industrial branches (for instance, the cultivation of grape-vines and of some plants of industrial utilization). The protectionism of Manoilescu is a permanent one, justified by the fact that, although attenuated, the differences of productivity will always exist as result of the interest of any country on ameliorating the position on the scale of productivity. It is difficult to establish *a priori*, according to Manoilescu, the moment when the protection given to an industry has to be stopped; the industries, as he says, "are as women; they will never want to recognize themselves as old...and they do never consider enough grownup in order to stay on their own feet".(34) The reality has proven a contradistinction to his affirmations, thus proving that temporary protectionism can be an option, not necessarily the best, and may have success; many countries have started from the idea of industrialization, thus being protected against external competition. The examples of countries that choose for a permanent protectionism do not miss, and which at the final have brought to isolation and at negative effects over the economic growth and of progress.

Manoilescu considered that a limit related to level of protection cannot be established, since the customs duties play more the part of bringing the external prices at the level of those internal, thus representing an expression of the level of inferiority of national production, reporting to that foreign. The decision of introducing these protectionist measures has to take into consideration the absolute productivity, associated to the accomplishment of different categories of merchandises; as consequence, as Manoilescu shows, there can be situations where the highest level of protection can exist, by considering the theoretical point of view, fully justified. The protection of industries directly related to national defense is appreciated as opportune (for instance, the metallurgical or chemical industries), industries that carry out a high labor productivity. Another classical argumentation of the protectionism is found to be justified, respectively the necessity of national

labor protection, especially of that qualitatively superior, and which is created as many times as a new industry is established by protectionist policy.

"The protectionism, according to Manoilescu, increases not only the quality, but also the quantity of national labor, and produces a real increasing of its capitalization possibilities".(35) Creating and developing the internal market is another objective that justifies the intervention of state by protectionist measures.

These are in contradistinction to List, which considered that protectionist measures can be successfully applied only by the nations that own a vast territory, various natural resources and are well allocated. Manoilescu discussed the problem by minimal limit point of view, of a territory where the protectionist system can be efficiently introduced. He proved that from theoretical point of view, a rational protection does not involve a limit, beyond of which the respective political structure might be affected; the only factor that can limit the development of a state's industry consists in the ability of absorption of internal market (internal consumption). As result, the minimal productivity by which an industrial unit can survive assumes a minimal outlet and a minimal territory; as result, for each type of industry, there is a minimal territory and within it, a system of protection can be carried out. There are industries that need a very ample outlet, so as to function efficiently (for instance, the industries that manufacture especial machines for factories); in this situation, applying a protection system for their establishment in a small country might be inefficient, since the protectionist system ensures the internal consumption. The advanced idea of Manoilescu is that protection has to intervene in the development of an industry, but only depending upon the current and potential outlets; when this outlet exists, the customs protection will ensure not only an extension, but also permanence; in this way, the protectionism has offered an inestimable feeling of certainty to enterprisers. Therefore, a logical protection system can be benefic to developed industrial countries, as well as for the countries less developed, in all stages of their evolution, and to all their economical structures. This system outlined to world progress economy a tendency towards "the harmonization of human effort with his results", a tendency of rightness.(36). As *conclusion*, in accordance to Manoilescu, the protectionism is justified when it favors the forming of an industry, whose productivity exceeds the mean productivity of the country; it does not assume a current sacrifice, in the idea to some future incomings (as List estimated), a rational protection involving direct and immediate advantage, of which dimension is conditioned by the level of labor productivity.

The protectionist system of Manoilescu is an aware system, based on rational criteria, whose objective is the encouraging of industries development, in the order of their succession specific to productivity, fact reflected finally in the economy of progress of the country; the politicians that adopt and apply a protectionist policy ensure to their country the economic development and progress. This is because the industrial branches of high productivity generate national welfare, even if these industries need protection coming from the state. A natural question occurs from the idea: why do they need protection, if the productivity is situated at high levels? The economic logic showed us that sectors very productive are able to face the external competition. Manoilescu approached the problem of productiveness from internal perspective; though, the world economy has immediately progressed on integration way, where the limitations are more permeable, and the international economic interdependences were amplified continuously. In this view, the part of productivity is amplified and an analysis is imposed, on more extended scale than that rational.

## 6. Conclusions

*Protectionism allows infant industries to develop unhampered, protected against competition from more mature similar industries, from other countries.* Amongst all arguments emphasized, so as to support the protectionist politics, this enjoyed the highest attraction for economists, as well as for the decision factors, as regards the economic political point of view; and probably, this will be continuously invoked, since embryonic industries will always exist. Even some exponents of the liberal school have accepted it, in some limits, as derogation from the principle of trade freedom. A. Smith (*The Wealth of Nations*, 1776) admits the possibility of supporting the establishment and development of some new industrial branches, by establishing some customs duties applied to the import of concurrent products; he even admits the possibility that respective assets to be able to be produced in country, cheaper than in abroad. Though, he kept the skepticism as regards the impact

of such policy over increasing the revenues of the society, thus showing that the activity of a society can increase, depending upon the increasing its capital, and the capital can increase only depending upon what can be saved gradually from the revenues of the society. The necessity of protecting the industries in its incipient stages of development was advanced in a first shape at the second half of XVIII in USA; this was subsequently taken over and developed by economists/theoreticians of other countries. This is the oldest argument and probably of highest impact, accepted as "necessary bad", and as exception from the principle of free trade, even by the economists with liberal visions and recently, of GATT/OMC. A remarkable contribution at "the naissance and renaissance" of this argument was brought by Hamilton, List, Manoilescu et al. beyond the pure theoretical valence, this argument of "embryonic industries" has often represented during the history, a justification for many governments that resorted to protectionist measure, so as to support/protect with more or less success some branches of the national economy.

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