

**Industrialization without National Patents**by **Eric Schiff**

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Schiff, E., Industrialization without National Patents – the Netherlands 1869-1912; Switzerland 1850-1907. Princeton Univ. Press – Princeton, New Jersey 1971, 137 pages.

Eric Schiff, one of the lesser known Austrian-School Economists, published frequently via AEI (American Enterprise Institute, think-tank founded 1943). The study was part of a large project directed by Prof. Fritz Machlup over a decade at Princeton University, financed by the National Science, Ford, Rockefeller and Relm Foundations.

The experiences of Holland and Switzerland as the only two industrialized nations without patents are illustrated, comparing developments before and after their adoption. The book devotes one section per country, wrapped by introduction, conclusion and appendix, well referenced with primary and secondary sources, e.g. Introductory remarks by Mr. A. M. Solomon Asst. Secretary for Economic Affairs State Dept. “International Day” 175<sup>th</sup> Anniversary of the US Patent System Washington DC 1965 (Proceedings, Vol. II, p925), P.W. Klein “*Traditionele Ondernemers en Economische Groei in Nederland 1850-1914*” *De Economist* (March-April 1966) pp191-212, Annual reports of the Comptroller-General of Patents Designs and Trademarks.

Part-1 (ch2-6), the Netherlands: 1850-70 saw the transition from handicraft to mechanical power factories, patent law (1817) being repealed 1869, with industrialization following 1870-1914. Two multinationals originated here – Unilever and Philips. During the early 1800s Holland exported butter to Britain as the working man’s standard diet which by 1850 had become too expensive, creating need for a cheap substitute – margarine. Two years after patent repeal butter merchants, Jurgens & Ven den Bergh, started production based on French chemist’s Mege Mouriés “butterine” patented process. Amalgamation later created the giant Unilever concern. Meanwhile a troika led by Edison (Paris), with AEG (*Allgemeine Elektrizitäts-Gesellschaft*) and Siemens of Germany, tried to monopolize the light bulb business becoming the center of Europe’s largest international patent dispute involving English company Swan – five court rulings by 1887. In 1891 Philips established a light bulb factory in Eindhoven and was the only major European maker not saddled with Edison’s royalties. By 1903 low costs and efficient operations drove international sales to top-3 in Europe. Despite no patent protection venture capital had come, as had metal filament innovation (1909), though the development of metal-drawn process (US) was accelerated by the threat of patent reinstatement before it could be blocked. The patent-question sparked national discourse 1882-1902 (*Maatshappij ter Bevordering van Nijverheid* – association for industry promotion) and *Chamber* debates 1908-10 lead to a new law 1912. Dutch industrial progress was furthered by patent law absence, but based on foreign inventions! Part-2 (ch7-9), Switzerland: an unbridgeable gap between food production and consumption drove industrialization. Large scale expansion depended on foreign trade beginning with clock-making, then textile manufacturing whose output dominated 1770s’ Europe and was the first to be industrialized (1801-40), in turn driving machinery manufacturing. Foodstuffs and chemicals followed (Englishman Perkins 1857 aniline/mauve dye invention, copied & produced 1859). Export oriented industries spawned big firms e.g. CIBA (*Chemische Industrie Basel*). The patent-less period saw outstanding inventions in textiles, machines and food – milk and fondant chocolate, powder & liquid ready-to-cook soup, Nestle’s *Kindermehl* (flour-like cereal) 1865 and Wander’s Ovomaltine 1904. Swiss actions damaged their best export markets’ industries – Germany threatened import tariffs, America International Union reciprocity provision. Four plebiscites lead to the first patent system in 1888, revised 1907, and again in 1954. 1988-1907, the “semi-patent-less” era denied process protection. Post-1907, only chemical processes were patentable, not products. Law changes spurred no real jump in Swiss patenting activity which was higher than peer countries anyway.

Lack of a patent system deters neither large capital investments in industry, nor development of a diverse efficient economy. Qua domestic inventive activity, the evidence is inconclusive. Multilateralism is not addressed, however in these unilateralist cases ethical (free ridership) and political (retaliation) considerations came into play – sufficient to ensure conformity over time. In practice one cannot ignore generally accepted rules of the game. This study Needs updating qua WTO-TRIPS for developing economies, especially China (PRC), with a cross comparison on how countries have successfully industrialized by evolving patent systems in their own interests, e.g. Japan.

Overall – a “must read” for the discerning developmental economist. Non-obvious far reaching implications!